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Competing in a Mature Market: The Case of Super AM Food Markets

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Abstract

The EXPO-AM supermarket entered the Rochester, Massachusetts food market using a retailing format that its parent company had used successfully in England where it went under the store banner "Super EU." This case describes how the concept was developed and implemented in Rochester over a three year period, 2000-2003. At the time of the case, 2003, Ted Edwards, the general manager of Super AM Food Markets, has been asked to prepare a turnaround plan for the banner after it has shown poor performance.

Keywords: supermarket, competitive advantage, competitive rivalry, strategy implementation, organizational structure

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IAMA Agribusiness Case 11.4.A

Introduction

Ted Edwards, General Manager of a supermarket banner called "Super AM," was leaving his office on March 14, 2003 when the phone rang. He picked up the receiver and heard Brian Davis, his superior and the President of EXPO AM say:

> Ted, I just met with Mr. Schuh. In the meeting we reviewed Super AM's performance. As you know, your two stores have cost over $5 million in development costs and operating losses since the banner started. Last year alone they lost nearly $3 million on operations in fiscal 2002.
>
> Mr. Schuh wants Super AM profitable within the six months. He said, "Either Edwards fixes the problem or we will." He wants a turnaround plan on his desk first thing Friday, March 21st. That gives you a week. Let's discuss your draft plan at 8:00 AM on Tuesday morning. We'll go through it to make sure that it will satisfy Mr. Schuh. I don't need to tell you how important this is to your career.

As a banner, Super AM had several stores operating under a common name and a common merchandising mix. By the end of 2002 it consisted of two supermarkets in Rochester, Massachusetts. Another store was to open in July 2003, followed by three more. By the end of 2005 the banner's sales were budgeted to be $39 million per year.

The Rochester Market

Rochester, a town of 182,000 people, was an hour's drive from Boston, Massachusetts which had 600,000 people. Six million people lived within an hour of Rochester. Its population was growing at a rate of four percent per year while Boston's population was declining due to out-migration.

Rochester was divided culturally. The east side had a large German and Dutch population which valued their traditional, conservative city atmosphere and patronized retailers providing traditional products at good prices. The west side had a more cosmopolitan population, the result of the university and the financial industry located there. The disposable income on the east side of Rochester was ten percent lower and its residents spent 17 percent less on food prepared outside the home. All customers in Rochester shared similar interests with other US food shoppers when choosing their supermarket.

Competitors

The competition in Rochester had evolved. In 1990 Rochester was well served by two independent grocers, Alberts and Shop Smart. Massachusetts's largest supermarket chains entered the Rochester market in the 1980s but all left after finding that their competitive offers were insufficient to attract business away from the independents.

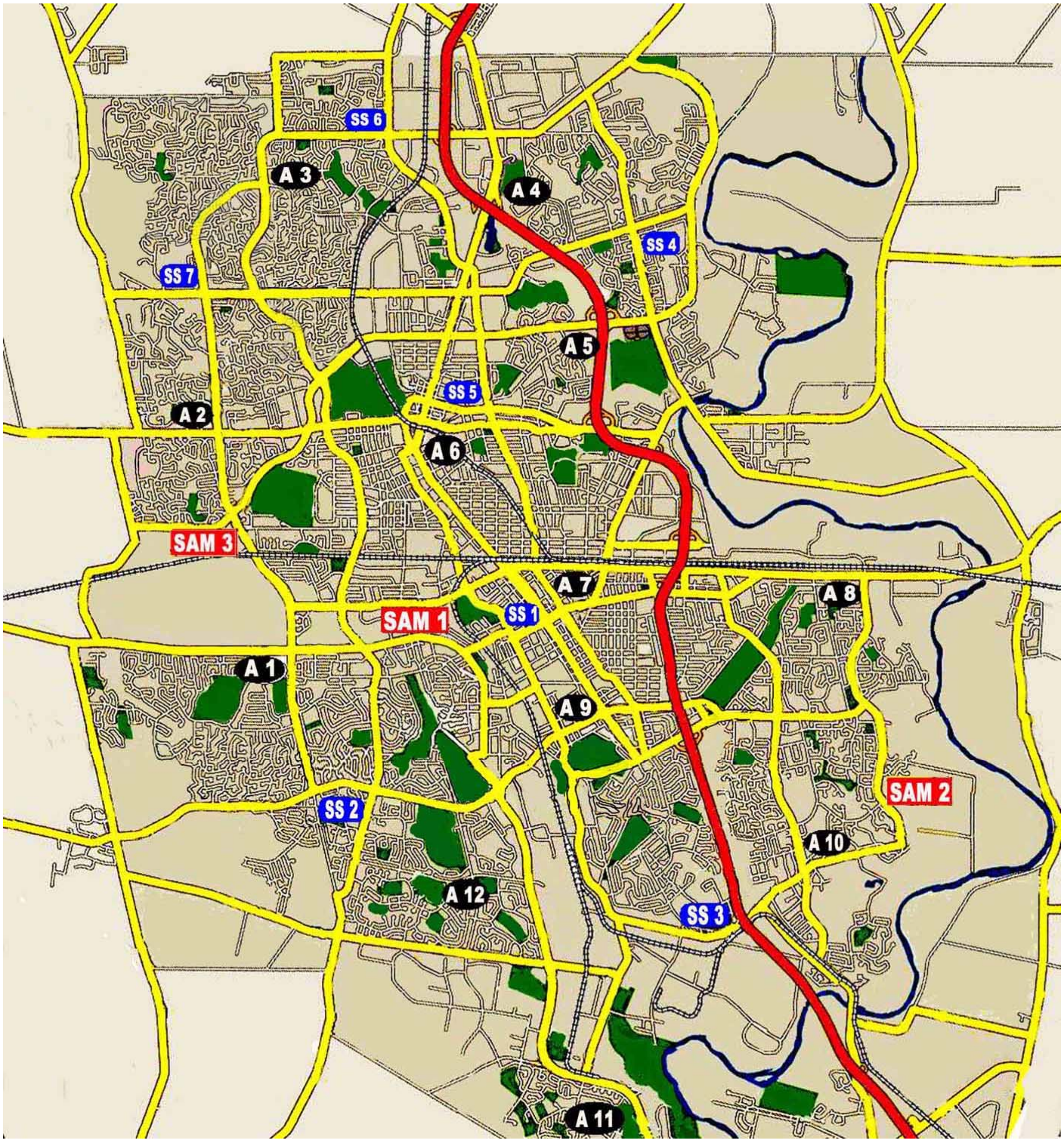
In the mid 1990s the independent chains were purchased by food chains: National purchased Alberts and Franklins purchased Shop Smart. Both were large chains that incorporated the former independents in their organizations as separate divisions with their own management and merchandising. Rivalry between the two chains resulted in one of the lowest-cost food baskets in the state and high levels of service. Workers bagging groceries at checkouts were common in Rochester but rare elsewhere in the state. Also, shoppers in Rochester spent 15-20 percent less time in waiting checkout lines than in Boston. Shoppers in Rochester had very few complaints about their choice of supermarkets.

