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“We Are Market Basket”

Zeynep Ton, Thomas A. Kochan, and Cate Reavis

We're a crazy bunch. If this was a poker game, we just went all in.

— Steve Paulenka, Market Basket Facilities and Operations Supervisor[1]

It was three in the morning of August 28, 2014 and Rosie Hagopian couldn't sleep. She was due at work by eight, but she couldn't wait that long. Hagopian oversaw equipment purchases and maintenance at Market Basket, a New England-based supermarket chain where she had worked for 41 years, but she hadn't been to work for six weeks. Nor had she been paid in that time. Giving up on sleep, she got dressed and drove to company headquarters, where she found a few of her colleagues already at their desks. They hadn't worked or been paid in six weeks, either. But just hours earlier, Arthur T. Demoulas (Arthur T.) had been reinstated with full operational authority, along with 17 members of his management team, after being fired in late June by the company's board of directors, a group controlled by his rival and cousin, Arthur S. Demoulas (Arthur S.). (See **Exhibit 1** for timeline.) Now—at last—it was time to get back to work.

At a time when public perception of CEOs was at a low point, Market Basket employees—joined by vendors and customers—had just spent six weeks protesting the ouster of their CEO and demanding his reinstatement. Arthur T. had worked for the company for over 40 years and had been CEO since 2008, but why was having him at the helm so important to so many different stakeholders? What exactly were they trying to protect? And why were their concerns so widely and deeply shared that a

[1] Erin Ailworth, “Workers Demand Reinstatement of Ousted Market Basket Leader,” *The Boston Globe*, July 16, 2014.

This case was prepared by Zeynep Ton, Thomas A. Kochan and Cate Reavis.

broad coalition of high-level executives, middle managers, front-line clerks, warehouse workers, and truck drivers would band together in protest without any legal protections for their actions?[2]

The Supermarket Industry

In 2013, the $620 billion U.S. supermarket industry[3] was known for low margins (averaging 1.5%[4]), high fixed costs, low-paying jobs with few benefits and uncertain weekly schedules, high employee turnover, and poor customer service.[5] Understaffing was common and resulted in unstocked shelves, long checkout lines, and customers wandering the aisles looking for someone who could help them find products.

A typical supermarket carried approximately 44,000 items in a 46,000 square-foot space, a median size that had fallen since the mid-2000s (see **Exhibit 2**), and had sales of $25.1 million per year.[6] Supermarkets faced competition from a range of different formats (see **Exhibit 3** for descriptions) and some industry experts predicted that market share for traditional supermarkets would drop from 40.2% to 37.2% between 2013 and 2018 (**Exhibit 4**) and that there would be 2% fewer traditional supermarkets by 2018 (see **Exhibit 5**).

In addition to national chains like WalMart and Whole Foods, Market Basket competed against three regional (New England) supermarket chains: Shaw's, owned by privately held Albertsons, operated 155 stores in New England (some of which carried the Star Market name); Stop & Shop, a wholly owned subsidiary of the publicly traded Dutch company Ahold NV, had 400 stores throughout New England, New York, and New Jersey; and Hannaford, with 177 locations in New England and upstate New York, was owned by Delhaize USA, a wholly owned subsidiary of Belgium-based and publicly traded Delhaize Group.

In 2013, Shaw's and Stop & Shop closed 12 and 9 locations, respectively, in markets where Market Basket operated. As one industry analyst stated, Stop & Shop left New Hampshire because it was getting "battered" by Market Basket.[7]

Market Basket

In 1917, Greek immigrant Athanasios "Arthur" Demoulas (Demoulas Sr.) and his wife Efrosine opened a small market, called DeMoulas,[8] in Lowell, Massachusetts. In 1954, Demoulas Sr. sold the

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[2] For a description of why this collective action was not protected by labor law, see Thomas A. Kochan, "Market Basket and America's Outdated Labor Law," *Cognoscenti*, September 3, 2014. http://cognoscenti.wbur.org/2014/09/03/market-basket-collective-bargaining-thomas-kochan

[3] Food Marketing Institute, www.fmi.org/research-resources/supermarket-facts

[4] "Supermarkets & Grocery Stores in the United States," *IBIS World*, 2014.

[5] "Supermarkets & Grocery Stores in the United States," *IBIS World*, 2014.

[6] Food Marketing Institute, www.fmi.org/research-resources/supermarket-facts

[7] Jessica Hall, "Market Basket Hope to Expand in Maine," *Portland Press Herald*, March 13, 2014.

[8] The name of the store had the "M" in Demoulas capitalized.

business to his sons, Telemachus (Mike) and George, for $15,000. They acquired equal stakes and established DeMoulas Super Markets, Inc. When George died suddenly in 1971, Mike took over the business and also gave increased attention to George's widow and four children. Mike, who had four kids of his own, attended George's children's sporting events, took them on lavish vacations, paid for their educations, and took care of their housing and business expenses. They began to joke that while some families received alimony, they received "Uncle Mony."[9]

But in 1990, George's children claimed that Mike had begun buying George's shares in the company, eventually depleting George's family's share from 50% to just 8% and increasing Mike's from 50% to 92%.[10] George's family, led by his son Arthur S., sued to regain what they considered their rightful share. In 1996, after a series of contentious suits, countersuits, and appeals, the judge ruled in George's family's favor and granted them a 50.5% stake in the company. A year later, the court ordered Mike to pay George's family $206 million.[11] Believing the judge in the case had been biased against their side, Mike's lawyers tried to pressure the judge's clerk to provide evidence to support their claim of judicial misconduct. The plan failed, and two of Mike's lawyers were disbarred and a third received a three-year suspension.[12]

Meanwhile, Mike grew the business from 14 stores in 1971 to 51 stores in 1994. The business also included 47 shopping malls, and a golf course. The stores generated $1 billion in annual revenue and an estimated $50-$70 million in net income.[13] Mike's strategy was to keep prices low and stores clean and to finance growth with profits rather than through debt. Even in his 70s, Mike was known to put in long hours, some of them greeting customers and bagging groceries.[14] He was generous with the community, donating money to a wide range of institutions.[15] He was also generous with his employees, starting a profit-sharing plan in 1963, which, by 1991, was estimated to hold $79 million for the 1,826 employees. It was also a source of friction in the family. George's widow and children sued Mike, Arthur T., and chief financial officer D. Harold Sullivan for violating their fiduciary duty as the plan's trustees by using that money to make real-estate loans to business associates and friends. In a legal settlement, the three trustees agreed to have the profit-sharing pension plan sell $22 million of the loans and no longer make similar investments.[16] None of the trustees were held liable for any

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[9] Joseph Pereira, "The Rich at War: Family That Amassed Supermarket Fortune Splits in a Bitter Feud—Mike Demoulas Helped Rear Dead Brother's Children; Did He Also Rob Them—Hard Work and Lavish Lives," *The Wall Street Journal*, July 13, 1994.

[10] Hollie Slade, "Inside the Billionaire Family Feud that Nearly Killed Market Basket," *Forbes*, September 10, 2014.

[11] "George Demoulas's kin win $206M Judgment," *The Boston Globe*, February 26, 1997

[12] John R. Ellement, "SJC Blasts Two Lawyers for Ethics Breach," *The Boston Globe*, February 7, 2008.

[13] Joseph Pereira, "The Rich at War: Family That Amassed Supermarket Fortune Splits in a Bitter Feud—Mike Demoulas Helped Rear Dead Brother's Children; Did He Also Rob Them—Hard Work and Lavish Lives," *The Wall Street Journal*, July 13, 1994.

[14] Joseph Pereira, "The Rich at War: Family That Amassed Supermarket Fortune Splits in a Bitter Feud—Mike Demoulas Helped Rear Dead Brother's Children; Did He Also Rob Them—Hard Work and Lavish Lives," *The Wall Street Journal*, July 13, 1994.

[15] Kate Zernike, "Demoulas v. Demoulas. How the Battle Over a $2Billion Supermakret Fortune Destroyed a Family and Entagled the State's Legal Community." *The Boston Globe,* January 11, 1998.

