



HOW TO BUILD LOYALTY

A change in CEOs at Market Basket spawned a walkout, consumer boycott and empty shelves. 18 months later, the CEO is back and so are record sales and unprecedented loyalty from shoppers, employees and vendors.

Unless you've been living under a pallet for the past 18 months, you've heard a fair amount about how workers walked out at Market Basket after their CEO was fired in June of 2014. Vendors stopped delivering and shelves went empty. Shoppers boycotted. And by the end of August, the CEO was back in charge.

A BOOK & 2 MOVIES

But I'm not about to rehash all that here except for some quick background. The story's been told before. There's a fine book about it, a business school case study and even a couple of movies. Seriously.

What I want to tell you here is how this Tewksbury, Mass.-based chain of 70-odd stores differentiates, engendering such loyalty from its workers, shoppers and vendors. After all, you hear about CEOs being canned all the time in this industry. It's just a yawn-and-move-on.



Go to FoodFightFilm.com to learn more about the movie, which debuts in Portsmouth, N.H., on Feb. 27.

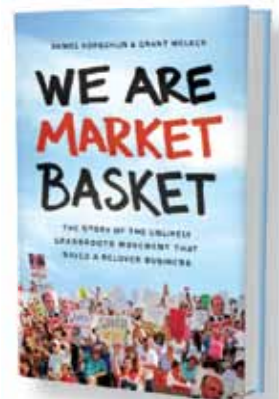
But not at Market Basket. Not hardly. I didn't want to tell this story until enough time had passed for even hard-core skeptics (and I count myself among them) to believe that the chain had landed back on its feet — even with an added \$1.6 billion of debt in a family buyout.



Employees, shoppers and friends gathered for a series of rallies aimed at bringing back Arthur T. Demoulas as CEO. (Photo by David H. Brow, courtesy of The Sun of Lowell.)

At the root of it all was a bitter family feud involving Arthur T. Demoulas, the CEO, and his arch-rival cousin, Arthur S. Demoulas. And at the root of the feud was a different management style and business philosophy. In a nutshell, "Artie T." was seen as too free-spending and generous with employees by Arthur S., who was not involved in the day-to-day business and wanted more liquidity. 'Nuf said. If you want a blow-by-blow, there's a sidebar here with a timeline of that brutal summer.

Back to the main event. To find out what makes Market Basket different from other retailers, I spoke with dozens of vendors, consultant-types and sundry spies. As the Rodney Dangerfield of trade journalists, I got shot down for an interview by Market Basket.



We Are Market Basket: The Story of the Unlikely Grassroots Movement That Saved a Beloved Business, details the events of 2014.

I even told them that my mother used to love to shop in the Seabrook, N.H., store until the day she died. Near the end, I'd chauffeur her and sit in my car with a book while she did her bi-weekly two-hour store inspection. I've spent serious coin there myself. Ah, well. Maybe, next time, Market Basket, huh? I still love you anyway.

"People often say that the summer of 2014 was about saving Arthur T., but it was really about saving the company. 'Arthur T.' was just shorthand for the way the company does things," says Grant Welker, a staff reporter for the *Lowell (Mass.) Sun*. He and Daniel Korschun co-authored *We Are Market Basket: The Story of the Unlikely Grassroots Movement That Saved a Beloved Business*, which you can find on Amazon or Kindle.

"The way the company does things" is the operative phrase here. Often, Market Basket's ways are quite different from the norm, and many retailers could learn from them. But as Welker points out, "It's part of their culture — just something they do. You can't just flip a switch and make it happen."

MARGINS & VOLUME

Margins are reportedly in the range of 30% to 35%, versus some competitors that come in at 45%-plus. A hot retail may take the margin down to 15% or 20%. This helps Market Basket generate among the highest dollars per square foot in the industry.

"If we just can't give them enough of a deal to achieve a price point they want to give to the consumer, they've been known to adjust their margins to make it work. Nobody does that anymore," says one long-time vendor.

The company's push for the lowest cost is helped along both by rigorous negotiation and by its lack of demands for exorbitant fees from vendors. This lets the chain "stack it high and watch it fly." The stores typically turn in more than \$1 million per week, and the store in Chelsea, Mass., reportedly sees around \$2 million. By comparison, many of the chain's competitors come in at around \$400,000 weekly.