Of the 20 supermarkets in Rochester in 2002 (See Exhibit 1 for store locations), Alberts had twelve stores. Seven were large conventional stores (55,000 square feet) and five were smaller stores (25,000 square feet). All had high sales volumes relative to their size. Their unionized workers received pay slightly below average for the state and there were few union work rules. All stores were well-located and provided good customer service throughout. Shoppers occasionally complained about cleanliness, lighting, and shortages of advertised products. Alberts' long-term strategy was to develop much larger stores (95,000 square feet) that could provide shoppers with one stop shopping for food, nonfoods and services. Less successful stores would be closed as the larger stores opened.

EXPO-AM had opened a Super Center on Liberty Road in 1998. It was the largest store in the market at 155,000 square feet and carried an extensive selection of food and non-food products. This banner was owned by National but operated independently from Alberts. National opened it to dissuade Wal-Mart from entering the market. Although Super Center stores were successful elsewhere in the United States, this store had little success in Rochester. National closed it in 2000 and reopened it in 2001 as a large Alberts supermarket selling food and drugs (Store A1 in Exhibit 1) and a Discounter's store selling non-food products.

Shop Smart's seven food stores varied considerably in size and sales volume. They were staffed by non-unionized workers. Shoppers appreciated the friendly, helpful customer service reflected in part by the many baggers at the checkouts. Shop Smart maintained its profitability in recent years by minimizing new investment and devoting 35 percent of its selling floor space to non-food items. Its stores needed large capital expenditures to make then as attractive as Alberts but it was unclear whether the new owner would make these investment.

Exhibit 1: A Map of Supermarket Locations in Rochester, 2002



Where: A is an Alberts supermarket
SS is a Shop Smart supermarket
SAM is a Super-AM supermarket

EXPO-AM

EXPO-AM was the U.S. operating division of EXPO-EU, a European supermarket chain which had 686 supermarkets operating under various banners across Europe including ASBN, EXPO, Gluveld Markts, and Super EU. In 2000 EXPO-AM had sales of $3.5 billion which produced before-tax-profits of $66 million. The company was headquartered in Boston and had 197 stores. EXPO-AM's workers had been unionized 50 years earlier. They received full union rates and management considered the work rules restrictive. In a typical EXPO-AM store full time workers accounted for 50 percent of total hours and 67 percent of the labor cost.

Evolving Strategy

Before 1995 EXPO-AM focused on opening new food stores in suburban areas. It was never the price or service leader. Instead it offered weekly specials at low prices in neat, clean stores. It maintained its profitability through excellent merchandising and strict control of costs.

By 1995 urban growth was slower and customers were more selective. Management recognized that different merchandising, pricing and identities were needed to appeal to different market segments. To offer this management started acquiring regional chains with good locations and strong consumer franchises. The chain's name was maintained but store operations were consolidated under one management and all merchandising was centralized at head office so that costs were kept low.

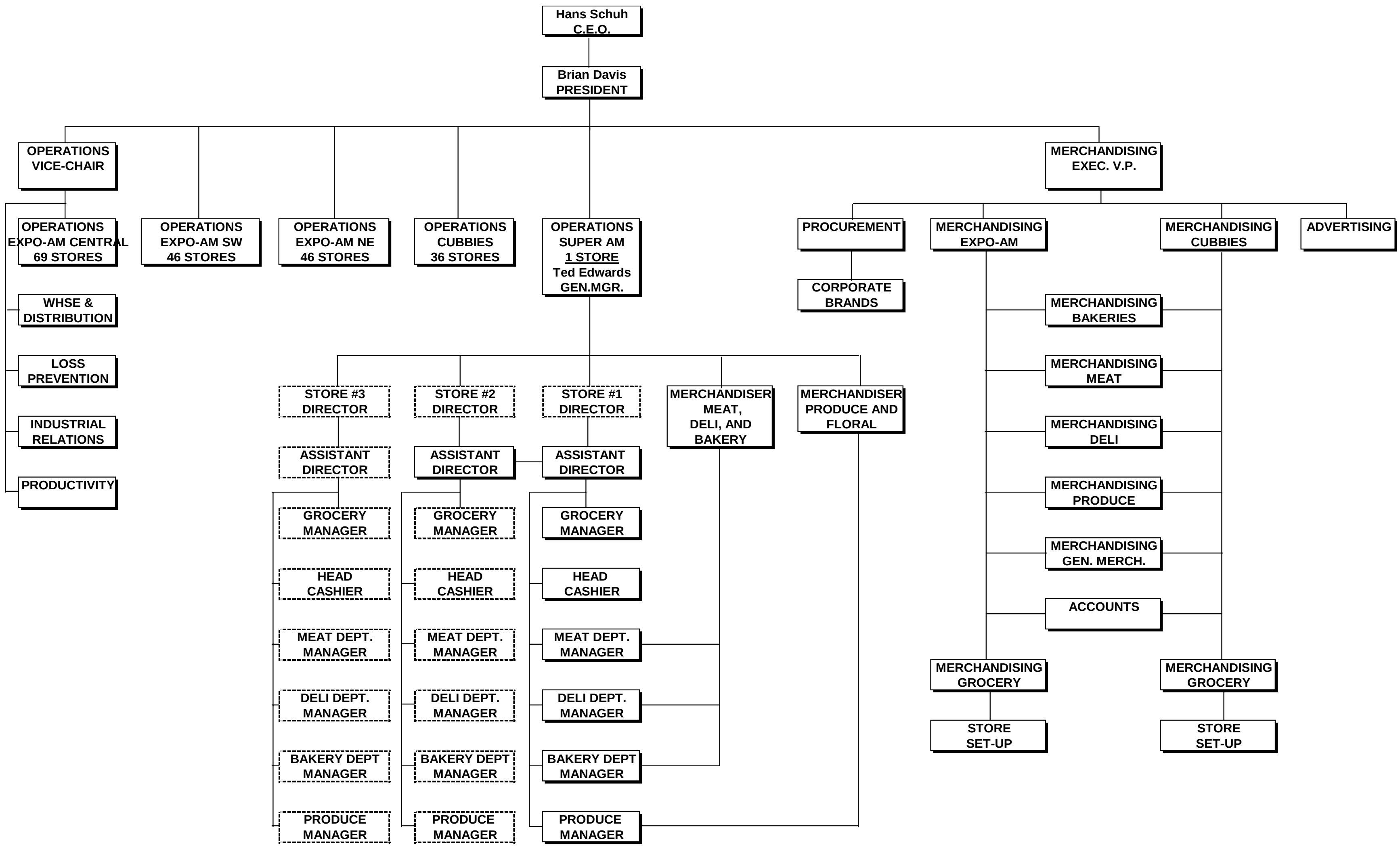
By 2002 the share of total supermarket sales in the state held by food chains had declined by 0.2 percent each year for the previous five years. Each one percent drop in market share represented a loss of $200 million in sales. Independently-owned supermarkets were successfully challenging many of chains because they operated with low cost, non-unionized labor. They provided superior customer service, competitive pricing and a pleasant store environment.