[16] John H. Kennedy, "Demoulas Pension Plan Suit is Settled," *The Boston Globe*, June 1, 1994.

damages to the plan, removed from their positions as trustees, or found to have breached their fiduciary duty to the plan or the participants.[17]

Industry observers wondered if the company would survive the family feud. As one noted in 1997:

> They sure know how to buy and sell product. They are the best at stacking it high and letting it fly. They know how to adjust stores to the demographic profile of the area, there's tremendous customer loyalty and I'll bet they have some of the most profitable stores in the country. Legal hassles have hurt their ability to grow, and the big question is whether the chain might be sold off.[18]

Market Basket Store Network and Organization in 2014

The chain did survive and, in fact, thrived even after Mike died in 2003. Mike's son, Arthur T., became president and CEO in 2008 and carried on the company's successful business model, telling the board it comprised three "vital pieces": "No. 1 is its people. Without them this place goes down the tubes quicker than you can say hi-ho. No. 2 is our low-price offering that we have and our low-cost structure. And No. 3 is that we've got no debt."[19]

By 2014, DeMoulas Super Markets, Inc., (operating as Market Basket) had 25,000 non-unionized employees, 71 stores in Massachusetts, New Hampshire, and Maine, and revenues of $4.6 billion. (See **Exhibit 6** for Massachusetts locations.) It was the fastest-growing retailer in eastern Massachusetts[20] and owned 15 million square feet of real estate, including 15 of its 42 Massachusetts locations. Millions of these additional square feet were in firms owned by both sides of the Demoulas family.[21] The company earned lease revenue from retailers in the malls it owned.[22]

Market Basket's business model was driven by volume: 2.1 million customer transactions a week, an average of 29,600 per store (compared to 15,746 per week for a typical supermarket[23]). As store director Ron Lambert explained, "You can go to the Stop & Shop and pay $3.99 for a package of Oreos. They might sell 100 of them. We sell them for $1.50, but we'll sell 10,000. We're going to win in volume. We always win in volume." The company was highly productive and operated with no debt. Payroll was 10.5% of sales (including bonuses) while the supermarket industry average was

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[17] Evanthea Demoulas et al v. D. Harold Sullivan et al, Final Judgement and Order, June 16, 1995.

[18] Len Lewis, "Retailing's Future at Ground Zero," *Progressive Grocer*, April 1997.

[19] "Documents: Inside Market Basket board meetings," *The Boston Globe*, August 15, 2014. http://www.bostonglobe.com/business/2014/08/14/marketbasketdocs/UlQRoqY7hM3L5xyC9cQAVK/story.html

[20] Galen Moore, "Demoulas: Feeling the Pinch," *Boston Business Journal*, October 4, 2013.

[21] Galen Moore, "Demoulas' Real Estate Empire," *Boston Business Jounal*, October 4, 2013.

[22] Galen Moore, "Demoulas: Feeling the Pinch," *Boston Business Journal*, October 4, 2013.

[23] Food Marketing Insitute, http://www.fmi.org/research-resources/supermarket-facts.

9.8%.[24] Payroll was around 12% of sales when contributions to the profit-sharing plan were included. In 2012, the company's operating margin was 7.2%, higher than Stop & Shop's 4.1% and Whole Foods's 6.4%.[25]

The average Market Basket store was 80,000 square feet and carried 60,000 products. The largest store had 1,000 employees and the smallest had 350; differences were based on sales volume. Approximately 70% of store employees worked part-time. Many of the stores were in low-income communities where real estate was cheap.[26] Ron Lambert reflected on a store opening in Brockton, Massachusetts, a low-income town with high unemployment:

> The mall where we were located was a disaster. It's a big mall and we were going to anchor it. And it had a Macy's and Sears and probably 70 stores. But it was desolate. . . . Then on opening day, there was a mariachi band playing music. The day lilies were popping up out of the ground. The parking lot was paved. People were partying… I was standing next to Arthur T., just observing, and he says to me, "See? When we come to a neighborhood, we're not just here to open a store. We create a culture. We bring business. We help the area."

All stores opened at 7:00 am and closed at 9:00 pm (7:00 pm on Sundays) and were closed on Easter, Thanksgiving, and Christmas. In contrast, competitors varied their hours depending on location but were typically open until at least 10:00 pm, Sundays included. Some operated 24 hours. Market Basket stores were managed by a director who was assisted by assistant directors, front-end managers, a merchandising manager, and department managers—one each for grocery, meat, bakery, fresh produce, dairy, deli, frozen, kitchen, and, in some stores, beer and wine. Some of the newer stores also had cafes. The department managers reported both to the store director and to a regional department supervisor who managed around 24 stores.

Most store merchandise came directly through company-owned-and-operated warehouses. Products in warehouses were stocked exactly as they were in a store, which made store stocking more efficient, and delivered to the stores by 68 drivers operating company-owned trucks. Items like bread, chips, soda, and beer were delivered directly to stores by vendors. In order to improve gross margins, stores carried a wide array of private-label products; a 2010 retail study found that Market Basket carried more private-label SKUs than Walmart.[27]

Market Basket had a lean management structure. Under Arthur T. were William Marsden, VP of operations, Joseph Rockwell, VP of grocery sales and merchandising, and Jim Miamis, VP of perishables. Two hundred employees at headquarters supported the store network. There were

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[24] "Supermarkets & Grocery Stores in the United States," *IBIS World*, 2014.

[25] Galen Moore, "Market Basket, By the Numbers," *Boston Business Journal*, October 4, 2013.

[26] Shirley Leung, "Grocery Fight Hardest on Low-income Shoppers," *The Boston Globe*, August 8, 2014.

[27] "How Regional Grocers Can Beat Walmart," *Private Label Buyer*, October 1, 2010.

approximately 22 category buyers, six of whom were dedicated to grocery, which accounted for nearly 50% of revenue. (A competitor might have up to 20 buyers for grocery alone.) The buyers had decades of experience. Deli director Ron Carrignan, for example, had been with the company for 54 years. Grocery buyers Jim Lacourse and Joe Garon had 30 and 49 years of experience, respectively.[28] Buyers worked closely with stores' department managers to understand customer needs.

Customer Service

Market Basket offered a no-frills, "uncomplicated shopping environment," with no loyalty cards or self-checkout lines.[29] It didn't even have an official website.[30] On average, prices were lower than competitors. According to the Strategic Resource Group, a family of five would spend $1,500 less per year at Market Basket than it would have spent at a competitor.[31] A study conducted by Consumers' Checkbook, a website that rated local service firms, found that when comparing the cost of national brand items, Market Basket was 10% to 21% cheaper than Stop & Shop and 22% cheaper than Shaw's, even inching out Walmart.[32] Market Basket also emphasized uniform pricing rather than having higher prices in locations where there was higher willingness to pay.

The company did, however, customize its product selection based on demographics. As Tom Trainor, a district supervisor who had more than 40 years with Market Basket, explained, "We cater to where we are. Is it a bagel town or is it a muffin town?" Before opening a new store, buyers and store directors studied the area, taking note of what people ate based on their ethnic backgrounds. Trainor recalled that while preparing Market Basket's Waltham, Massachusetts store for its grand opening, the store director and a buyer noticed that a few smaller markets in the area sold a special type of Afghan bread. "We had never even seen it before," he noted, "but we observed that it sold very well. So we contacted the company that produces it and we're now carrying it in Waltham."

Market Basket constantly worked to improve the customer experience. Indeed, "staying close to the customer" was one of Arthur T.'s management principles (see **Exhibit 7**). While most other retailers stocked their shelves when the stores were closed, Market Basket stocked during the day when customers were shopping. That meant there was always someone on the floor to help customers. In peak times—before a snowstorm, for example—store managers handled the heavy traffic by asking customers to form a single line to spare them the exasperation of getting into the wrong line and watching those who had been behind them leave the store ahead of them. The staff would move displays around to make room for the line, monitor the line to ensure that no one cut ahead, and direct customers to the appropriate cashier when one became free.

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[28] Erin Ailworth and Dan Adams, "At Least 7 Market Baste Employees Fired, Protestors Say," *The Boston Globe,* July 20, 2014.

