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THE FOOD TERMINAL (A)

Ron Hae and Elizabeth M. A. Grasby revised this case (originally written by Leo J. Klus under the supervision of John F. Graham) solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In July, three months after graduating from the Western Business School, 23-year-old Mike Bellafacia knew that he was in for a rough ride.

> When I arrived at the store, the staff morale was terrible. The previous manager had made a mess of things, the recession was hitting home, sales were spiralling downward quickly, and my store was losing over $13,000 per week. To make matters worse, most of the key people in the company felt that I didn't deserve the store manager's position.

As the recently appointed store manager of the newest Foodco location in St. Catharines, Ontario, Mike knew that he had to turn the store around by improving its financial performance and the employee morale. He also knew that something had to be done immediately because the losses at this store were seriously affecting the entire company.

FOODCO LTD

Foodco Ltd. (FC), with its head office located in St. Catharines, Ontario, was a large player in the Niagara Peninsula grocery retailing industry. FC, a retailer in this market since early 1980, was currently made up of seven stores: three St. Catharines locations, one Welland location, one Port Colborne location, and two Lincoln locations. Most of the ownership and key management positions were held by Frank Bellafacia, Tony Bellafacia, and Rocco Bellafacia, as shown in Exhibit 1. Selected financial ratios for FC are shown in Exhibit 2.

FC had created a powerful presence in this industry by developing and refining a strategy that worked. Their product offering was that of any typical supermarket: groceries, meats, bakery and dairy items, packaged foods, and nonfood items. Each store carried eight to ten thousand different items. FC planned to widen the selection available by adding more lines and to follow a general trend in consumer preferences toward an increased percentage of nonfood items in the product mix. Central to FC's strategy was a well-managed marketing effort. Weekly flyers were distributed that highlighted five or six items. FC priced these items below cost to draw customers. The rest of the flyer's products were representative

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of all the product groups. FC's ability to differentiate itself from the other competitors centred on its corporate vision: low food prices and fast, friendly service. Central to the FC competitive strategy was the mandate to be the low-price leader among conventional supermarkets, during good and bad economic times. Mike Bellafacia stated: "This is a no frills and low price store for a no frills and low price clientele. Most markets are shifting in this direction." FC had developed aggressive expansion plans with six stores being considered for development.

THE RETAIL GROCERY INDUSTRY

The job of managing the store and the staff became crucial to the overall success of FC given the demanding challenges in the industry. The industry was shifting from a simple mass market to a spectrum of distinct, serviceable segments. A recent statistic stated that 30 per cent of consumers switch stores every year. Moreover, a new Food Marketing Institute study found that consumers buy on the basis of the following criteria (ranked in decreasing priority): service, quality products, variety, and low prices. Thus, there was now more opportunity for competitive differentiation based on service and on quality than on price alone.

There were tremendous opportunities for niche players to enter the market, and such entrants had been observed. Health and organic food stores, fruit markets, ethnic specialty food stores, and independent single-commodity stores (i.e., pet food stores) had emerged and were servicing their target segments more effectively than the supermarkets were willing or able to do. Consumer demands varied from region to region, and many small independent retail grocers emerged to meet these demands both in the Niagara Peninsula and across all of Ontario. These independents managed not only to survive, but to take sizable portions of market share from the major chains. This shift toward niche marketing and catering to the local market outlined the need to employ store managers who understood how to please and retain the local customer.

THE ROLE OF THE STORE MANAGER

The success of FC depended upon each of the seven store managers operating his/her store consistently with the corporate strategy. Traditionally, the road to store manager (SM) began within one of the stores at a lower management position. The family culture within each Food Terminal location was very important to FC management. Thus, store managers were selected from within the company to ensure a leader who understood the FC vision and values. Five managers reported directly to the SM, as shown in Exhibit 4, and their development was an important job for the SM. The SM position became increasingly more important at FC. Many of the current SM functions that used to be handled by the head office were delegated downward to the store level to allow head office to focus on overall company strategy. The stores were now more attuned to the local market they serve. An SM was responsible for the following:

1. Ensuring that merchandising skills were strong among all department managers;
2. Monitoring local market information;
3. Focusing staff on organizational goals (such as sales, gross margin, and profit goals);
4. Organizing weekly staff meetings;
5. Developing all employees and encouraging staff training;
6. Generating and producing sales, gross margin, and profit objectives;
7. Meeting cost objectives (motivating the staff to be cost conscious);
8. Analyzing the performance of each inter-store department; and

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9. Attending FC "Top Management Meetings" (TMMs).