EXPO-AM had the highest share of supermarket sales in Massachusetts in 2002 at 64 percent. Management had been able to mask the continuing decline in sales of 1.5 percent per year in its original stores through acquisitions but top management realized it had to address its declining competitiveness.

Top Management

The management team at EXPO-AM was lead by Hans Schuh, 48. He became the Chairman and Chief Executive Officer at the end of 2002. For five years before that he had been Senior Vice President of Operations with Mammoth Food Markets, a very successful food retailer in the southeastern US. On his appointment, EXPO's headquarters in Europe gave him a dual mandate. First he had to ensure the smooth and effective integration of the recently acquired Cubbies Food Mart operations into EXPO-AM operations. Second, he had to correct the erosion of sales and profits at the existing EXPO-AM stores. Schuh was assisted

Exhibit 2: Organizational Structure of EXPO-AM, 2001



Source: Company record

by Brian Davis, 45, who became President of EXPO-AM in mid 2001. He replaced Ingo Perez who was recognized throughout the organization as a talented merchandiser.

Organizational Structure

The organizational structure of EXPO-AM had three main parts: administrative management, merchandizing management and operations management (Exhibit 2). Administrative management looked after the strategy of the business, including the retail formats (banners) used and the markets served. It also looked after the management of human resources and finance of the business.

Merchandising management was responsible for buying the merchandise sold in the stores, controlling its space allocation in the stores, and setting the pricing and promotion of it. It also advised stores how to retail products effectively. Merchandising was centralized at headquarters in Boston. It was a profit center which made money by buying groceries and transferring these at cost-plus to store operations. Merchandising bolstered its total profit by purchasing large volumes so it got greater discounts. It furthered enhanced its profit by collecting allowances from food product manufacturers for a variety of reasons.

Operations management was responsible for handling products, including warehousing and distribution of products and all activities in the stores. Regional managers had individual store managers and maintenance services reporting to them. Individual store managers, called directors, were responsible for the profitability of the stores they managed. The profitability of stores was strongly influenced by the competitive situation each faced. The largest cost the directors controlled was labor which accounted for 65 percent of variable cost of a store.

Developing Super AM

In 1999 top management of EXPO-AM was looking for a new merchandising approach that would allow its traditional stores to become more profitable. Following the suggestion of top management in EXPO-EU, it looked at a recently proven model used in England—Super EU.

The European Model

The Super EU banner was developed by a division operating 65 supermarkets, a warehouse, and a central office in London. The division closed in 1996 after losing money for many years. Its management then worked out a new store layout and negotiated a unique labor/management agreement with its unionized labor. Under the new agreement which was known as the Gain Sharing Program (GSP), unionized employees were called "associates" and given a voice in how the stores were run. Their wages were 15 percent lower than before but they received an additional incentive bonus based on the relationship between the total wages of the store and the store's sales revenue. With successful execution, associates could earn slightly more than they had previously.

In 1997, the division restarted operations under the Super EU banner. Starting with 23 stores, by year end it was operating 35 stores. By 2001 it was EXPO's most profitable divisions and had 140 stores across England. EXPO's Annual Report stated: "The Gain Sharing Program in an entrepreneurial environment translates into high morale, outstanding customer service, and an atmosphere of neighborliness." All Super EU stores qualified for bonuses and 28 percent exceeded expected savings between 1997 and 2001, providing employees with above standard bonuses.

The American Version

Ingo Perez gave Dave Philips, Executive Vice President of Merchandising at EXPO-AM, responsibility for testing whether the Super EU model would make sense in the U.S. The model was attractive because it could reduce store labor costs significantly. Management estimated that the Super EU approach in Massachusetts would save it over $500,000 per year in direct labor costs and fringe benefits for the average EXPO-AM store (Exhibit 3). Moreover, a new store banner

Exhibit 3: Comparison of Head and Wages Costs: Using Different Approaches to Labor, 2000

	EXPO-AM	Super-AM
Weekly Store Sales	$258,000.00	$258,000.00
Wage Cost Calculation		
Breakdown of Weekly Labor Hours		
Total store hours	2,150	2,150
EXPO-AM Full Time Hours (28 X 37)	1,036	
Super-AM Full Time Hours (10 X 37)		370
Part Time Hours (Total less Full Time Hours)	1,114	1,780
Hourly Labor Costs Including Fringes		
EXPO-AM Full Time $18.40/hour	$19,062.	
EXPO-AM Part Time $10.25/hour	$11,419.	
Super AM Full Time $14.70/hour		$5,439.
Super AM Part Time $7.75/hour		$13,795.
Total Weekly Wage Cost	$30,481.	$19,234.
Annual Savings in Using Super-AM Approach to Wages		$584,839.