"Market Basket sticks with a laser focus on low price," according to one supplier. "They're consistent on that — other retailers seem to go with the wind. They will want

long, shallow promotions for awhile, then all of a sudden they want short deep deals, until next time... With their margin structure, Market Basket can go quite deep on promotions, almost like a club store, and the volume they can move is insane. No matter what I estimate I am going to do on a deal, I am still shocked at how they seem to move more product than retailers three times their size. It drives other retailers crazy. You get calls from them saying you must be giving Market Basket a lower price. Not true."

Buyers at Market Basket are known for moving quickly to grab low pricing. A New England broker recalls his phone ringing at 7:30 one Monday morning a few years ago. A Market Basket buyer wanted 25 truckloads of a branded commodity. Immediately.

"He said 'Here's my purchase order number, and the number of trucks. Take my order.' It turned out that the commodity had gone crazy over the weekend, and they wanted in quick before the price went up any higher," the broker says.



Market Basket earns shopper loyalty with hot specials and with club sizes in some categories.

"They had the space to store it, and it was essentially a forward buy. We jumped through hoops and got most of it for them. They got a great price, and instead of taking a long margin, they passed the savings along to shoppers when nobody else could. That's how you build customer loyalty."

Concludes another observer, "Artie T. truly wants shoppers to keep as much of their money in their pockets as they can. Then, they'll come back again and shop sooner with their savings. I think he feels blessed."

SPEED TO SHELF

Like anywhere else, proposed new items must grow the category and build dollar ring and penny profit. But vendors say Market Basket moves faster than any other ▶



- ▶ retailer they know in adopting new items and implementing programs. It's not unusual for Market Basket to go chainwide immediately with promising new items that have passed hurdles in a test of perhaps 10 stores.

"This business is only as complicated as you want to make it," says a supplier. "Market Basket can turn a temporary price reduction around in a week, or an ad price point in two weeks. We routinely get programs implemented in six weeks."

He remembers when a manufacturer needed to move eight perishable truckloads at Christmas-time to make a number by the end of the year. The rep called on the buyer with a program, which the buyer liked.

The purchase was made on Dec. 22, even though there was still inventory sitting in the Market Basket warehouse. The product was in the Jan. 2 ad at a hot price, and "it blew out of the stores. Other retailers would have said they needed at least 12 weeks. This was not a big money-maker; it was just giving a great deal to their consumers."

VENDOR RELATIONS

"For the buyer, it's not about 'How much am I going to put in my pocket today,' but 'Can I make my customer happy?' And when it comes to deductions, I don't feel like I have to go through everything line by line with Market Basket, like I do with everyone else," says a supplier. "They've proven to me over time that they aren't about chiseling all they can get. There's mutual respect. They're fair. But they're not pushovers. If they think you might be giving someone else a better deal, they'll definitely talk with you about it."

Says another, "You can forge a relationship by having a history of showing what you can do as a manufacturer. That includes consistently coming out with new products when there's opportunity. No retailer can survive with the same two private label SKUs forever in a category, for example. They want you to keep bringing them new ideas, and innovation that works in the marketplace."

EMPLOYEE RELATIONS

Observers say Market Basket has higher compensation packages and likely more in-store workers than its competitors. But the chain can support the added costs by doing two or three times the volume of competing retailers.

A vendor notes that "Market Basket gets more out of its workers because it treats them so well and they're more motivated. They also run lean, own a lot of their real estate, and don't have frilly stores. You may see the old red and white tile on the floor, but so what? Everything is cost-effective."

The Lowell Sun's Welker points out that workers get

profit sharing and bonus checks that often pay four figures or more each year. "December bonuses based on company performance totaled \$44 million in 2013 and then \$49 million in 2014," he says. That averages out to more than \$1,600 per employee.

"The amount differs for each employee and is based on a combination of tenure and position in the company," ac-

cording to Welker. "Typically, it is calculated based on multiples of an associate's salary. For example, the bonus might be three weeks' pay for an associate who has worked at Market Basket for more than 15 years. Bonuses have typically come twice per year, at Christmas and in March."

Other benefits include paid days off to tend to a sick loved one,



When egg prices rose, signage explained the problem to shoppers.

and scholarships to college. But still other benefits — from Arthur T. himself — are frequent and sometimes seem magical. Welker relates that when Middleton, Mass., store director Terry McCarthy's daughter was seriously injured with only a 50-50 chance of survival, Arthur T. called the employee at the hospital.