[29] Jenn Abelson, "Big Deal," *The Boston Globe*, September 27, 2009.

[30] Michael Devaney, a Market Basket customer, created a website called mydemoulas that listed store information.

[31] Grant Welker, "As Dedicated Workers, Customers, Sing CEO's Praises, Analysts Appear Mixed on Impact of His Possible Ouster," *The Lowell Sun*, July 17, 2013.

[32] Grant Welker, "Consumer Study: Market Basket Shoppers Really Do Get More for Their Dollar," *The Lowell Sun*, July 30, 2014.

In 2004, the company put increased emphasis on customer service emphasizing more respectful and friendlier service. They established the "10-foot rule" that any customer within 10 feet of an employee should be acknowledged with a greeting or a smile. Employees could be found walking the aisles, ready to answer questions or help carry groceries to the car. One customer of Market Basket's Brockton, Massachusetts store shared her unexpected customer service experience on Yelp: "I was shocked that while I was in the meat department, a teenager actually asked me if I needed any help finding anything!!!! The cashier said hello to me!!!! WOW! I seriously felt like I was in the Twilight Zone."

The campaign created a service culture. Stores were shopped regularly by mystery shoppers and employees took pride in getting high scores. Every year, department managers got together to discuss customer service and trade examples of good and bad service. Trainor mentioned that in job interviews, he always asked what service meant to the interviewees. Often they were puzzled by the question, but if he asked them to give an example of "an experience so bad that you said to yourself, 'I'm never going to go back there again'," they got it.

By 2013, Market Basket's position in the *Consumer Reports* rating of supermarkets in the United States had risen to 6 out of 55. Wegmans, Trader Joe's, Publix, Costco, and Sprouts Farmers Market occupied the top five spots.[33]

Employee Management

Full-time and part-time cashiers at Market Basket started at $12/hr and $8/hr, respectively.[34] Part-timers were paid time and a half on holiday and received a $0.25 increase every six months until they reached $12/hour. The company contributed between 15% and 20% of an employee's annual pay into the profit-sharing fund. In 2009, approximately 6,600 employees were eligible and the board voted to contribute 20% of eligible wages—approximately $40 million—into the plan.[35] By the end of 2014 the plan was worth more than $612 million.

All employees, including part-timers, got several bonuses a year; the amount was determined by Arthur T. and was based on longevity rather than on performance. Ron Lambert explained this as an expression of how hard *everyone* worked: "Should the guy who runs the Chelsea store, which is Market Basket's largest, get more than the guy that runs a smaller store like Revere? No. We all get the same one. And the only difference in the money is probably longevity with the company." Arthur T. felt strongly about recognizing Market Basket employees for their hard work. In a 2009 board

[33] http://www.consumerreports.org/cro/money/shopping/supermarkets/supermarkets-ratings/ratings-overview.htm.

[34] Sally Kohn, "How Market Basket Workers Are Fighting Greed," *CNN Wire*, August 1, 2014.

[35] "Documents: Inside Market Basket board meetings," *The Boston Globe*, August 15, 2014. http://www.bostonglobe.com/business/2014/08/14/marketbasketdocs/UlQRoqY7hM3L5xyC9cQAVK/story.html

meeting, he explained why he was going to give employees a $20 million to $40 million "extraordinary" bonus:

> Looking at the overall work force of this company and how well they're doing and how well we're producing and how well we're sticking together like glue and pulling the ship in the right direction and the results they're getting both last year and the year that we have coming up, what we have just completed and what we have on the drawing board… So this is a performance incentive. It's nothing that's expected, nothing that's anticipated. But when you run a company, you've got to have the right chemistry and the pulse of the people and what turns people on . . .[36]

The company relied heavily on part-time help and, in fact, nearly all full-time employees began as part-timers who had to "earn" their way to full-time work. Part-timers included students, parents who needed to be home in the afternoon, retirees, disabled persons and people who had other full-time jobs but needed extra income. The company believed in being flexible with schedules. If a high-school student played football, for example, he would get a shift that did not conflict with practice or games.

Market Basket expected a lot from its employees. Poor performers were either let go or left voluntarily, but layoffs were unheard of. Lambert stated: "My brother goes to work every week and he's got to look behind his paycheck to see if he has a pink slip. That's not the case here. . . . I don't worry about where my next paycheck is coming from. That's job security. That means a lot to a person. It enables you to sleep at night."

More often and whenever possible, the company promoted from within. "There's nobody who has not worked their way up," explained Rosie Hagopian. Most Market Basket managers started there in high school. As a result, employees felt a sense of ownership. "We all feel like we've helped build this company," remarked Linda Kulis, an accounts receivable supervisor who had been with the company for 34 years. Turnover was very low: 5% a year for full-time store-based employees and 10% for part-timers. The average tenure of store directors was 34 years.

Market Basket believed that experienced employees served customers better and worked more quickly. Observing a long checkout line in a newly opened store, Lambert noted that the cashiers were only scanning 16 items a minute, whereas in the Wilmington, Massachusetts store, which had been open for more than 50 years, the cashiers could scan 30 items a minute and—with the same number of customers and cashiers—there would be no line.

The company worked to have internal successors in place for important positions. For example, they were grooming one of the meat supervisors to be a meat buyer. He had started as a part-timer, and

[36] "Documents: Inside Market Basket board meetings," *The Boston Globe*, August 15, 2014. http://www.bostonglobe.com/business/2014/08/14/marketbasketdocs/UlQRoqY7hM3L5xyC9cQAVK/story.html

then became a meat-cutter and then a meat department manager. In 2014, he was shadowing the meat buyer, sitting in on meetings with suppliers and learning about pricing and buying.

Market Basket relied heavily on hands-on, in-store training on how to use equipment, restock shelves, and serve customers. This included productivity tips such as stocking with both hands. Before a new store opened, employees would spend up to six weeks shadowing the best employees in established stores, even if it cost extra to make that happen. For example, when Market Basket was preparing to open its Brockton store, it bused a few hundred new employees some 30 miles up to its Chelsea store and back every day for six weeks. A new store typically lost about 10% of its new hires between the start of training and the opening.

Store employees were expected to multitask. “I don’t just hire people to wrap cheese,” Lambert explained. “He’s going to look over here and there and in front. Do they need help bagging? Are there carriages that need to be taken in?” Apart from serving customers, employees had to pay close attention to managing products. They replenished the shelves throughout the day and, in sections like dairy, they rotated products multiple times a day to ensure that those that were closest to expiration were placed where customers were more likely to pick them up.

New hires also went through an orientation during which store directors explained their expectations about showing up for work on time, being polite to customers and to each other, not using cell phones on the job, and honoring the dress code: white shirts (with ties for men) and the blue Market Basket apron. Jeans, sweatpants, sneakers, work boots, and visible body piercings and tattoos were not allowed. Neither was long hair on men. Everyone had to wear a name tag showing his or her years of service, a detail added in 2010 to show customers the loyalty of Market Basket employees.

Because so many employees were local, a typical store had employees who had grown up together; many were related. As Ron Lambert noted: “When I started working part time as a bagger, it was the place to be. It was all neighborhood boys. We had a great time.” Linda Kulis was one of many who met their spouses at Market Basket. “My sister met her husband at Market Basket,” she added. “My brother-in-law is a store manager. My kids work here. It’s just an extension of the family.”

Supplier Relations

Market Basket often used local vendors and, when in season, many fruits, vegetables, and flowers came from New England farms. Many vendors had been working with Market Basket for a long time, visited headquarters regularly, and had strong personal relationships with the buyers and also others. “Many vendors have been coming to Market Basket for 20 to 30 plus years,” said Diane Belanger, an administrative assistant for the deli buying department and who had worked for Market Basket for 37 years. “They’re like our family.” Some vendors had been Market Basket employees themselves and some were relatives of the Demoulas family. For example, Arthur T.’s brother-in-law was one of the two directors registered with Phoenix Foods, a food broker that supplied Market Basket with groceries and private-label items, like household goods, paper products, cereal and pasta.[37][38]

Market Basket had a reputation for taking care of its suppliers. If a supplier's salesperson was below a sales quota, Market Basket buyers would give him or her extra displays in the store. It wasn't unusual for Market Basket employees to help drivers—often independent contractors whose income was directly related to how many deliveries they could make in a day—unload and shelve. Trainor said, "They pull up to our dock. They don't have to have an appointment. We get them in an out as quickly as we can. These guys are like, 'Wow. This is incredible. I've never been treated like this.'"