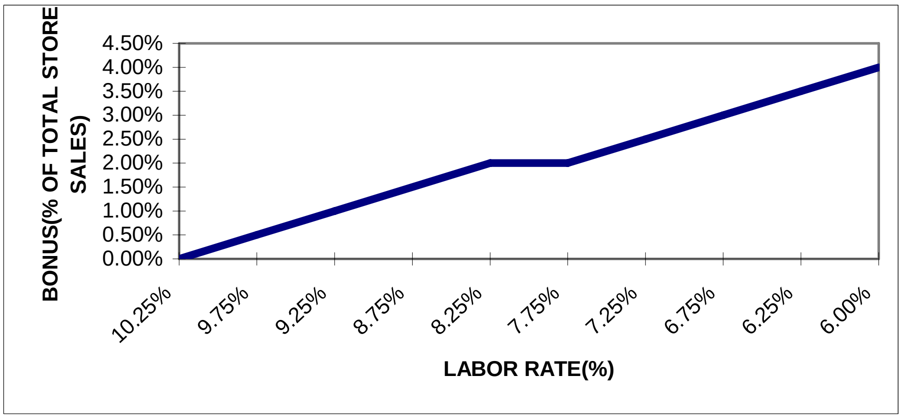
would give EXPO-AM greater ability to match the local competition. Management decided to adopt the Super EU approach under the banner name "Super AM Food Markets." It anticipated that five or six stores would be needed for the banner to break even.

Exhibit 4: Calculating the Incentive under the Gain Sharing Plan

Definitions:

Total Wages	= Hourly Rate + Fringe Rate for All Employees
Total Productive Wages	= Total Wages - Management Wages
Labor Rate	= Total Productive Wages / Total Store Sales

The bonus pool is calculated on the basis of a sliding scale as illustrated below:



An Example:

1.) Store 1 finishes the year with:

Sales	= $13,416,000
Wages	= $1,000,168
Labor Rate	= 7.45 percent
Bonus Pool	= $13,416,000* 2.3 percent = $308,568.

2.) A Full Time employee's wages at Store 1 are:
$34,000/yr **or** 3.40 percent of the store's Total Wages

3.) Employee's bonus is:
$308,568* 0.0340 = $10,491

The first and necessary step for the model to work was to get a new labor agreement with EXPO-AM's unionized work force. Philips, working with EXPO-AM's Industrial Relations department, negotiated an agreement with the Food Workers' Union. The new agreement was signed in June 0f 2000. The conditions were as follow:

1. Full Time store employees would become "associates" because they would contribute ideas on the management of stores.
2. For each $25,000 in weekly sales, the Super AM store was required to have one full time associate—in EXPO-AM stores one was required for every $10,000 in weekly sales.
3. Each Super AM store would have its own seniority system, eliminating transfer of associates from other EXPO-AM banners except for promotional reasons.
4. Super AM pay rates for associates would be 20 percent under those scheduled in EXPO-AM's labor agreements.
5. A GSP process would be in place in each Super AM store.
6. All associates in each Super AM store would share in an annual bonus. The size of the bonus pool would be based on a store's total annual labor cost relative to sales revenue. (Exhibit 4 presents more detail).

The new approach reduced each store's labor complement to 10 full time employees. EXPO-AM had never operated a store with so few full time employees but this was the only way to decrease full time hours to 25 percent of total hours.

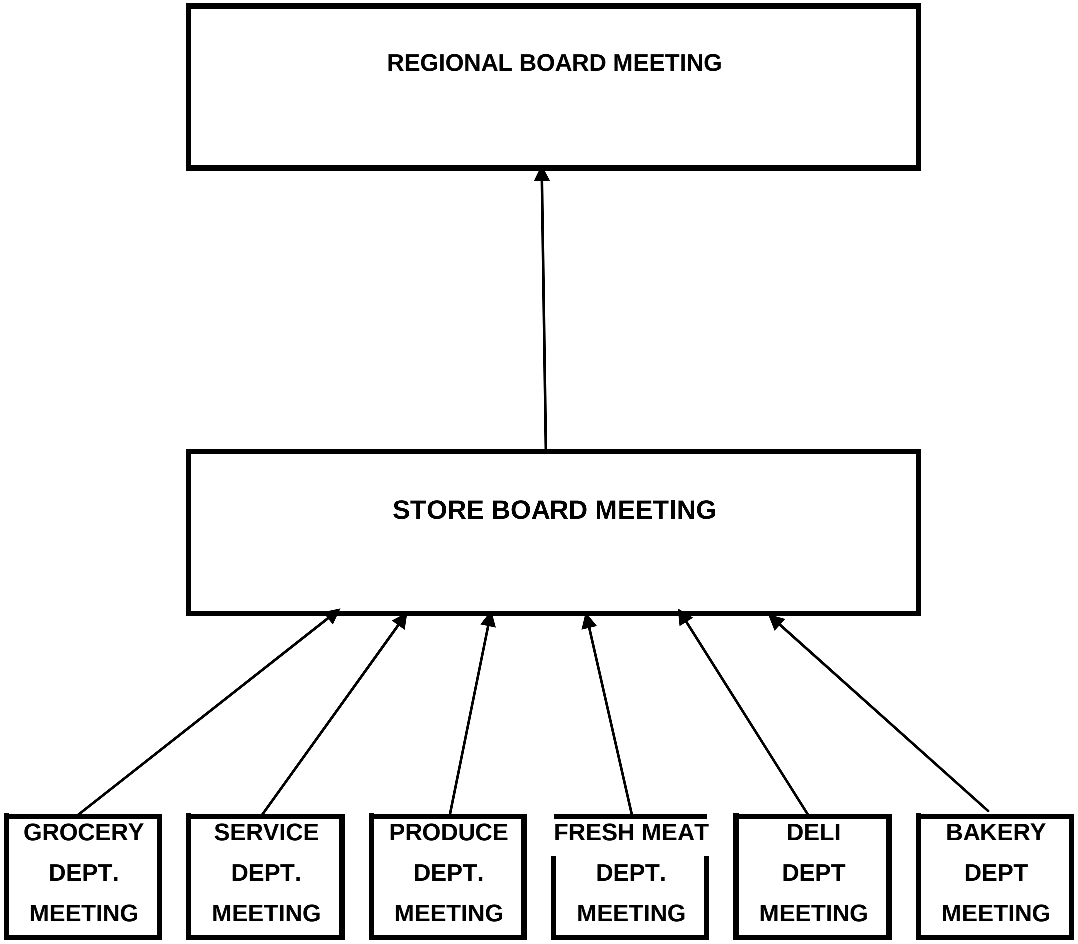
Under the GSP process associates were encouraged to contribute ideas for better managing the business. These ideas and issues were discussed and acted upon at the lowest possible organizational level. Matters only went higher when solutions affected or required agreement from those outside the group involved. The forum for discussing ideas and issues was a series of meetings was held on a regular basis (Exhibit 5). The first and lowest level meeting was at the departmental level in the store. The second level was at the store level. The third level of meeting was at the regional level and results were to be known at the store level within two weeks of this meeting. The fourth meeting was at the head office of EXPO-AM.