After hearing how bad the injury was, Arthur T. said, "Terry, is that hospital able to handle her injury?" McCarthy thought so, but was still unsure if she'd survive. Then Arthur T. asked, "Do we need to move her?"

Recalling the "we" in that question, McCarthy says, "I'll take it to my grave." His daughter recovered fully, and tearfully stood by her father's side when he spoke at a couple of rallies in the summer of 2014. He told the crowd of Artie's question, and then added, "(Arthur T.) asked me, 'Do we need to move her?' I ask you, who's we?"

SOME KEY DIFFERENCES

Observers offer a variety of other reasons why Market Basket stands out from the crowd.

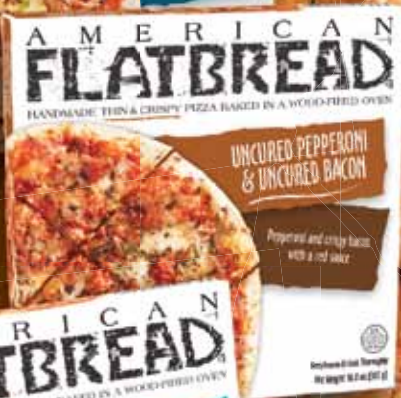
—"Their buyers are in the stores every single week, talking to customers. If a rep comes in and tells them, 'Your shoppers really want this,' the buyers already know whether they do or not. They often arrive at their offices and stay late, but they're efficient and they always get the ▶

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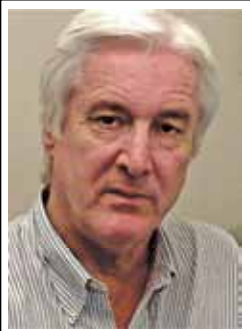
*IRI dollar sales growth of 46.2% last
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▶ job done.” —Vendor.

—“This is a very special culture, with determined people. With new management heading toward being acquired by a European conglomerate, the people said to themselves, ‘We’re dead ducks. We may as well walk out now as later, when we don’t have jobs. So they jumped, with no net below them. It was both self-interest, and wanting to keep the culture alive... And Arthur T has such loyal people. He doesn’t think he’s better than anyone else, and respects store baggers right up to the financial and real estate people.” —Christopher Mackin, Ownership Associates, Cambridge, Mass.



CHRISTOPHER
MACKIN

—“They’re old-fashioned retailers — no loyalty cards, no double

coupons, limited co-marketing opportunities. It’s basic blocking and tackling. If you have instant-redeem coupons or coupon pads at the shelf, they love it.” —Broker.

—“They’re not afraid to build a store with a Walmart or a BJ’s club store across the road. They go for the fast nickel rather than the slow dime. They know it is a marathon, not a sprint.” —Vendor.

—“The groundswell of support Arthur T. received in 2014 speaks to that loyalty among shoppers and employees. They do a lot of things independently — buying in bulk and not using a lot of outside distributors. There’s no loyalty card, which could raise prices. And there are no self-scanning checkouts. Arthur says he wants human beings waiting on human beings.” — Alex Levine, business analyst, and Don Stuart, managing partner at Cadent Consulting, Wilton, Conn.

I even have my own story. When I walked a store in Claremont, N.H., I spotted two-foot-long toy Market Basket trucks being sold atop a multi-deck case. Thinking a truck might make a good photo somewhere within this story, I looked for prices but couldn’t find any. Eager to explore the frozen food department, I moved away quickly.

But when I was about to check out, I had second thoughts. I looked at the trucks again... and now they all had prices on them. Poltergeists? I think not.

A LOOK BACK, AND AHEAD

It was a tricky time for vendors when the stores faced consumer boycotts, employee walkouts

and informational picket lines. Do you ship to the stores anyway and risk a financial hit? Would perishables run past code dates and just go to reclaim?

Out-of-stocks on key items were common chainwide, although some observers say the degree to which this was true was sometimes exaggerated. Many DSD vendors still delivered to the stores; you could see DSD product displays with full packout beside empty shelves.

For warehouse vendors, there was little choice. When Market Basket warehouse workers and truckers walked out, there was no one there to receive orders.

Says one manufacturer, “We all realized the warehouse was shut down by the walkout. We didn’t want to cross the informational picket lines, even though we had a lot of product scheduled to go to them. There would be a sig-

MARKET BASKET TIMELINE

When new management fired Arthur T. Demoulas in June of 2014, few would have expected the drama that followed over the next two months.