Jim Fantini, VP of marketing at bakery supplier Flowers Foods—whose only account was Market Basket and whose father, Bob Fantini, had also been a Market Basket supplier—explained: "There's a privilege of having an inside relationship with Market Basket. The message the company sends its suppliers is along the lines of 'We can move a lot of product for you. We can have a great relationship so long as you always have the interests of our customers first and foremost in all of your dealings with us.'" Vendors that didn't perform suffered the consequences. Trainor explained that after a national beverage vendor did not respond to the store's request to keep the back room neat, Market Basket took down the vendor's display at the grand opening of a new store. (The relationship improved after that.)

Market Basket was known to negotiate hard to keep prices low for customers. As Trainor pointed out, "We expect our suppliers to take as good of care of us [their customer] as we do our customers."

Culture and Speed of Decision Making

The chain's fast-paced operating environment required employees and vendors alike to be nimble. "We pride ourselves on doing things rapidly," Trainor explained. "We call it a sense of urgency. If it needs to be done, it should have been done yesterday."

A telling point: The company had no voicemail system. Any customer who called got a live human being and would have his or her question answered or problem resolved quickly.

Because each department in each store ordered its own inventory from the distribution centers and worked closely with buyers, it could adapt to customers' needs. For example, eggnog was normally carried only in the Christmas and New Year's season. But at one store, a customer with a severely handicapped son whose diet consisted largely of high-fat liquids asked the dairy manager if he could carry eggnog year-round. The dairy manager worked with the dairy buyer to get the customer a case of eggnog every month.

[37] http://corp.sec.state.ma.us/CorpWeb/CorpSearch/CorpSummary.aspx?FEIN=042669632&SEARCH_TYPE=1 (accessed March 3, 2015).

[38] Grant Welker, "Beat Goes on for Contentious Market Basket Maneuvering," *The Lowell Sun*, August 26, 2014.

Stores could also act quickly when demand for a perishable product was lower than expected and the product was getting close to its expiration date. Department managers would talk to their department supervisor or buyer and then mark the product down to sell it before expiration.

Fantini liked not having a lot of bureaucratic hoops to jump through: "Market Basket is a $4.6 billion company that acts like a corner store in the way they push things out to the market."

> I went to the Market Basket buyers early one morning and said, 'We [Market Basket] don't have any private-label snack cakes and Flowers Foods has a bakery that makes snack cakes for private labels. Why don't we explore some private-label snack cakes?' With the Hostess brands in turmoil they saw the potential need in the marketplace and said, 'Sure. Do it.' Over the next two months, we created designs for the packaging and held tastings. Within three months, we had launched a whole line of products. In other accounts, you'll deal with the buyer and the buyer takes your idea into advisement and then he will speak with his category manager or the supervisor above him and he will have to push it up to corporate. They will look at the metrics of it all and figure out the payout and then try and make a decision.

Management made a point of getting to know employees, from shelf-stockers to truck drivers. Linda Kulis was one of many to recall an act of kindness at a crucial moment:

> My mother passed away three years age. I'm in Dress Barn with my sister trying to find a dress. And my cell phone rings, "Hi, Linda. It's Artie. I'm like, 'Mr. Demoulas?' He said, 'Yes it's Artie. I'm going out of town, but I heard about your mother. I'm so sorry. I'm sorry I can't be there.' I'm crying in Dress Barn. Who does that? And that's Mr. Demoulas—he's got a company to run…but he's apologizing to me because he can't be at my mother's wake and funeral.

Ron Lambert summed up Market Basket's culture:

> We provide clean stores, good people, and a good culture. People come in, they get taken care of, and they keep coming and they keep coming and they keep coming. And that's what makes us work so hard, from the truck drivers to the suppliers to the warehouse personnel to our kids stocking shelves.

Shareholders and Corporate Governance

Market Basket was registered as a Subchapter S corporation. As a result, the shareholders, not the company, had to pay taxes every year on any profits.[39] The company had only nine shareholders, all members of the Demoulas family: Arthur T. and his three sisters; Arthur S. and his two sisters; and

[39] Between 2003 and 2013 the A shareholders received $500 million in after tax distributions. "Market Basket's Decent into Greed," *The Boston Globe*, August 27, 2013.

his brother's widow, Rafaele, and her daughter. The shareholders appointed members of the seven-person board of directors. Arthur T.'s side of the family chose two directors, two were chosen by Arthur S.'s side, and three were chosen by majority shareholder vote. Until 2013, Rafaele participated in a voting alliance with Arthur T., which allowed him to control the board and grow the company. Some shareholders had opposed Arthur T.'s management practices, accusing him of taking advantage of having almost no oversight—spending too much of the shareholders' money on capital costs and entering into improper business deals with companies owned by his wife and brothers-in-law. In 2010, after an 18-month investigation, the retired superior court judge the board hired to review the related-party transactions rejected the claim of impropriety.[40] (See **Exhibit 8** for a sample list of stores opened between the time Arthur T. took over as CEO and late 2014; see **Exhibit 9** for an exchange between Arthur T. and board member Nabil El-Hage on related-party transactions.)

Minutes of board meetings show Arthur T.'s unapologetic resistance to board oversight of his spending decisions and potential conflicts of interest and self dealing.[41] In a November 5, 2009 meeting, for example, the discussion turned to the $20-40 million bonus Arthur T. intended to pay out to employees, whether or not he should have let the board know in advance, and whether or not he should have sought the board's approval. Arthur T. responded bluntly to Arthur S.'s questions: "My management style, okay, is to do what's in the best interests of DeMoulas Super Markets . . . not to come back to this board to request and ask for permission."

The management of the company's profit-sharing plan was also a source of contention. In 2008, $46 million of the plan was invested in Fannie Mae and Freddie Mac. When that investment resulted in a loss during the 2008 stock market crash, the board, which Arthur T. controlled, voted five-to-two to use the company's cash to fully reimburse the profit-sharing plan.[42]

Unhappy with Arthur T.'s management style and wanting liquidity, in 2010, Arthur S. and his sisters offered to sell their 36% minority stake, but the board voted against buying it.[43] When they attempted to sell their stake to a third party, Arthur T. asked the courts for a declaration that would prohibit this action on the grounds that it would imperil the company's Subchapter S status. However, a Massachusetts Superior Court judge concluded in 2013 that Arthur S.'s side could sell its stake to third parties, even if that caused the corporation to lose its favorable tax status.[44]

[40] Hollie Slade, "Inside the Billionaire Family Feud that Nearly Killed Market Basket," *Forbes*, September 10, 2014.

[41] "Documents: Inside Market Basket board meetings," *The Boston Globe*, August 15, 2014. http://www.bostonglobe.com/business/2014/08/14/marketbasketdocs/UlQRoqY7hM3L5xyC9cQAVK/story.html

[42] Jana Kasperkevic, "A Timeline of the Market Basket Supermarket Family Feud," *The Guardian,* August 14, 2014. The trustees of the plan filed an arbitration claim against its investment advisor Goldman Sachs and the two sides settled in 2014.

[43] Galen Moore, "The Demoulas Battle: What's at stake?" Boston Business Journal, October 4, 2013.

[44] Merriam v. Demoulas Super Markets, Inc. 464 mass 721 (2013)

The Firing of Arthur T.

When Rafaele switched sides on the board, Arthur S.'s side of the family gained control. On July 18, 2013, the new board met to consider the "Motion for the removal of the President." By then it was evident that a decision to oust him would anger employees. In the weeks leading up to that meeting, nearly every store director wrote to the board that firing Arthur T. would "cause significant damage to this company."[45] Supplier Jim Fantini started an online petition supporting Arthur T., saying that his removal would sacrifice customers and employees for higher prices and profit margins. Meanwhile, over a thousand Arthur T. supporters stood outside the building where the meeting was being held with signs saying "Save Market Basket."