Super AM's Fit in Rochester

EXPO-AM's management chose to first use the Super AM model in Rochester for several reasons. First, it had no stores in Rochester—its closest EXPO-AM stores were in Ridgemount (7 miles away), Plymouth (15 miles away), and Peru (24 miles away). Second, management reasoned if this approach could compete in this highly competitive market, it would work in any market. Third, Rochester was less well served than other markets with one supermarket per 10,0050 residents while Boston had one per 8,970 residents and Worcester had one per 7,810 residents. Management calculated the Rochester had the potential for at least four additional supermarkets based on the number of stores per capita and projected population growth.

EXPO-AM's management reasoned that Super AM would have a tactical pricing advantage over established competitors in Rochester. Competitors with more

Exhibit 5: The GSP Meeting Structure



REGIONAL BOARD MEETINGS

Chair: General Manager
Attendees: Exec.V.P. Merchandising
V.P. Human Resources
General Manager - Super-AM
All Store Directors
One rep. from each store.
Frequency: Every 2 Months.
Duration: Usually less than 4 hours.

STORE BOARD MEETINGS

Chair: Store Director
Attendees: Store Director
All Department Managers.
One rep. from each Dept.
Frequency: Monthly
Duration: Usually less than 2 hours.

DEPARTMENT BOARD MEETINGS

Chair: Department manager.
Attendees: All Department associates.
Frequency: Monthly
Duration: Usually less than an hour.

stores would find it expensive to match its low prices and many price promotions because they sold much greater volumes.

Sizing up the Market

Philips had Edwards, then an employee in Merchandising, survey shoppers and examine competitors' stores in Rochester. His surveys showed that shoppers wanted more variety in goods, especially perishable products such as bakery goods and fresh fish, and better quality groceries. Shoppers saw Alberts as Rochester's quality leader and Shop Smart as its price leader. Edwards' surveys of store prices showed that Alberts was the lowest priced but that Shop Smart had a far more intense and visual in-store promotion using in-store price specials. These specials represented additional savings for regular customers but they were not large enough to be advertised in newspapers. Shoppers at each chain expressed tremendous consumer loyalty.

EXPO-AM needed sites for stores but established competitors already had the best sites. So it worked with a land developer which provided sites under ten year leases. The site for Store 1 (SAM 1 in Exhibit 1) was created by assembling land in a developed part of town. This made it an expensive site. The site for Store 2 was on the east side of town in an "immature" market but management concluded that new home construction would soon produce the population needed to support a store. It would face competition from a mid-sized Alberts' store approximately 1.5 miles closer to the center of town. The site for Store 3 on Liberty road on the west side of Rochester where population density was sufficient to support a store and more housing was being constructed nearby. The challenge with the site was that it was on a major road which made it expensive. Also, Alberts' two most successful stores in Rochester were also located along this road. Site development still had to find sites for two additional stores.

Developing the Merchandising Format

Edwards picked up a recent article from his desk and scanned through a quote he had highlighted in it. Gary Primus, president of the Boston-based Distribution Northeast Inc., a buying group for 3,000 independent food retailers across New England, was quoted as saying

> The Rochester area is a very select market, different from anywhere else in the country. Anybody that's not local has a very difficult time... If you're a little better than the next guy, if you give your people a reason to shop at your place more often, you're going to make some money. But anybody who tells you there's big money to be made in the region is just whistling Dixie.

Exhibit 6: Comparison of Competitive Conditions in Rochester, July 2000*

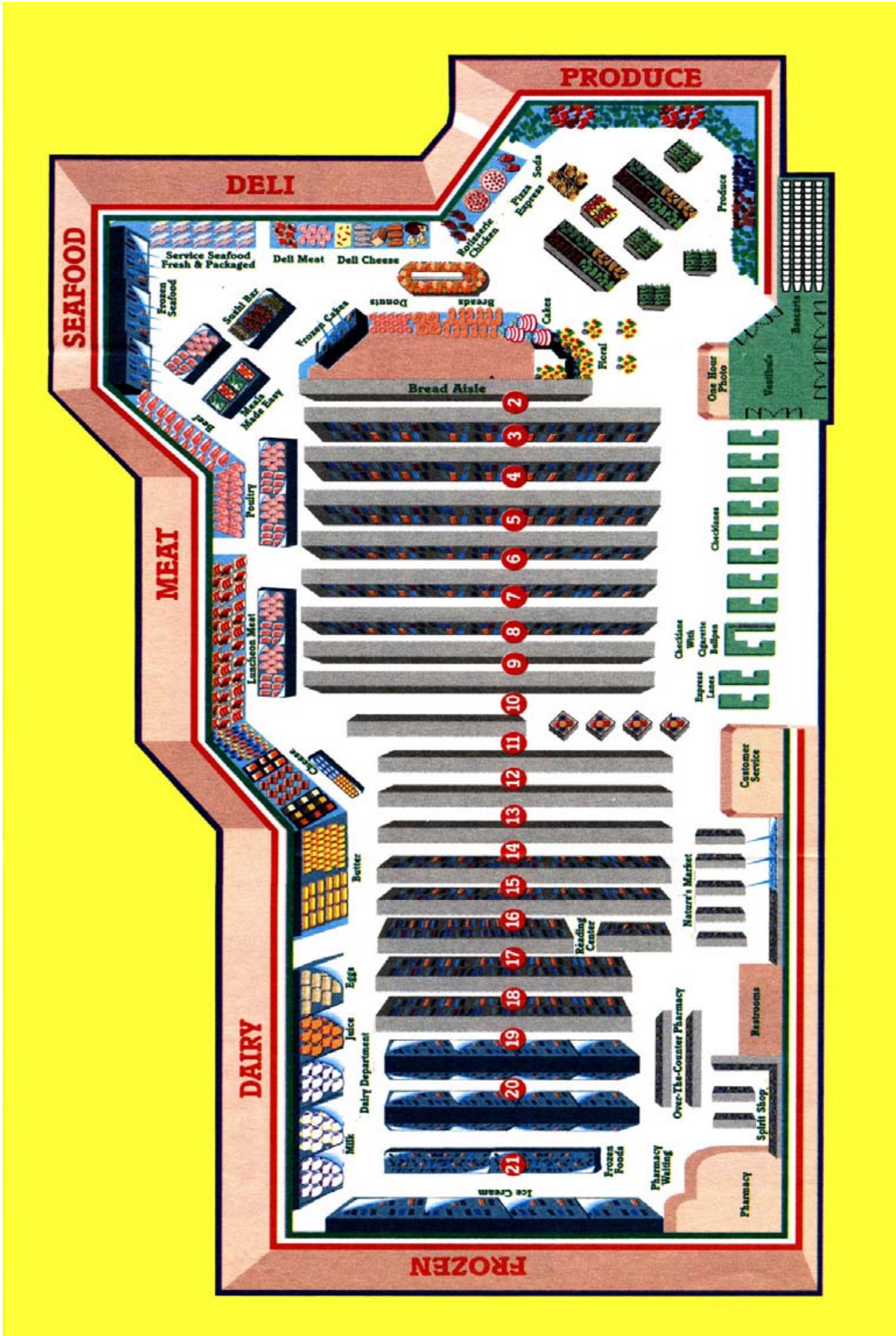
	Alberts	Shop Smart	Super AM	Comments regarding Super AM's strategy
Consumer Base Advantages				
Advertising	++	+	++	Same allotment to newspapers as Alberts
Customer Service	+	++	++	Friendly and fast
Every-day pricing	+	++	++	In store specials and matching Albert's pricing
Environment	+	-	++	Attractive since the newest store
Hours of operation	-	-	+	Only store open 24 hours a day
Location	++	++	-	Only one store
Quality of perishables	+	+	++	Generous reduction and refund policy
Variety	++	+	++	Many ethnic and few private label products
Weekly features	+	-	++	Lots of specials, signifying "More for less"
Total Consumer Advantages	11	9	15	
Operational Based Advantages				
Advertising cost	++	+	-	No synergistic advantages since only one store
Department margins	++	++	-	Need better sales mix and more experience
Occupancy costs	+	++	-	High rent
Wage costs				
Wage rate	-	+	++	Contractual advantages
Productivity	++	+	-	New store = New help = SLOW
Total Operational Advantages	7	7	2	
Overall Advantages	**18**	**16**	**17**	**Difficult opening position**