MIKE BELLAFACIA'S BACKGROUND

Mike Bellafacia graduated from The University of Western Ontario with an Honors Business Administration degree (HBA). During his summers at university, he was assigned special projects from his father that focused on a variety of company problems. Mike would combine the analytical skills developed in the business school with his knowledge of the family business to address these issues. In his last year in the HBA program, Mike and a team of student consultants spent the year focusing on the long-term strategy and competitive advantage of FC. They examined every aspect of the company and developed many strategic recommendations for the top management at FC.

Upon graduation, Mike decided to work for FC. He planned to start off working in some of the various departments (i.e., the produce department) and at different stores within FC to work his way up in order to get the experience he needed to manage a store. This would have allowed him the opportunity to work under some of the most knowledgeable managers in the company. He didn't expect to be store manager so soon.

THE SCOTT & VINE LOCATION: THE FIRST MONTH

Mike's career at FC was supposed to begin in one of the departments in the company. Both Mike and FC management felt strongly about that. However, while Mike was on vacation in May, FC management made a chancy decision. As of June 1, Mike Bellafacia would take over the SM position at the Scott and Vine location from the existing SM. The store's performance was deteriorating, and Mike was expected to change things. Mike reflected on the first week at the three-month old location:

> When I first started I was extremely nervous. The district supervisor brought me to the store to have a meeting with the department managers, and I could see the look of disappointment in their eyes. Most of these managers had been forced to move to this new store from other locations. The staff morale was definitely low to begin with. Combined with the fact that I am the boss's son, they probably assumed that I was sent to check on them.

After getting settled in, Mike began to realize that something was terribly wrong at the Scott and Vine food terminal. The store was not producing a bottom line, and many of the 95 employees were not performing well. Mike commented:

> This building used to be a Food City that was on the verge of closing down. We acquired it and picked up where they left off. The task I had was to get above average performance from an average staff. They were just not driven to succeed, were poorly trained, and many of them, especially the managers, didn't want to be there.

The previous manager had performed poorly by FC standards. Although he had been an SM at other grocery stores, he was unable to create a productive atmosphere at this one. When this location opened, the sales level was $200,000 per week, but by Mike's first month it had dropped by almost 14 per cent. FC management expected this location to be operating at over $240,000 per week. The other St. Catharines stores were operating at over $420,000 per week. The Scott & Vine store had a long way to go.

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What took place at the Scott and Vine location was a symptom of a more serious problem: the performance of FC as a whole. Mike explained the situation:

> Some of what was happening here can be attributed to FC. They became fat cats and, in the process, they lost touch with the customers. Pricing had gone way out of line, cross-border shopping was cutting into our bottom line, and our marketing efforts were poor. The weekly ads that are developed by head office for all the stores were not drawing in customers like they used to. As a result, we had no word-of-mouth advertising which is so essential to a retail outlet. When our sales across the board went down, we had only ourselves to blame.

SORTING THROUGH THE DISORDER

The job of managing the Food Terminal was overwhelming, and the problems were endless. Some of the more prevalent problems are listed below:

1. Product rotation (a job monitored by department managers and very important for customer satisfaction) was handled improperly.
2. It was not uncommon to find empty counters and shelves.
3. The staff paid very little attention to cleanliness. (Customers complained about this.)
4. Customers were not treated with respect by those employees who had frequent contact with them.
5. Department managers were doing a poor job of managing and motivating the employees in their departments.
6. Department sales and gross profit results were poor. (See Exhibit 5 for a breakdown of departmental sales and gross profit figures.)