June 23: A year after a shift in support on the board of directors, Arthur T. Demoulas is fired as CEO of Market Basket, along with two other senior managers.

July 16: Headquarters employees demand that Arthur T. be reinstated, requesting a response from the board by 4:30 the following afternoon.

July 17: (Thursday) Interim co-CEOs (Felicia Thornton, former Albertsons CEO, and James Gooch, former Radio Shack CEO) tell employees the board will consider the demand on Monday. Employees reject the reply.

July 18: The majority of the 200 headquarters workers, 300 warehouse workers and 65 truck drivers walk out. About 2,500 employees and customers gather at headquarters.

July 19: Seventeen Massachusetts lawmakers sign a letter urging the boycott of Market Basket. With workers off the job and deliveries sparse, shelf stock begins to dissipate.

July 20: The board fires eight managers, citing their involvement with organizing protests.

July 23: Reports say Arthur T. is offering to buy out the remaining 50.5% of the company from his family members.

July 26: Protesters say their demand for reinstatement of Arthur T. is non-negotiable, and some store managers sign a petition saying they

will not work for any other CEO.

July 30: Interim co-CEOs ask employees to return to work, and announce a job fair for the following week.

July 31: Attorneys general of Massachusetts and New Hampshire send co-CEOs a letter reminding them of employment law in the two states.

Aug. 3: Arthur T. offers to run Market Basket while he negotiates a deal to buy the company. The offer is rejected.

Aug. 4: Job fair draws few applicants. Employees are told they may email their resumes. They ignore deadline of co-CEOs asking them to return to work.

Aug. 6: Reports say that Delhaize is offering to buy “part or all” of Market Basket.

Aug. 8: Market Basket board asks resigned or fired employees to come back as Arthur T. continues to negotiate a sale.

Aug 12: Headquarters and warehouse workers told to return to work or they will be considered to have left their employment.

Aug. 13: Mass. Gov. Deval Patrick asks workers to return to stabilize the company.

Aug. 27: Deal signed where Arthur S. and family sell 50.5% of Market Basket to Arthur T. and family.

Dec. 12: Deal closes.

nificant risk sending a frozen truck there to just sit in a parking lot.”

Small, local vendors had it the hardest. The chain is known for buying local, and the regional players counted on Market Basket for revenues day-in and day-out. They struggled for about six weeks, but they did so out of what sources said was both loyalty and enlightened self-interest.

Few vendors of any size felt much incentive to help the new management team. Yes, Artie T. was (and is) beloved. But with him gone from the helm, there were widespread rumors that the new team planned to sell Market Basket to outsiders — perhaps Delhaize.

Says one observer, “To us, that would have meant high slotting, high margins, and increased cost of doing business with ad fees and such, rather than focusing on selling goods. Demoulas just says ‘Give me the best cost, and our shoppers will decide if your item has viability in our stores.’ There’s no malarkey, no delays. They want to move cases. Few retailers are about that today. Some chains,



The chain’s pricing reportedly averages 14% below its competition.

you don’t even want to do business with them anymore.”

He adds that “This industry is on the verge of catastrophic change because it can no longer function the way things have evolved. You can’t retain customers and drive sales and profits through slotting

buckets, national programs and ad fees. Look at Market Basket, HEB, Wegmans, Trader Joe’s and Aldi. They make their money on selling, not buying.”

In this excerpt from a column by Prof. Kochan in *The Boston Globe*, he discusses the possibility that other retailers may follow in Market Basket’s footsteps.

“It took more than outrage for Market Basket workers to win. A look at the critical ingredients of success suggests the forms that future workplace protests may very

continued on page 28 ►

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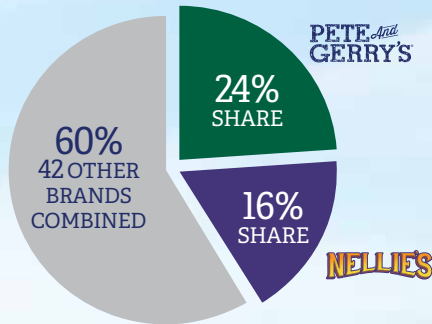


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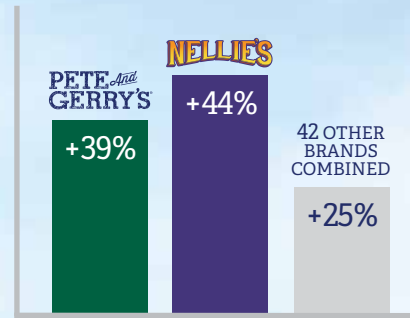
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**Data Source: IRI Infoscan Data, 52 Weeks Ending November 29, 2015. Geography Maine to Washington D.C.