* Where + indicates a favorable situation, and ++ a very favorable situation.
Source: Prepared by Ted Edwards

Edwards designed a marketing mix for Super AM that looked attractive when compared with competitors (Exhibit 6). The store's layout was based on a store of 65,000 square feet (Exhibit 7). The layout would project an image of freshness and variety. Its produce counters would be the largest in the EXPO-AM chain, occupying over 15,000 square feet of the sales floor. The meat department of 4,500 square feet and the deli of 2,000 square feet would carry unique ethnic products. A complete in-store bakery department would occupy another 2,000 square feet and offer fresh baked goods daily. The dry grocery department, with 27,500 square feet, would include over 300 ethnic items not found in EXPO-AM stores. And the dairy department of 2,000 square feet would sell cheese from a local cheese factory in addition to regular brands. The rest of the square footage would be devoted to floral, frozen foods, health and beauty aids, pharmacy and service.

The pricing strategy was complex. Super AM tried to maintain comparable prices on produce and meat. To avoid price competition with Alberts, Super AM matched competitors' advertised special prices on basic grocery staples, bread, butter, cigarettes, eggs, milk, sugar, and tobacco. It maintained comparable prices on other items by checking competitors' prices a minimum of twice weekly.

Exhibit 7: The layout of Super AM's Store 1, 2001



To attract shoppers' attention, weekly advertised specials were priced below the advertised special prices of competitors. Promotions were printed in the local Rochester newspaper. This allowed Super AM to create its advertising two weeks before the printing date, and alter its copy up to 24 hours before the newspaper was printed. This allowed Super AM to keep its price promotions for meat and produce in line with cost fluctuations and to match competitors' advertising. In addition each store had a constant selection of at least 300 in-store (non-advertised) specials. These were well signed, creating the impression of extra value for shoppers.

Super AM also offered more service. There were more baggers at check out counters who were trained to be friendly, courteous and helpful. This included showing the customers where a product was, and handling refunds quickly and courteously. "Competitors might increase their workers at the checkouts but copying the workers' attitude will be difficult," said Edwards. The store demonstrated further its interest in customers by providing free coffee at the courtesy desk and a suggestion box near the checkouts.

For the shoppers' convenience, the store was open 24 hours a day six days a week instead of the 90 hours a week of the competitors.

Building the Organizational Infrastructure

The Super AM format required changes in EXPO-AM's approach to both merchandising and store management. Super AM was given two merchandisers of its own to buy specialty and local products offered in its stores. These were shipped directly from suppliers to Super AM stores. Super AM's merchandisers could also draw product from EXPO-AM's merchandising operations, capturing the low cost due to high volume purchases. Super AM's merchandisers alone decided pricing and advertised weekly promotions. They were also given the authority to hire and fire store associates—in EXPO-AM this was the responsibility of the store manager. This meant that the store's department managers and associates were very attentive to what the merchandisers said.

Super-AM's store management was kept separate from that of other stores because the union agreement and the GSP process required a very different approach to management. As part of this approach, only Super AM's employees were allowed in its stores.

Staffing Super AM

Philips was so pleased with Edwards work that he strongly encouraged Perez to appoint Edwards as general manager of Super AM. Although Edwards was only 32 year old, he had a wealth of experience at EXPO-AM, having worked for the company since he was 16. He had moved into store management upon graduation from university. Within three years he was managing one of its busiest stores in Ridgemount. Edwards was then promoted to the head office in Boston where he ran the productivity department which managed store labor usage and performed time and motion studies. Edwards then spent two years in the merchandising department assembling weekly newspaper advertisements and flyers for EXPO-AM. A manager in EXPO-AM's headquarters commented, "Moving up this organization is very slow and it you make one mistake, you are gone. Edwards is one of the few successful fast trackers."

Perez made Edwards manager of Super AM in 2000. Edwards decided that three individuals could handle the merchandising responsibilities. He took charge of dry groceries, dairy and frozen food and all store promotions and weekly advertisements. The two other merchandisers were experienced merchandisers from EXPO-AM. He put one in charge of specialty products for the meat, deli, and bakery departments and the other in charge of special items for the produce and floral departments.

