Market Basket Dispute Resolution

“Misreading its greatest asset: the human factor”©

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This case covers the essential aspects of a dispute between family members over control of a New England supermarket chain. The Market Basket dispute played out through the summer of 2014. Deeply held grudges, revenge and greed are at the core of this family dispute. The battling family members threatened the future of a successful business that offered customers quality products at competitive prices while providing 25,000 good paying jobs. A reformulated board of directors brought a short-term approach intended to maximize shareholder return now versus the long-term structure where executives, managers and employees all benefited.

Information for this case was obtained from press releases, interviews with Market Basket employees, contractors and news reports. This is a Chapter S corporation and director’s meeting minutes are not publicly available.

In order to facilitate group work, various aspects covered in this case are divided into sections. This allows the students to be organized into discussion groups for detailed analysis and their results can be presented to the entire class.

This case was written primarily for negotiation and dispute resolution courses, but could be used in human resource and other business courses.

Teaching notes and sub-topics accompany this case.
Market Basket Case Study

“Misreading its greatest asset: the human factor”©

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Introduction

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

Market Basket’s formula proves that executives, managers and employees can all profit, together. Employees get the benefits of a 15 percent profit sharing plan provided by Market Basket. On average, Market Basket prices are less than Wal*Mart’s. As for annual sales: Market Basket sales are estimated to be $4.6 billion in 2013.

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 an honest day’s work. This cost shifting from corporations to society is common practice in low skill, low wage industries enabled by minimum wage laws.

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 an activist board of directors who are focused solely on the bottom line. As a result, non-union employees walked out and customers boycott shopping at Market Basket supermarkets.
Market Basket History

The original Demoulas family grocery opened in Lowell, Massachusetts, in 1917. The founders, both Greek immigrants, retire and sold their stores to their sons, George and Telemachus (Mike) Demoulas, in 1954. George passed in 1971, and Mike took charge. He created an organization based on distributive management. He organized the supermarkets as if each department manager was managing his own business. Department managers made day-to-day operating decisions and were accountable for results.

Mike’s management philosophy was “management builds an organization and the organization builds a business”. This philosophy created a relationship between employees and management for high performance norms and high productivity. Focusing on the economic value of work performed and not wages. He viewed employees as assets, not liabilities.

The degree to which employees are loyal to each other and are motivated to stay loyal to Market Basket created the cohesiveness that drove performance related norms established by the group and a sense of ownership and pride in performance. This cohesiveness created over years of steady leadership is the basis for the employees’ success in returning Arthur T. as CEO.

How can Market Basket ensure their reputation for high quality groceries at low prices going forward?

George’s son, Arthur S. Demoulas, became dissatisfied with Mike’s management of the business and filed suit. Arthurs S. argued that the distribution of profits was unfair to his side of the family. The costly perpetual lawsuits and appeals between Demoulas family 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.

It is important to note neither Arthur T. nor 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, neither has ethically distinguished himself in his dealings with the other.
Arthur T. maintained majority control of the board of directors until June 2014. In June, one shareholder shifted allegiance from Arthur T. to Arthur S. This one shift gave Arthur S. majority control of the stock and the business. Arthur S. Signaled early on that he would manage the business to optimize shareholder value. This sent a shock wave of distrust throughout the workforce.

He immediately fired his cousin upon taking control of the company. This sent a shock wave of distrust throughout the workforce and prompted widespread worker protests, customer boycotts and erupted into a fight over workers’ rights. The employees believed the company would be sold and the culture lost. Part of that culture is ensuring guaranteed annual raises, a high starting salary, vacation time and a profit sharing plan for employees.

The protesting employees were 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. Compare the $12 per hour starting rate with benefits for part-time new hires at Market Basket to the industry standard minimum wage starting rate.

**How can Market Basket employees ensure the continued operation of a profitable, socially responsible corporation?**

The Market Basket structure includes the administrative staff, located at the corporate headquarters, three warehouse distribution centers, 71 supermarkets, and several real estate holdings, including shopping centers and a golf course.

The board of directors under Arthur S. direction fired Arthur T. and hired appointed Felicia Thornton and James Gooch, as chief operating officer and chief administrative officer, respectively. They will serve a co-CEOs, and were responsible for the family-run company.

The new co-CEOs began dismantling a management system that produced steady profits and funded growth for so many years. This created a back and forth between the executive team and distribution centers’ employees. Six hundred employees walked off their jobs that took the supermarket chain into a death spiral. Clearly, events were moving faster than the executive team could effectively manage. There was no management plan in place to operate the company or a plan
to deal with the critical events happening at the distribution centers. The employees’ reaction to the firing of Arthur T. was completely unexpected by the executive team.

The result was a chaotic system no one would have designed from scratch with unintended consequences that defied common sense. It appeared the co-CEOs were using the disruptive management model to drive change in the organization, but there was no follow through and the expected outcomes never happened.

Thornton fired eight key corporate managers. In response to this action, the employees at the distribution centers walked off their jobs. Then Thornton immediately ordered the employees to return to work or replacement workers would be hired. The fired employees did not return and the hiring of replacement employees was a complete disaster. The replacement workers’ productive never exceeded 10 per cent of supermarket’s orders. Trailer loads of unshipped produce spoiled and were thrown away each week. Vendors began putting Market Basket on a prepay schedule. Mounting losses were estimated to be $10 million per day.

Threats of mass firing by Thornton could not get the distribution centers operational and without products on the shelves the supermarkets could not generate sales. However, the variable and fixed cost associated with operating their supermarkets continued. Customers became hostile to the new managements’ poor performance and boycotted all Market Basket supermarkets. This lack of performance by Thornton and Gooch, and the employee walkout put the employees in a strong position to bring Arthur T. back as CEO.