While Arthur T. was not fired that day, the board suspended his authority—including paying contractors working on the construction of new stores—or to make other day-to-day decisions.[46] At the board's next meeting a few weeks later, it voted to distribute a one-time shareholder dividend of $300 million (amounting to 60% of the company's excess cash), establish a line of credit, and hire an executive search firm to help identify and develop additional executive talent for long-term planning purposes.[47] Arthur T. was against the distribution, appealing unsuccessfully to the courts to block it, claiming that the decision was not made by a required independent and disinterested board and it was of such a magnitude that "it will change the enormously successful business model that the company was built on and has been operating under for the last fifty years."[48]

At the beginning of 2014, Arthur T. made a move that was hardly designed to mollify the board and shareholders. Market Basket announced that, to help customers, it would reduce the prices of all items by an additional 4% until the end of the year.[49] This was expected to cost the company $170 million.[50]

On Monday, June 23, 2014, the board fired Arthur T. and named Felicia Thornton, former CFO of Albertsons, and James F. Gooch, former president of Radio Shack, as interim co-CEOs. The board explained that "[t]he new management team will enable Market Basket to maximize its potential and pave the way for continued success in the future." One industry analyst believed that these changes would be "the best thing for the business both this year and for the rest of this current decade and the decades ahead."[51]

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[45] Grant Welker, "Thousands Rallying Behind Market Basket CEO," *The Lowell Sun*, July 13, 2013.

[46] Jaclyn Ross, "Market Basket Fight Stalls Development in Waltham," *The Boston Globe*, September 7, 2013.

[47] Jon Springer, "Demoulas Employees Question Latest Moves at Market Basket," *Supermarket News*, September 9, 2013.

[48] Jon Chesto, "Demoulas Family Returns to Court in Fight Over Market Basket Dividend," *Boston Business Journal*, September 5, 2013.

[49] With the exception of alcoholic beverages, milk, postage stamps, gift cards, cigarettes, lottery tickets, or trash bags.

[50] Hollie Slade, "Inside the Billionaire Family Feud that Nearly Killed Market Basket," *Forbes*, September 10, 2014.

[51] Grant Welker, "As Dedicated Workers, Customers Sing CEO's Praises, Analysts Appear Mixed on Impact of His Possible Ouster." *The Lowell Sun*, July 17, 2013.

At the same time, the board fired two other senior executives—vice president of operations William Marsden, who had been with the company for 55 years, and vice president Joseph Rockwell, a 48-year veteran—by email.[52] Over the following 24 hours, executive vice president Jim Miamis, who had worked for the company for more than 60 years, and operations director Dave McLean, with 38 years, quit. Many others with decades of experience also quit, including the deli director and the CFO.

The Walkout

On July 16, 2014 employees at company headquarters demanded in writing that Arthur T. be reinstated and requested a response by 4:30pm the next day. Rejecting the response given the next day by the board that it would take up their demand the following Monday, the employees planned a walkout and rally for the following day.

On July 18, three and a half weeks after Arthur T. was fired, the majority of Market Basket's 200 front office workers, 300 warehouse associates and 65 truck drivers walked out on their jobs and spent the next six weeks picketing in front of headquarters. This essentially shut the company down; there was no store support and deliveries to the stores from the distribution centers ground to a halt. (See **Exhibit 10** for a photo.) Their demand was simple: the reinstatement of Arthur T. On the day of the walkout, the following message was posted on the "We Are Market Basket" website, which was set up to inform Market Basket employees, customers, suppliers or any interested party and allow them to share their concerns related to the firing of Arthur T.:

> What we are doing is unprecedented so therefore we have no blueprint to follow or business-school lesson to refer to. Some may think we are naive, and maybe we are. Perhaps that naiveté works in our favor as it allows us to believe that what we are doing is not only right but also achievable. We hope to become the precedent, the blueprint and the business-school lesson.

The board's immediate response was to fire eight Market Basket managers—with a combined 280 years of company experience[53]—who were believed to be the leaders of the protest. In total between those fired and those that resigned there were 18 executives and senior managers with a combined experience of 702 years.

While all Market Basket stores remained open, store employees joined in on the protest. They began picketing on their own time—often in front of the store where they worked—and encouraged others to protest and boycott the business. A sign on the front window of a Market Basket in Maine said:

[52] Bridget Goldschmidt, "Whither Market Basket?" *Progressive Grocer,* July 11, 2014.

[53] Marcela García, "In Market Basket Fight a Remarkable Show of Loyalty," *The Boston Globe*, July 21, 2014.

"Help us. Boycott us."[54] At one store, employees gave out the GPS coordinates of the nearest Stop & Shop.[55] On some days, some Market Basket stores attracted thousands of protestors.

Employees organized an online fundraiser to help warehouse workers and drivers affected by the boycott. Three weeks into the protest, they had raised $93,000 from over 1,500 donors.[56] Some vendors, including Boston Sword and Tuna, opted to stop doing business with Market Basket. Others were at risk of going out of business. As a manager at food broker Phoenix Foods said, "We are essentially out of business until they're back in business."[57]

Although the new co-CEOs announced no major changes would be made to the business model, employees feared that without Arthur T. at the helm, the company would be sold, whereupon customers would face higher prices and employees would face lower salaries, reduced benefits, and the loss of a very special place to work.

Customers, too, showed their allegiance by shopping elsewhere, leaving evidence of their defection by taping receipts from competitors on the windows of Market Basket stores. As one customer said, "We are going to go somewhere else from now on. I'm sad about it because of course I want to keep the low prices, but I want to support the workers."[58] One customer began a gofundme fundraising campaign to purchase ads in local papers encouraging readers to boycott. Within four hours, that campaign raised $9,000 from 400 contributors.[59] Linda Kulis was in the hair salon when a woman, realizing that Linda worked for Market Basket, gave her a charm for a bracelet: "And she's like, I want you to have this. I'm following the story."

The protest also gained the attention and support of outside observers. The 1.3-million-member United Food and Commercial Workers International Union voiced its support for Market Basket's non-unionized employees.[60] Local businesses supported the protestors with free food and discounts for services. U.S. Representative Niki Tsongas from Lowell, where Market Basket was born and had served the community for decades, wrote to the board asking it to reinstate Arthur T. New Hampshire Governor Maggie Hassan and Massachusetts Governor Deval Patrick also expressed concern.

Traditional and social media quickly become invested in what was going on. Boston-area newspapers and television and radio news provided daily updates on the protest, as did protestors and outside observers who used Facebook and Twitter to disseminate their messages.

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[54] J. Craig Anderson, "More Conflict in Store," *Portland Press Herald*, August 1, 2014.

[55] Grant Welker, "Analysts: Market Basket Drama Gives Competitors 'Tremendous' Boost," *The Lowell Sun*, July 24, 2014

[56] Grant Welker, "'Final' Notice: Back to Work or You're Fired," *The Lowell Sun*, August 13, 2014.

[57] Grant Welker, "Beat Goes on for Contentious Market Basket Maneuvering," *The Lowell Sun*, August 26, 2014.

[58] Denise Lavoie, "Family Feud Sparks Revolt at Grocery Store Chain," *Associated Press*, July 25, 2014.

[59] J. Craig Anderson, "More Conflict in Store," *Portland Press Herald*, August 1, 2014.

[60] "UFCW Statement on Market Basket Replacement Workers Job Fair," *UFCW.org*, August 1, 2014.

