Market Basket Case Study

“Misreading its greatest asset: the human factor”

1\textsuperscript{st} DRAFT, by Howard Williams, © 2014

Introduction

One supermarket proved it can provide employees with a livable wage, annual bonuses and a retirement plan. They can beat Walmart’s prices and turn a profit. So why was Chief Executive Officer, Arthur T. Demoulas, forced out?

Market Basket’s formula proves that executives and managers and employees can all profit, together. Employees get the benefits of a 15 percent profit sharing plan provided by Market Basket, while the groceries the store sells are less expensive, on average, than Walmart’s. As for the annual sales: Market Basket sales are estimated in the $4.6 billion last year.

Americans have accepted that activist boards of directors will invariably take advantage of their low-wage workers to maximize profits for the benefit of their shareholders. The American economy has strayed away from supporting a thriving middle class, or to help the weakest among us attain a livable wage for the honest day’s work. It is solely in existence to add to the pile of wealth for the unchecked at the top.

For those viewing from the sidelines, the Market Basket corporate overhaul is difficult to believe. Here is the unusual part: Protesting employees are demanding the return of their beloved CEO, fired by the board of directors who are focused solely on the bottom line. As a result, non-union employees go on strike and customers boycott shopping at Market Basket stores.

Market Basket History

The original Demoulas family grocery opened in Lowell, Ma, in 1917. After building their business into a small empire, the founding couple, both Greek immigrants, sold the company to their sons, George and Telemachus Demoulas, in 1954. After George passed in 1971, Telemachus (Mike) took charge. George’s son, Arthur S. Demoulas, became dissatisfied with Mike’s management of the business and filed suit.

The costly and perpetual lawsuit and appeals between Demoulas factions is said to be one of the ugliest civil litigations in New England’s history. With the opposing sides arch enemy cousins, Arthur S. and Arthur T. Demoulas, the latter a son of Mike. Despite the public airing of their dirty laundry, Market Basket’s business boomed. But after the Massachusetts’s highest court forced Arthur T.’s side to pay more than $200 million to his cousin in 2000, the decision only led to more infighting among shareholders over the chain’s seventy-one locations.

Arthur T. maintained majority control of the board of directors until this June. The majority shifted toward Arthur S., who fired his cousin upon taking control fo the company. This move
prompted widespread worker protests and customer boycotts. This firing erupted into a fight over workers’ rights. Arthur S. signaled early on that he would manage the business to optimize shareholder value, return on investment.

**Arthur T. vs Arthur S.**

It is important to notice neither Arthur T. or Arthur S. is entirely innocent. Though the ousted Arthur T. is widely regarded as the hero and Arthur S. is the perceived antagonist by employees. Even though both have scraped the bottom of the ethical barrel in their dealings with each other.

A comparable dispute came last year when Arthur S. moved to pay out $300 million in dividends to shareholders. Protesting employees fear that losing Arthur T. will lead to liquidation and, then, and erosion of Market Basket’s corporate culture. Part of that culture is ensuring guaranteed annual raises, a high starting salary, vacation time and a profit sharing plan for employees at the supermarkets. And the protesting employees are probably right. Competing companies in the food industry are known for low wages, poor benefits and in some cases: wages so low employees are eligible for community supported welfare programs.

**Employee Response to Board Action**

The Market Basket corporate structure is administrative staff located in the corporate headquarters, three warehouse distribution centers, 71 supermarkets and real estate holdings.

Arthur T is fired and co-chief executive officers were hired. The new co-CEOs, Felicia Thornton and James Gooch, began dismantling the system that has produced steady profits and funded growth for so many years. A few weeks later, Thornton and Gooch fired the eight district managers. In response to this action, the employees at the distribution centers walked off their jobs. Thornton and Gooch immediately ordered the employees to return to work or new job applicants will be brought in to replace them.

This back and forth between the executive team and employees is taking the supermarket chain into a death spiral. Clearly, events were moving faster than the executive team could effectively manager. Poor decision making, revenge and greed were at the core of executive action and not a management plan. The executive team has lost control of the company and the employee work action has put them in a strong position to bring Arthur T back as CEO. Without the ability to supply the 71 supermarkets the business was losing an estimated million dollars per day and no end in sight.

Thornton and Gooch could not get the distribution centers operational and without products the supermarkets could not generate sales. Customers became hostile to the new management and they boycotted Market Basket stores.
Distribution centers dysfunctional, stores operating without products to sell, customer boycott limited the number of companies willing to buy the Market Basket supermarket chain at any price. Alternatives to selling this business are limited. Arthur T’s offer to purchase the shares owned by the Arthur S side of the family.

**Offer to Purchase is Agreed To**

Arthur S and board of directors accept Arthur T’s offer to purchase all Market Basket shares owned by Arthur S side of the family. It is official. Arthur T’s side of the family own 100 percent of the stock.

**Timeline**

June 25  
Arthur T. is removed as the Chief Executive

July 21  
Eight key senior managers are fired

July 23  
Board of Director’s hire Felicia Thorton and James Gooch as Co-CEOs replacing Arthur T.

July 25  
Arthur T. offers to buy Market Basket

July 30  
Board criticizes Arthur T. for his public comments

July 30  
Thornton and Gooch seek replacement workers for the three distribution centers. Financial losses are $1 million per day.

August 4  
The eight fired senior staff employees meet with attorney to plan a suit for wrongful termination.

August 5  
Employees refuse to return to work. Thornton and Gooch organize a job fair to replace employees at the distribution centers.

August 7  
Part time workers at 71 Market Basket supermarkets had their house of work reduced.
August 8
Hannaford’s parent company emerges as rival bidder to purchase the Market Basket Company

August 8
Mass. and New Hampshire Governors offer to help end the feud.

August 13
Market Basket fails to make a $50,000 lease payment on two of its supermarkets.

August 22
Vendors say they are cutting ties to Market Basket

August 24
Arthur T offers $1.5 billion to purchase Market Basket Company

August 27
Market Basket management is accused of creating a hostile work environment in a National Labor Relations Board filing.

August 28
Arthur T reaches a deal to buy the company.
Striking Market Basket employees return to work.

December 4
Arthur T completes the purchase of Market Basket Supermarkets

December 12
Arthur T distributes $49 million in bonus payments to 25,000 employees

Market Basket Case References

2. Esquire, The Last Stand for the Middle Class is Taking Place in a Parking Lot in Massachusetts, Web Archive, Nov., 2014