Difficulties arose within the staff that made the SM job even more strenuous. Mike described the situation:

> There were a lot of people problems that I had to face. The weekly staff meetings we had together were a joke. Instead of a time to interact and solve problems together, it was just a waste of time. As well, the entire staff was demoralized due to the continual failure to meet monthly performance goals since the store opened. We had the worst performance in the FC organization. The controller of the company told me that the Scott & Vine location was hurting the entire company. I felt as though head office was blaming me for the store's poor performance, and I knew that I had to set some goals that we could all rally behind.
>
> For the first month I was very autocratic. I had to be! I replaced all the cashiers that month, because of the numerous customer complaints about their attitude, but that was just the beginning of my problems. The part-time staff were continually standing around doing nothing. The receiver was not handling the deliveries very well. I found it tough to get along with the department managers. My worst employee problems came from the produce and meat managers. They just were not doing their jobs well. I tried going over the product orders with them, developing schedules, and assisting with their product display plans. I even brought in some of FC's department experts to go over things with them. They would not listen to any of my suggestions. Even though I had some problems with my grocery manager, I began to see that he had real potential for managing. There was some resentment toward me for being a family member and getting the SM position

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> so young, and as a result, people would not open up to me. I also knew that some of the other SMs at other locations didn't want me to succeed, and I found myself conveniently left out of important SM meetings. To make matters worse, after two months here, the general manager of FC made it known that I should be pulled out of this job.

FACING THE FUTURE

It was a tough season to compete in the retail grocery business. Mike Bellafacia found this out after only two months at the Food Terminal and the situation was now grave. The Scott and Vine location was losing over $13,000 per week and the sales level was stagnant. The staff morale had changed very little. Customers were not responding to advertisement efforts, and things looked as if they were going to worsen. Mike reflected on what had happened during these last two months and where things were going. He wondered if he was responsible for the mess the store was in — had he mismanaged his managers, thereby making the situation worse? Had FC made a big mistake putting him in the position of SM? Thinking back on his education, Mike commented:

> The business school helped me understand the decision-making process. I'm not afraid to make decisions, do analysis and pin-point problem areas. But it didn't teach me how to get the job done, the execution of a decision. More importantly, I was not prepared to deal with people who didn't have the training I did, or the desire to succeed as I did.

Although he was unsure about these issues, he focused on what he should do to get the Scott and Vine food terminal operating profitably, with good management and with a growing customer base. As he looked over the financial data, he wondered if he should lay off some employees to bring the wages expense down. Mike reflected on this: "We didn't have the sales to support the exorbitant number of employees we had at the store." He was concerned about how he would handle these layoffs. He also thought about the serious morale problem. Many of the employees were lazy and demotivated, and customers complained regularly about cleanliness and service. He wondered if there was a way to use the weekly meetings to his advantage. Things seemed just as complicated as they did when he started in June.