Side Effects

Less than two weeks into the protest, Market Basket's sales were down more than 90%.[61] All part-time employees had been let go. Full-time store employees spent their working hours cleaning, organizing, and painting. In addition, some Market Basket employees did not join the protest and some reported being harassed for it.[62]

The protest took its toll on customers, vendors, and other local businesses. Deliveries from direct to store delivery suppliers plummeted and drivers who did show up were often turned away. Where a customer expected to find food, he or she instead might find a poster of Arthur T. Demoulas. Local vendors, particularly farmers, were hit hard financially and scrambled to sell inventory intended for Market Basket, often at reduced prices. As the founder of Pleasant Valley Gardens and president of the Massachusetts Farm Bureau Federation noted, "One of the things [Market Basket] did well was they made an effort to buy as much locally grown product as they could. So when this happened, it wasn't hurting a California grower who maybe sold to 20 grocers. You're talking about businesses around here and Market Basket is a big enough player that they're really hurt."[63] Boston Sword and Tuna, which supplied Market Basket with 55,000 pounds of seafood products per week, began suffering huge losses after warehouse workers refused to accept deliveries.[64]

Business located near Market Basket stores also felt the effects. Aubuchon Hardware, next to a Market Basket in Warner, New Hampshire, experienced a 30% drop in sales, forcing its manager to lay off two people and cut hours.[65]

Down the street, across town, or one town over, Market Basket competitors—including Hannaford's, Shaw's, Stop & Shop, Walmart, and Whole Foods—were benefiting from the walkout. Some competitors admitted to struggling to keep inventory on the shelves because of increased volume.

Meanwhile, Thornton and Gooch were trying to run a company without its seasoned managers. Starting in early August, they began giving employees ultimatums to get back to work or risk being fired. Two deadlines came and went, with workers refusing to give in unless Arthur T. was reinstated with full decision-making rights. Thornton and Gooch also held a job fair to hire replacement workers—including store directors and grocery buyers—but these were sparsely attended.

[61] Sally Kohn, "How Market Basket Workers Are Fighting Greed," *CNN Wire*, August 1, 2014.

[62] Hollie Slade, "Inside the Billionaire Family Feud that Nearly Killed Market Basket," *Forbes*, September 10, 2014.

[63] Grant Welker, "Market Basket Fight Forces Growers to Make Hard Decisions," *Sentinel & Enterprise*, August 21, 2014.

[64] Adam Vaccaro, "Fish Vendor Cuts Off Business With Market Basket," *Boston.com*, August 18, 2014.

[65] Sarah Palermo, "Market Basket Boycott Ripples into Neighboring Stores, Causing Layofff at Warner Aubuchon," *Concord Monitor*, August 11, 2014.

Back to Business?

On August 27, the Market Basket board of directors and shareholders reached an agreement for Arthur T. and his family to purchase 50.5% of the company for $1.6 billion from Arthur S.'s side of the family. As part of the agreement, Arthur T. was reinstated with his management team to run the company with full operational authority during the transition period, and the two CEOs would stay on in a monitoring capacity and report to the board during this time.

Within hours, the employee website, "We Are Market Basket," posted a victory message:

> The STAKEHOLDERS have helped to Save Market Basket and in doing so, we have made history. Associates, vendors and most importantly, CUSTOMERS carried the banner for a company that is so much more than simply a company, but is rather an integral piece of every community it serves. Tonight we raise a glass to Artie T and each other as we have achieved the most improbable of upsets. Tomorrow we go to work and never, in the history of people going to work, will so many people be so happy to punch the clock.[66]

Getting the business back up and running at full capacity, while laborious, took only weeks. Vendors and customers alike flocked back to the chain they had fought for. In fact, Market Basket experienced a bump in sales volume as curious shoppers who had never set foot in a Market Basket wanted to see what all the fuss had been about.

Operationally, the company was humming along, but there was a large elephant in the room: the debt the company had taken on to buy out Arthur S.'s side of the family. Arthur T. was able to secure a $1 billion mortgage loan backed by Market Basket's real estate holdings and underwritten by Morgan Stanley and the New York Life Insurance Company. Bank of America, Merrill Lynch, and KeyBank also syndicated a combined $600 million. The same week that the deal closed, Market Basket employees received $49 million in bonuses, up from $44 million in 2013.[67]

The debt did not seem to color employees' opinions of their company's future. Tom Trainor explained: "We've all taken on that debt ourselves. We're going to do whatever it takes to cut costs. Any little bit we can find to save the company money, we're going to take on that burden ourselves. We want this business model to be a success." From her vantage point, shaped by more than four decades with Market Basket, Rosie Hagopian also had no doubt that the company and all that made it a special place to work would remain intact: "We're very close. We protect each other. We take care of each other. Nobody's going to break us apart. It's not going to happen."

[66] http://wearemarketbasket.com/2014/08, accessed February 6, 2015..

[67] Casey Ross and Beth Healy, "Market Basket Deal Closes Book on Family Feud," *The Boston Globe*, December 12, 2014.

But many observers wondered: Could Market Basket keep offering low prices to customers and high wages and generous retirement benefits to employees? Could it keep growing? Had the protest, which ultimately saddled the company with a $1.6 billion debt, been worth it?

Exhibit 1 DeMoulas Supermarkets Inc./Market Basket Timeline

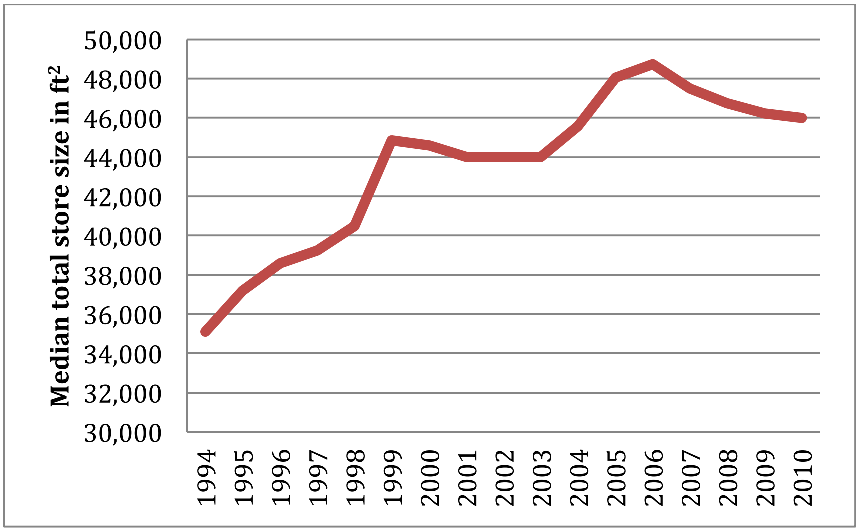
Date	Event
1916	Greek immigrants Athanasios (Arthur) Demoulas and his wife Efrosine open DeMoulas store.
1954	George and Mike buy DeMoulas from their father for $15,000.
1971	George dies.
1990	George's family claims that Mike had been selling their DeMoulas shares. Led by George's son, Arthur S., they file suit against Mike.
1991	George's family sues Mike, Arthur T., and Market Basket CFO for violating fiduciary responsibility by using the profit-sharing plan to make real estate loans to associates and friends. In a legal settlement, which did not find the three trustees liable, the three trustees agreed to have the profit-sharing pension plan sell $22 million of the loans and no longer make similar investments.[68]
1996	Legal ruling grants Arthur S.'s side of family a 50.5% stake in company.
1997	Legal ruling grants Arthur S.'s side of the family $206 million.
2003	Mike dies.
2008	Arthur T. named President and CEO of DeMoulas, Inc.; Profit sharing trustees invest $46 million of company's profit-sharing plan in Fannie Mae and Freddie Mac.
2010	Arthur S.'s side of family wants to sell a 36% stake in company and Arthur T. asks the court for a declaration to prevent the sale, fearing for the company's subchapter S tax status. A lawsuit ensues; judge rules in favor of Arthur S.'s side.
June 2013	Board make-up shifts in favor of Arthur S. after widow of Arthur S.'s brother switches her allegiance and begins voting with her side of family.
July 2013	Board meets to decide on Arthur T.'s fate. Does not fire him, but curtails his decision-making powers.
August 2013	Board votes on a one-time shareholder distribution of $300 million.
January 2014	Market Basket announces a 4% price discount until end of year.
June 23, 2014	Board fires Arthur T., William Marsden, and Joseph Rockwell. Felicia Thornton (former Albertsons CEO) & James Gooch (former Radio Shack CEO) named interim co-CEOs.
July 16, 2014	Employees at company headquarters demand in writing that Arthur T. be reinstated and request a response by 4:30 the following day (July 17, 2014).
July 17, 2014	The new co-CEOs respond to the letter by telling employees that the board