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ARTHUR T. DEMOULAS'S MANAGEMENT PRINCIPLES

Sam Walton had his famous 'Rules for Building a Business.' Artie T's advice below is just as solid.

1. Everybody carry a notebook.

Dad taught us, God rest his soul, my dad Mike Demoulas, you know, he carried a notebook and a pad of paper and a pencil, and you walk around the store — just what we're going to do. We're going to talk to customers, talk to our great associates here and make a note of things that happen and you follow up on it.

2. Stay close to the customer.

You get away from being close to the customer, you've got a problem. You don't understand what they want. You're sitting some place in an office, not really knowing what's going on on the playing field and what is the true sense of that customer. And you lose touch. You lose touch with the comments, the input, the real touchy-feely of the company. You can never get close enough to the customer in any business.

3. Love your vendor.

All the vendors, they're experts in their own area, whether they're selling bags of lettuces or spices. We're all ears on how to learn and what the latest trends and the latest knowledge in these various things... The extra monies, the deal monies from vendors that we work out is passed on through the system, all for the cost of goods sold, so we can lower the price for the customer.

4. Massage the business.

You get a great first-hand sense of what people want, and you keep massaging your business, product by product and service by service. It's a never-ending, ongoing thing.

5. Promote from within.

We do all of our promoting from within. We start out bagging groceries and shagging carriages and cutting

boxes in the back room and doing the things you do in a supermarket — 99% of our people come from within the ranks.

6. Mind the store.

Growth isn't our biggest hunt. Our biggest hunt is maintaining

what we have. We talk about it in meetings all the time. The most important thing is taking care of the customers that have been loyal to you over the years.

7. Think small.

Putting a building up is easy — the difficult thing is bringing the Market Basket culture... We don't want to open a nice big store like we do and not have the same feeling that you have in the store here. And that feeling



Surrounded by supporters, Arthur T. Demoulas arrives for a meeting of the board where many feared he would be fired. It was the first meeting after control of the board shifted from Arthur T. and his family to his cousin and rival, Arthur S. Demoulas. (Photo by David H. Brow, courtesy of The Sun of Lowell.)

that we always want to present is being your local grocer... We try to create a mentality that hey, you run the place like it's a one-store operation.

8. Let people get in the way.

A lot of people over the years have stocked their stores overnight, like on night crews. We prefer to stock during the day. Now, a little bit inconvenient having a pallet in the aisle? It is. But you know we'd rather have a human being, customers saying, can you reach that for

me? And what about this?... We're in the people business first and the food business second.

9. You get two identities.

As a retailer you have to have a couple of identities that you're very potent with. You take Whole Foods. You think Whole Foods, you're natural foods and pristine merchandise... You've got to stand for something. What Market Basket stands for is best people, best price, without sacrificing the quality, the variety and the shopping experience at large.

10. No gouging.

We have a pricing policy that is one pricing policy in all 71 stores—whether you're in Bourne, whether you're in Chelsea... Now there's competitors—won't mention any names — that you can buy this product right here (picks up a sleeve of plastic cups) and this product is \$1.29 here, you can go down to the Cape, one



Even plastic bags at this store went out of supply during the walkout. Note the addition to the sign at bottom, 'Bring Back Artie T!' (Photo by David H. Brow, courtesy of The Sun of Lowell.)

of their Cape stores, you're going to your summer home or whatever, and they're selling this for \$2.29. Hey, I mean, how fair is that?

11. Think about real estate.

We have a pretty good sense of what feels right. Our track record is pretty much 100% when it comes to that. My dad had a good eye for a spot. It's in part the strength of the formula, and part the location, but you look for spots that have good access and the right parking and the right reach — of course, being close to people and highways is very good. We probably go about it in the least sophisticated way as you would think. It's nothing more than driving to the lot on different days and different hours of the day, seeing the traffic and sizing things up with your senses. ■

Source: Galen Moore, "Market Basket List: 11 management tips from 'Artie T.'" Boston Business Journal, October 9, 2013. Reproduced by permission.



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