Edwards then developed the processes required to open and operate new stores. He tested the processes when he opened the first store, of which he became its director. He then he hired directors for each new stores as needed and worked with them to staff their stores.

Staffing the stores posed a challenge for several reasons. First employees had to manage more part time employees than was typical at EXPO-AM. And second, employees were developing the new store format, all the while serving demanding shoppers and competing against aggressive competitors. Edwards personally recruited 10 full-time associates for the first store: 2 assistant store directors, 5 department managers, and 3 others. Edwards commented on his approach:

> With so few employees in the store, I had to get the best I could find. I was able to attract a core group from the store I had managed in Ridgemount. They were young, aggressive types who had not been infected with EXPO-AM's culture. Being young, they lacked the seniority needed for promotion in EXPO-AM. I was able to offer them department manager positions in which they had the potential to make more money than at present. But I also had to appeal to their egos to get them, telling them that I needed them to make it a success. My track record in the company gave me credibility. Many who joined me at Super AM were personal friends.
>
> The Part time staff were recruited through job placement advertisements in state employment offices. Over 800 people responded and were interviewed 200 for part time jobs in the first store. We tested all of those selected for team and personality skills and checked their credentials carefully.

All employees were trained for Super AM. Full time associates were given 30-40 hours in customer service and 20 hours of training in the concept of GSP. This compared with total training of 15-20 hours a new hire would receive in an EXPO-AM store. Part time workers were given 37 hours of training. This included training in the GSP procedures, how to handle fresh and value-added products, and customer service techniques.

The General Manager of EXPO-AM's Region 2 which included Ridgemount commented "I am sick of seeing Edwards around here. First I'm excluded from participating in the development the Super AM stores, then he recruits my best workers. I have pointed out to top management that they are making a big mistake but most are not listening."

Events in 2000

The first Super AM store opened on Constitution Road in the center of Rochester at the end of November, 2000. Its total sales in the first week surpassed the sales of the grand opening of any prior EXPO-AM store.

Events in 2001

Sales were nearly $15 million and, though Super AM's first store had an operating loss of $670,000, an incentive bonus pool of over $60,000 was paid out to an enthusiastic group of associates at a banquet paid for by EXPO AM's headquarters.

Labor issues dogged the store over the year. First, twenty percent of Super AM's operating loss was attributed to inexperience employees. This problem was considered "solved" by year-end. A more serious problem was a result of the limited number of full time workers. It meant that the store was short of management when anyone was ill or went on vacation. And when employees were in the store, they were so busy training new part-time workers that they did not have enough time to perform ongoing maintenance. The time spent training part timers was especially onerous because of the high turnover of staff—on average part-timer workers only stayed for eight months. Exit interviews indicated that they were leaving because their starting wages were low. This problem could not be resolved by raising wages through merit increases because of restrictions in the labor agreement. Ironically, the first store had more employees than planned during the first year because some were being trained for the second store.

The GSP process worked well within the store, but personnel at the regional level had trouble adjusting to questions and suggestions from people at the store. For example, shoppers at Store 1 were often greeted with the smell of rotten fish. This happened because the prevailing winds blew the exhaust from fans in the seafood department across the roof of the building to the store entrance where the odor was sucked back into the store by the fans. The regional people responsible for buildings made the necessary physical adjustment to solve the problem only after three months of shoppers' complaints and associates' suggestions.

Other employees in the EXPO-AM started telling stories suggesting that Super AM was a "problem child." Once while in head office, Edwards overheard one vice president say to another executive "Super AM's departmental margins are so low, some weeks they could save money by just giving merchandise away."

Each of the major competitors responded in its own way to the entry of Super AM. Shop Smart reacted immediately by matching every one of Super AM's advertised prices—a very costly tactic for it. Alberts did not react until April, when it re-opened the Super Center on Liberty Avenue as an Alberts Food and Drug combination store. Management at Alberts had been critical of the Super Center, its sister chain, for invading its hometown and now had a political and financial need to make the newly renovated site successful. It increased advertising, offered additional specials, and lowered prices. This brought back many previously disappointed customers, putting pressure on store margins at Super AM. Edwards lowered prices to maintain sales. Surveys conducted by Super AM indicated that it was having trouble attracting customers from Alberts, but good success attracting them from Shop Smart.

Edwards expressed disappointment when Perez left EXPO-AM to take a more senior position at Franklins. Perez was replaced by Davis, a more conservative executive from the senior ranks of EXPO-AM.

Events in 2002

During 2002, Store 1 came under greater competitive pressure. Edwards knew from new requests for store loyalty cards that Store 1 was still attracting a great number of new customers from Shop Smart. Shop Smart's management responded to lost shoppers by renovating its nearby store and introducing a sales program that attracted back the shoppers it had lost.

In April Store 2 on the east side of Rochester was opened. The area around Store 2 had not developed as hoped because a local recession, which started the previous year, had stopped the construction of new homes. This meant that Store 2 had to attract shoppers from the mid-sized Alberts' store (A10 in Exhibit 1) approximately 0.5 miles away.

Edwards bolstered Super AM's overall sales by developing an extensive advertising campaign that blanketed Rochester with advertising. The same grand-opening specials were available at both the first and second stores. The opening sales of Store 2 were over $500,000 in the first week—only slightly less than sales of Store

1's grand opening. However sales at Store 2 quickly began to falter and, because of the heavy promotions, the two stores had combined losses of $250,000 for the first period following the grand opening. For 2002 sales at Store 1 were 18 percent lower than the previous year and Super-AM had losses of $2.7 million. No bonus incentive was paid to the associates at either store at the end of that year.

Developing the Plan

Davis called Edwards on March 14th to ask him to develop a turnaround plan given the poor performance of the banner (See Exhibit 8). Davis said that there had been talk at headquarters of putting Super AM under an EXPO-AM supervisory team consisting of a District Manager and four EXPO-AM merchandisers. Head office would take over control of advertising, pricing, and revert to EXPO-AM's labor contract. Super AM's two merchandisers would be re-assigned to other positions within the company.