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Exhibit 1

PERSONNEL ORGANIZATION CHART

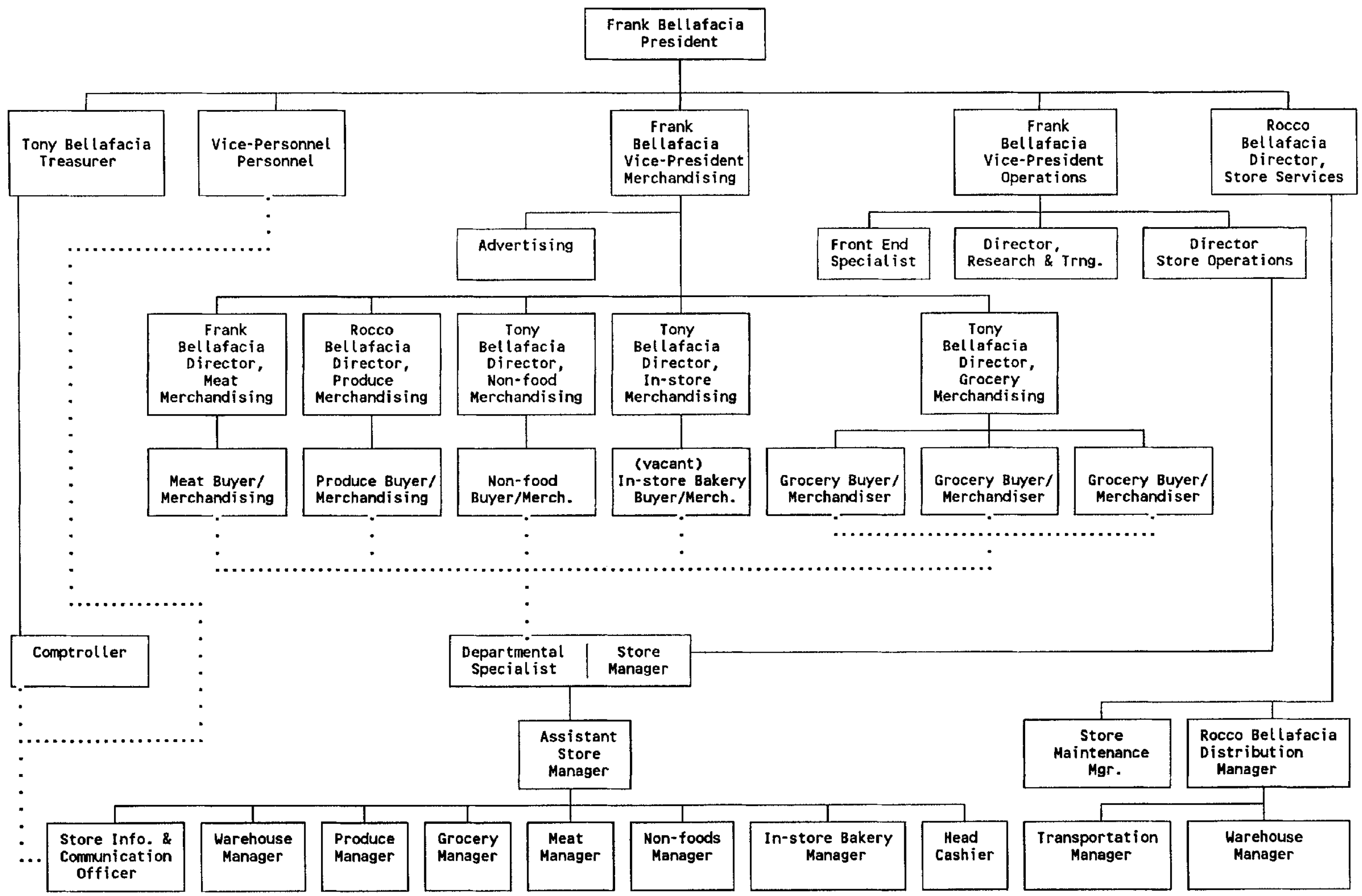

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Exhibit 2

SELECTED FINANCIAL RATIOS
LAST FIVE YEARS

PROFITABILITY	CURRENT YEAR	LAST YEAR	TWO YEARS AGO	THREE YEARS AGO	FOUR YEARS AGO
Cost of goods sold					
Operating expenses	78.3%	78.7%	79.7%	80.2%	81.2%
Net income before tax	19.8%	19.6%	19.1%	18.7%	19.4%
	0.7%	0.7%	0.3%	0.5%	-1.1%
RETURN					
After-tax return on equity					
	94.2%	725.0%	n/a	715.0%	0.0%
STABILITY					
Interest coverage*					
	2.37x	1.19x	1.05x	1.36x	1.28x
LIQUIDITY					
Net working capital ($000)*					
	(243)	(316)	(13)	(2,051)	(1,447)
GROWTH					
Sales					
Assets*	15.5%	14.1%	10.7%	26.0%	
Equity*	9.6%	11.2%	3.8%	16.7%	
	19.5%	4.9%	1.2%	-0.3%	

* *Denotes a ratio calculated from the statements of Bellafacia's Consolidated Holdings Inc.*