It was rumored that Arthur T. orchestrated the employee rebellion. However, there was never evidence he had contact, direct or indirect, with any employee. The eight-member employee leadership team acted completely independent. Offers of free legal help from a Boston based union was turned down. Clearly, the employees were on a go-it-alone strategy.

**What were the alternatives to a negotiated agreement?**

The activist board of directors, led by Arthur S., could not operate the corporation on a day-to-day basis and the potential list of buyers was reduced to Arthur T. The business was so dysfunctional that no major supermarket chain that could afford
the billion-dollar price tag wanted the difficult task of bringing 71 supermarkets back to profitability.

After the first few weeks of the employee walkout, it was clear that the employees were in control. This left management with few options; sell a devalued-dysfunctional company to Arthur T., or liquidate.

For Arthur T., the negotiation was not just closing a deal but as setting the stage for a successful long-term operation. At what price could he restore the supermarkets to profitability?

The walkout at the three distribution centers was a two edged sword. It cut in both directions. “The plan was, we shut down distribution, we shut down support at the office, and the stores just wither and die like a grape on a vine”, explained Thomas Trainor, Market Basket district manager/grocery supervisor. In two weeks’ time disruption of the distribution network brought the company to its knees. The dilemma for the employees: Continue to keep the stores crippled and drive the value of company down while Arthur T. is negotiating financing to purchase the outstanding stock.

As the walkout continued for seven weeks and the prospect for a sale looked bleak, it is rumored that some activist stockholders were pressuring Arthur S. to make a deal with Arthur T. to buy the company or they were going to make their own deal with Arthur T.

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

All jobs, with wage, bonuses and benefits remain in place, and Arthur T paid 49 million dollars in bonuses to the 25,000 employee three weeks before Christmas. Since Arthur T. gained control of the company, Market Basket added five new stores in southwestern Massachusetts.
**Timeline**

June 25, 2014  
Arthur T. is removed as the Chief Executive

June 26  
Seven senior managers resigned in protest

July 20  
Eight middle managers are fired for organizing the walkout

July 21  
Eight key senior managers are fired

July 23  
Board of Director’s hire Felicia Thornton 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 hours of work reduced.
August 8
Hannaford’s parent company emerges as rival bidder to purchase the Market Basket Company

August 8
Massachusetts 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
Teaching notes and sub-topic

What does this dispute mean for labor-management disputes going forward?

It is unlikely what was done by Market Basket employees could be duplicated in other organizations. Management was in the perfect storm of disputes.

Consider the following:

1) Upon taking control of Market Basket, Arthur S. did two things that created unrest and fear in the 25,000 employees. He terminated CEO Arthur T. in a very heavy-handed way and then announced that his leadership would manage the company in a way that optimized shareholder return. Without explanation employees were left to imagine the future.

2) Wholesale management departures began that reinforced employee unrest. Seven senior managers resign in protest to the firing of Arthur T. and a month later 8 middle managers are fired for organizing the distribution centers walkout. Without experienced replacements employees immediately available the heuristic knowledge was lost.

3) Everyone wants to win but everyone is not willing to do the things necessary to win. Six hundred employees walked off their jobs at great personal risk. They gave up the security of good pay and benefits for a belief in Arthur T. and his leadership. This commitment to win made the difference.

4) Without legal advice, the employees were very unpredictable in response to management actions. This unpredictability kept the co-CEOs confused and in a reactive position that did not produce the expected results. It is clear that management had no plan to deal with the disruption at the distribution centers or replace the 600 employees. Had the employees gotten legal advice, I would predict, there would have been a different outcome.

5) Arthur S. and the activist board of directors hired Thornton and Gooch who were not prepared for the task of dealing with employees committed to the Arthur T. leadership. They were just unprepared and could not do the job.

6) The distributive management system put in place by Mike Demoulas was for the long term. New employees begin their career as part time and moving to full time
employment is considered a promotion. The management style of Mike Demoulas was “the management builds an organization and the organization builds the business”. Mike promoted respect for employees and service to customers. Not very complicated, but built loyalty to the company from both employees and customers.

7) Cohesiveness of the employees is a powerful factor in the return of Arthur T. This tight group held together long enough to force a settlement. The employee group included management employees that either were fired or quit and hourly employees. Union organizations do not include a management element.

8) Communications was no contest. The employees effectively took advantage of social media by creating a web page, Facebook page and online petitions. This kept employees, customer, vendors, the general public and the activist board of directors informed about the status of the dispute. Tom Trainor, a fired senior manager, was designated as the spokesperson for the employees. They could not have made a better choice. When the media arrived Tom was always ready to tell the employees’ story.

On the other side, Arthur S. avoided all media and did not take advantage of opportunities to use social media. Even though consultants represented the corporation and coCEOs, they had a communications blackout.

9) Governors of Massachusetts and New Hampshire began pressing for an end to the dispute on behalf of Market Basket employees, customers and vendors located in their states. Their public comments probably had little influence on the negotiations, but a big influence on the image of Arthur S. and the activist board members

Sub-Topic
It is argued by marketing experts that: “There is no bad publicity.” The Market Basket dispute was chronicled daily in print articles and television stories that were mostly negative. However, this attention attracted hundreds of new customers that in the past had not considered shopping at their stores. Now, Market Basket executives are faced with the challenge of keeping this momentum going forward. From 1971 to 2015, their marketing strategy has stayed to the neighborhood store model rather than a high tech corporate strategy using E-business, web page, Facebook and other social media. Currently, Market Basket has no presence on the Internet.
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