Exhibit 8: Consolidated performance of Super-AM, 2000-2003

	Actual 2000 (1 period*) ($000'S)	(%)	Actual 2001 (13 periods-FY) ($000'S)	(%)	Actual 2002 (13 periods-FY) ($000'S)	(%)	Actual 2003 (Periods 1-2) ($000'S)	(%)	Aggregate to date (29 periods) ($000'S)	(%)
Store Sales										
Grocery	1,631	65.6%	14,390	67.1%	20,585	68.0%	4,103	67.5%	40,709	67.5%
Meat	388	15.6%	3,314	15.4%	4,636	15.3%	914	15.0%	9,252	15.3%
Deli	100	4.0%	797	3.7%	1,042	3.4%	193	3.2%	2,133	3.5%
Bakery	73	2.9%	561	2.6%	722	2.4%	126	2.1%	1,483	2.5%
Produce	293	11.8%	2,397	11.2%	3,293	10.9%	740	12.2%	6,724	11.2%
Total Sales	2,485	100.0%	21,460	100.0%	30,279	100.0%	6,076	100.0%	60,300	100.0%
Store Margins										
Grocery	301	18.4%	2,251	15.6%	2,951	14.3%	524	12.8%	6,027	14.8%
Meat	48	12.2%	522	15.7%	574	12.4%	139	15.2%	1,282	13.9%
Deli	40	40.1%	290	36.3%	322	30.9%	58	30.1%	710	33.3%
Bakery	29	39.8%	204	36.4%	267	37.0%	45	35.7%	545	36.8%
Produce	79	27.0%	633	26.4%	728	22.1%	154	20.8%	1,594	23.7%
Total Store Margins	497	20.0%	3,900	18.2%	4,842	16.0%	920	15.1%	10,159	16.8%
LESS Adjustments	160	6.4%	1,490	6.9%	1,940	6.4%	188	3.1%	3,778	6.3%
Net Total Store Margins	337	13.6%	2,410	11.2%	2,902	9.6%	732	12.0%	6,381	10.6%
Total Store Income**	760	30.6%	4,326	20.2%	6,009	19.8%	1,319	21.7%	12,415	20.6%
Total Labor	255	10.3%	2,134	9.9%	3,427	11.3%	695	11.4%	6,510	10.8%
Total Advertising	152	6.1%	605	2.8%	698	2.3%	159	2.6%	1,614	2.7%
Total Supplies	25	1.0%	239	1.1%	296	1.0%	58	1.0%	618	1.0%
Total Variable Expense	432	17.4%	2,978	13.9%	4,421	14.6%	912	15.0%	8,742	14.5%
									-	
Selling Profit	329	13.2%	1,349	6.3%	1,588	5.2%	422	6.9%	3,687	6.1%
Operating Expense	194	7.8%	392	1.8%	722	2.4%	153	2.5%	1,460	2.4%
Occupancy Expense	88	3.5%	1,573	7.3%	2,972	9.8%	614	10.1%	5,247	8.7%
Opening Expense	743	29.9%	54	0.3%	599	2.0%	31	0.5%	1,427	2.4%
Total Fixed Expenses	1,025		2,019		4,292		798		8,134	
Store Contribution***	(696)	-28.0%	(670)	-3.1%	(2,704)	-8.9%	(376)	-6.2%	(4,447)	-7.4%

* 1 period = 4 weeks
** Total Store Income = Total Sales - Cost of Merchandise - Total Store Margins
*** Store Contribution is not final profit. Divisional and Group Administration must still be subtracted as well as taxes.

Edwards knew that standard EXPO-AM merchandising practices would eliminate the specialty products and local products brought in to cater to the local population. Store prices would also be increased to raise margins to match those of EXPO-AM's stores. Operations in the store would also change. Personnel bagging customers' orders would be eliminated because time studies showed that two cashiers were more productive because a "bagger" only speeded up the checkout by 50 percent. Wage costs would be reduced by eliminating some departments and collapsing others so that employees worked several different departments. Employee hours would be reduced. This would mean cutting back the hours of specialized employees like meat cutters. GSP meetings would be minimized or ignored. Store hours would be reduced from 24 hours a day to the EXPO-AM's standard of 8 AM to 10 PM. Edwards summarized the impact of such changes in a chart like the one he had created when planning Super AM's offer (See Exhibit 9).

Edwards said to his wife, "I feel terrible about what will happen. Management has little appreciation for gain sharing—none of them have been trained in GSP. Associates bring forward good suggestions but I know they aren't going to be

Exhibit 9: Comparison of Competitive Conditions in Rochester, March 2003*

	Alberts	Shop Smart	Super AM	Comments regarding Super AM's strategy
Consumer Base Advantages				
Advertising	++	+	-	Ad space cut back
Customer Service	+	+	-	Insufficient hours allotted by headquarters
Every-day pricing	++	+	-	Limited in store specials and no matching Albert's pricing
Environment	+	-	+	Have the newest store, but Alberts has been upgrading
Hours of operation	-	-	-	Standard hours of operation
Location	++	++	+	Has three stores
Quality of perishables	++	+	-	Tight reduction and refund policy
Variety	++	+	+	Few ethnic and many EXPO AM private label products
Weekly features	+	-	+	Fewer specials with smaller reductions
Total Consumer Advantages	13	7	4	
Operational Based Advantages				
Advertising cost	++	+	-	Fewer sales = fewer ads = fewer sales and so on
Department margins	++	+	-	Low sales producing low margins
Occupancy costs	+	++	-	Highest rent
Wage costs				
Wage rate	-	-	+	Wage rates maturing
Productivity	++	+	-	Low sales → low productivity
Total Operational Advantages	7	5	1	
Overall Advantages	**20**	**12**	**5**	**Alberts dominates**

* Where + indicates a favorable situation, and ++ a very favorable situation.
Source: Prepared by Ted Edwards

accepted, or even considered by management. Morale will fall. And I will have let down many of the people I recruited for the business."

Under an advisory team, Edwards' duties would become typical of a regular store manager. He would have little voice in the operations of the stores as EXPO-AM's policies being implemented and enforced from head office. Furthermore, head office only wanted the information it requested.

As he worked on developing a turnaround plan, Edwards considered the present situation. In April 2003, Store 3 on the west side of Rochester was scheduled to open. Competition had changed since the first store opened. Alberts had become a company "running on all eight cylinders." It was making no mistakes overall and had improved the quality of its perishables and in store specials. Shop Smart had lost strength in the areas which had traditionally made it more attractive to customers. Similar to Super AM at this point in customer attractiveness, it still had considerable operational advantages over Super AM.

Edwards also realized that EXPO-AM's options were constrained. Each site that Super-AM occupied was under a 10 year leases. And in July 2003 the labor contract that Super AM operated under would ended. The union was saying it saw GSP of no future use.