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Exhibit 3

FRONT PAGE OF THE WEEKLY FLYER

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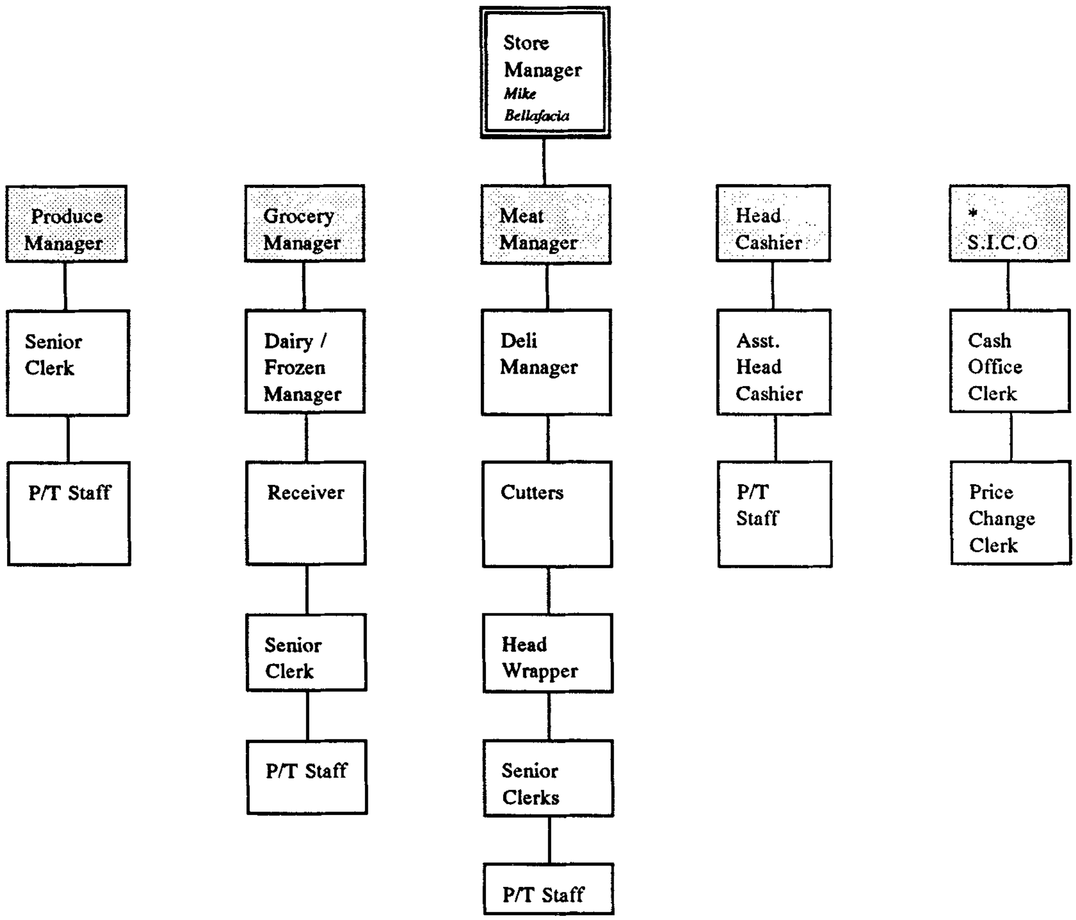
Exhibit 4

SCOTT & VINE ORGANIZATIONAL CHART



** Store Information and Communications Officer. Responsible for maintaining the lines of communication between the store and head office.*

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Exhibit 5

SELECTED FINANCIAL INDICATORS — SCOTT & VINE LOCATION
FOR THE FIRST FULL WEEK IN JUNE

Departmental Performance

DEPARTMENT	SALES ($)	GROSS PROFIT ($)	GROSS PROFIT AS A % OF SALES
Produce	29,260	5,940	20.3
Grocery	99,820	16,071	16.1
Meat	42,532	9,825	23.1
Non-Food	6,173	1,587	25.7
IS-Bakery	3,015	1,206	40.0
TOTAL	180,800	34,629	19.2

Overall Store Performance (One Week)

WEEKLY INDICATORS	BUDGET ($)	ACTUAL ($)
SALES	193,750	180,800
GROSS PROFIT	42,104	34,657
EXPENSES:		
Wages	20,604	25,280
Supplies	2,369	1,887
Other Expenses	21,364	23,972
TOTAL EXPENSES	44,337	48,139
NET INCOME	(2,233)	(13,482)
# OF CUSTOMERS	6,150/WEEK	

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