[68] John H. Kennedy, "Demoulas Pension Plan Suit is Settled," *The Boston Globe*, June 1, 1994.

	will meet and address the demands the following Monday. The employees reject the response; plan both a rally and walkout for the following day.
July 18, 2014	The majority of the 200 employees at headquarters, 300 warehouse workers and 65 truck drivers walk out. An estimated 2,500 employees and customers gather at headquarters.
July 19, 2014	Seventeen Massachusetts lawmakers sign a letter urging the boycott of Market Basket. Market Basket produce, meats, and other perishable items quickly begin to dissipate.
July 20, 2014	Board fires eight Market Basket managers by courier, citing their involvement with organizing the protests.
July 23, 2014	Reports surface that Arthur T. has offered to buy out the remaining 50.5% of the company from his family members.
July 26, 2014	Protest organizers release a statement that their demand for the reinstatement of Arthur T. Demoulas is nonnegotiable. Some of the 71 store managers sign a petition saying they will not work for any other CEO.
July 30, 2014	New co-CEOs release a statement asking employees to return to work. They announce a job fair will be held the following week.
July 31, 2014	Massachusetts and New Hampshire attorney generals send a letter to co-CEOs reminding them of employment law in the two states.
August 3, 2014	Arthur T. offers to run Market Basket while he negotiates a deal with the shareholders to buy the company. The offer was rejected.
August 4, 2014	The Market Basket job fair attracts few in person as co-CEOs release statement allowing employees to email resumes. Employees ignore deadline set by co-CEOs to return to work.
August 6, 2014	Reports indicate that parent company of Hannaford has placed an offer to purchase "part or all" of Market Basket. Job fair is open for non-employees.
August 8, 2014	Market Basket board issues a statement asking for resigned and fired employees to return to work as Arthur T. continues to negotiate a sale.
August 12, 2014	New co-CEOs set a deadline to protesting headquarters and warehouse workers to return to work or they will be considered to have left their employment with Market Basket.
August 13, 2014	Massachusetts governor Deval Patrick asks Market Basket workers to get back to work to "stabilize" the company.
August 27, 2014	Deal signed to sell company to Arthur T. and family.
December 12, 2014	Deal in which Arthur S. and family sold their 51% in Market Basket to Arthur T. and family closes.

Source: Casewriters.

Exhibit 2 Median Square Footage of Supermarkets, 1994-2010



Source: Food Marketing Institute.

Exhibit 3 Store Format Definitions for the Grocery Industry

Traditional supermarket	• Offers a full line of groceries, meat, and produce • Generates at least $2 million in annual sales • Carries between 15,000 and 60,000 SKUs	Publix, Albertsons, Kroger, Shaw's, Stop & Shop
Supercenter	• Hybrid of large traditional supermarket and mass merchandiser • Offers wide variety of food and non-food items • Averages more than 170,000 square feet • Devotes as much as 40% of space to grocery items	Target, Walmart, Fred Meyer
Convenience store	• Small high-margin stores • Edited selection of items	7-Eleven, ampm
Wholesale	• Membership retail/wholesale hybrid • Varied selection and limited variety • Over 120,000 square feet	BJ's, Costco, Sam's
Drug	• Prescription-based drug store that generates 20% or more of sales from consumables, general merchandise, and seasonal items	Walgreens, CVS, Rite Aid
Fresh format	• Emphasizes perishables • Offers ethnic, natural, and organic items	Whole Foods, The Fresh Market
Limited assortment	• Low-priced • Offers limited assortment • Fewer than 2,000 SKUs	Trader Joe's, Aldi
Dollar store	• Small-store format selling food and consumables at aggressive prices • Food sales are 20% to 60% of sales volume	Dollar General, The Dollar Store
e-Commerce	• Food and consumables ordered via Internet	Peapod, Amazon

Source: "Out With the Old, In With the New," JLL, September 14, 2014.

Exhibit 4 Store Format Market Share, 2013-2018

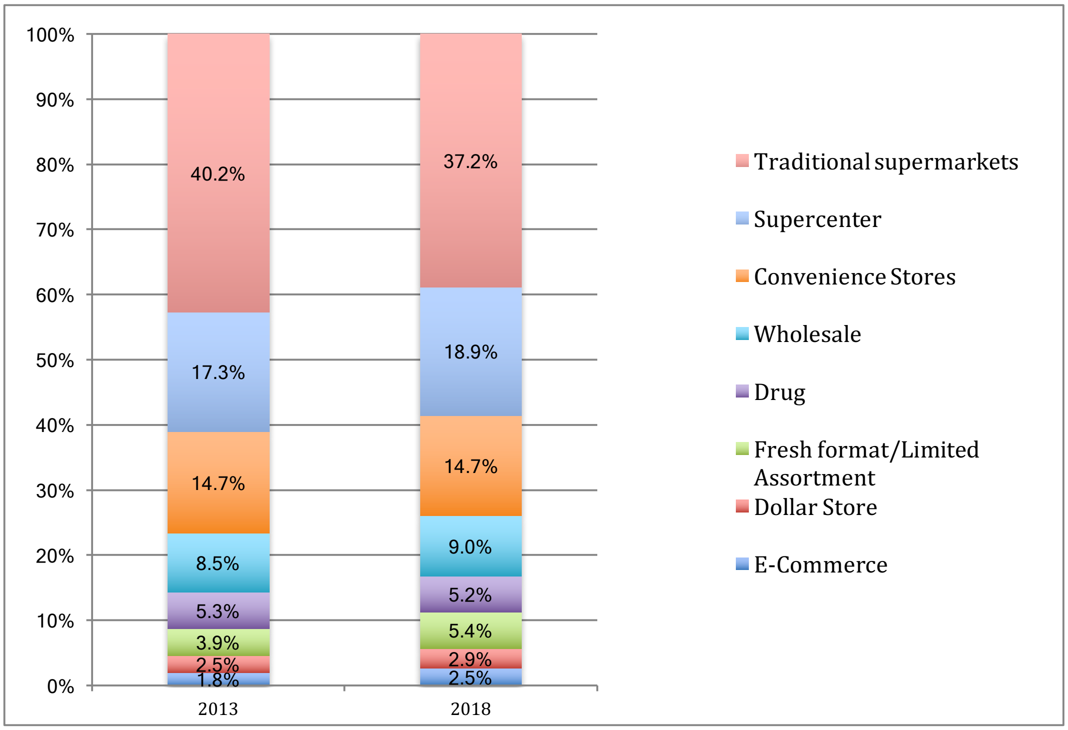
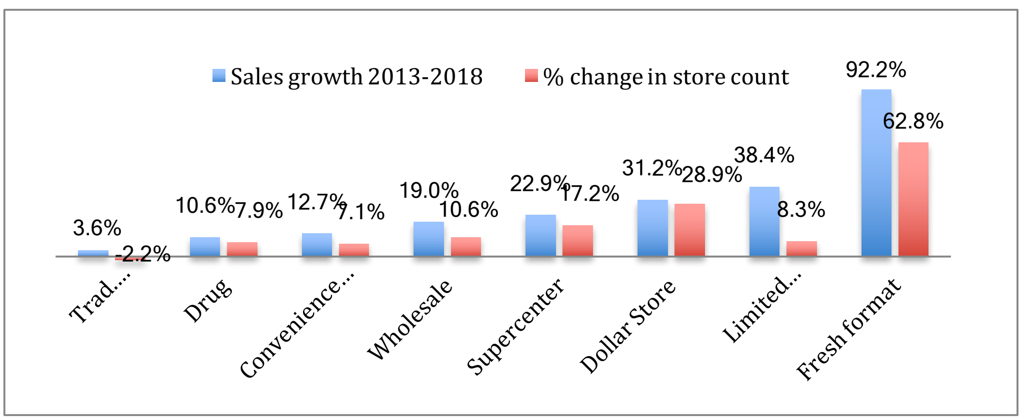
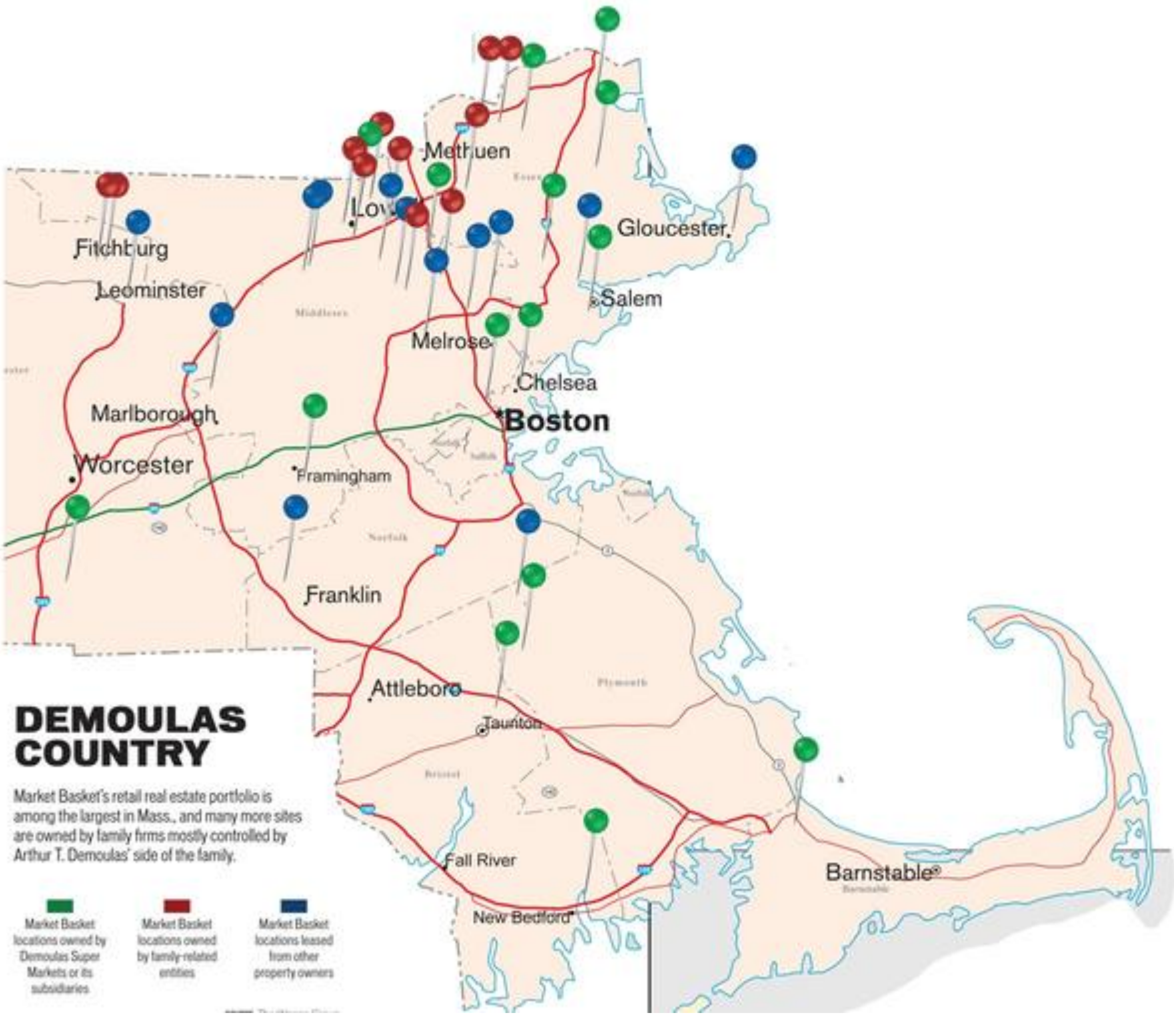


Exhibit 5 Sales Growth and Change in Store Count By Format, 2013-2018



Source: "Out With the Old, In With the New," JLL, September 14, 2014.

Exhibit 6 Market Basket Locations



Note: The green pins show locations owned by DeMoulas Super Markets or its subsidiaries. Red pins show locations owned by family-related entities. Blue pins show locations leased from other property owners.

Source: "Demoulas' Massachusetts Real Estate Empire," Boston Business Journal, October 4, 2013.
(Reprinted with permission.)

Exhibit 7 Arthur T. Demoulas's Management Principles

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 percent 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 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 palette 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 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 percent 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.

Exhibit 8 List of New and Replacement Stores

Year	Month	Location	Size (sq ft)
2008	April	Reading, MA	67,000
	October	Nashua, NH	65,000
2009	June	Chelsea, MA*	130,000
	July	Wilmington, MA*	65,000
	October	Gloucester, MA	61,000
2010	January	Oxford, MA	78,000
	April	Epping, NH	77,000
	May	Swanzey, NH	76,000
	October	New Bedford, MA	97,000
	December	Burlington, MA*	96,000
2011	January	Salem, NH*	91,000
	June	Lowell, MA*	65,000
	June	Londonderry, NH*	108,000
	September	Hooksett, NH	77,000
2012	January	Nashua, NH*	69,000
	February	Chelmsford, MA*	60,000
	March	Haverhill, MA*	80,000
	April	Manchester, NH	91,000
	May	Brockton, MA	81,000
	June	Bourne, MA	67,000
	June	Seabrook, NH	70,000
	October	West Bridgewater, MA	79,000
	December	Westford, MA	60,000
2013	May	Bedford, NH	78,000
	June	Nashua, NH	84,000
	June	Hudson, MA	76,000
	August	Biddeford, ME	107,000
	October	Leominster, MA*	65,000
2014	October	Revere, MA	91,000
	November	Littleton, MA	60,000
	November	Waltham, MA	86,000

** replacement stores*

Source: Market Basket.

Exhibit 9 Dialogue between Independent Board Member Nabil El-Hage and Arthur T. Demoulas about Related-Party Real Estate Transactions

NABIL EL-HAGE
How do you begin the negotiation on rent? If you're going to do a land lease with High Rock—his name is Sweetser?

Literally, what do you do? Do you sit in front of a mirror and talk? I'm being silly, but we know that your wife is the sole LP [of High Rock.] I understand he's the general partner. I understand all of that. But the reality is you have a lot of influence in those cases where you're dealing with him on setting the rent. So just as we say you need clarity, transparency, and fairness, I'm really curious how you would normally go about deciding what the fair rent is. You're clearly on both sides of it. What do you do?

ARTHUR T.
I would handle Mr. Sweetser no differently than we handle any other landlord. You sit and you talk, and you get the lay of the land, and you try to make the best deal you can.

NABIL EL-HAGE
For?

ARTHUR T.
For DSM (DeMoulas Super Markets].

NABIL EL-HAGE
For DSM?

ARTHUR T.
Absolutely. Now, if you want to go about it a different way, let me know.

NABIL EL-HAGE
It truly is an honest question. How do you do that? Do you squeeze him? Do you bluff him? Do you say, "I'm not interested in that price?" How do you get the best deal for DSM, knowing that you have an economic interest on the other side?

ARTHUR T.
Well, we discuss it. We do the best job we can, and we come to an agreement on the rate, on the terms, and we go from there.

NABIL EL-HAGE
And in a case like this, what would the best deal look like? Would it be a percentage of revenues?

Would it be a per-foot deal? Let's assume you do a land lease and the company builds out the pad, builds the building.

ARTHUR T.
What I would do is I would work the numbers backwards. I would try to extract from Mr. Sweetser, "What do you have into this property?" And try to negotiate a deal that is sensible for DSM and acceptable to him. If it's not acceptable to him, we walk away and he goes about his business and comes to terms that are acceptable by today's standards...

Source: "Documents Inside Market Basket Board Meetings," The Boston Globe, August 15, 2014.

Exhibit 10 Market Basket's Somerville, Massachusetts Store during the Protest

Source: Zeynep Ton.