

Case olivers assignment



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Amass and Scott had ten days to decide if they wanted to bid on one, both, or neither of the locations (extensive demographic data for Oliver's existing locations and for the proposed sites re provided). In reaching a decision on whether or not to purchase and retrofit the new site(s), Amass and Scott had to consider the ongoing challenge of differentiating Oliver's in a low-growth, fragmented industry. National chains were seeking market share growth largely by increasing store counts and developing new marketing initiatives to take sales away from rivals.

Trader Joey's, Cost, and Whole Foods had recently entered Oliver's sales territory; Wall-Mart and Target had also developed " hypermarkets. " Internally, the company is performing well and had taken advantage of opportunities to expand its operations and to build a strong management team. The company was performing well in many categories as compared to industry averages. However, there was room for improvement, especially in the areas of labor, benefits and supplies. Additionally, the company was suffering from a lack of goal setting, poor strategic planning and declining financial performance in the Cotta store.

Heading into 2005, the company was well positioned for future growth and was considering additional expansion. However, Steve Amass had not established a succession plan and his only child (a daughter) was not actively involved in the business. Amass was 59 years old and had been in the business since 1988. He had a solid general manager in Tom Scott, who could potentially take over the business, and Steve wanted to reward Tom with an equity stake in the company and was considering expansion as an avenue to accomplish this.

In considering his options Amass wondered whether or not Oliver's could sustain its current strategy. If so, would expansion provide an opportunity for him to step aside and thereby allow Scott to buy into and run the business?

Suggestions for Using the Case This is a freshly and thoroughly researched case that is eminently suitable as a follow-on to the Whole Foods Market case or as a lead case for the course or as a case assigned a bit later in your collection on case assignments on business strategy (after you have covered Chapters 3 and 4 and perhaps Chapter 5).

We positioned this case immediately after Whole Foods because both cases involve the same industry, because Oliver's and Whole Foods are direct competitors in the geographic area where Olives operates, and because the case gives students a chance to make strategy recommendations about how a small local *The teaching outline and analysis section of this teaching note is largely based on the work and thinking of Professor Armband Killings, Jar. ND John Moore, Sonoma State university; we are most grateful for their thoughts on how this case can be taught successfully. 35 36 Case 2 Oliver's Markets company like Oliver's can compete successfully against a fast-growing, competitively powerful industry leader like Whole Foods Market. Oliver s Market, however, can be used as a lead case for the course on its own merits, and it is by no means necessary to cover the Whole Foods case prior o assigning Oliver's.

Given the importance that objective setting and strategic leadership have in the Oliver's Market case, there's merit in assigning it after your coverage of Chapters 1 and 2 to help illustrate these points and students should have no difficulty wrestling with the issues posed in the case, especially if they have

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already worked their way through the Whole Foods case. You are having your students complete the case preparation exercises that are part of the Case-TUTOR software aid the students can download from the Web site for the text, then we think Whole Foods makes a better lead case or the course because it has an accompanying case preparation exercise that pushes student to develop substantive answers to all the assignment questions for the case. There is no accompany eying case preparation exercise for the Oliver's markets case.

You'll find ample information in the Oliver's Market case for students to apply the analytical tools presented in Chapters 3 and 4 and to propose what actions Oliver's should take on the expansion opportunities it has-? the case has a wealth of data concerning market conditions and competitive circumstances in the supermarket industry in Sonoma County, California, area where Olive's operates. A good argument can be made that you can get maximum mileage from this case by assigning it after students have read at least Chapters 1-4 and probably Chapters 1-5.

The case also provides ample financial information, allowing you to use Oliver's to help hone students' financial analysis skills and make full use of the financial ratios that appear in Table 4. 1 of Chapter 4. Another highly recommended way to use this case is to assign the Whole Foods case as a lead-off case or as a case in the first half of the course, then use the Oliver's Market case as an oral team presentation or written case assignment later in the course. The Whole Foods Market case sets the stage very nicely for Oliver's Market.

The case is also useful for: CLC Exposing students to the strategic challenges facing the owners of small local businesses O Helping students understand that coming up with a vision of where a company needs to head is not so easy as it might seem (the answer is far from clear in the Oliver's case due to differing circumstances and conflicting priorities among Olive's founders/owners and its key managers) C Illustrating the importance of setting objectives and crafting a tragedy CLC Illustrating the competitive interplay among dynamics L] Develop understanding of a " best-cost" provider type of competitive strategy and the challenges associated with this strategy C] Weighing the pros and cons of expansion decisions for growing a small business C] Recognizing the importance of succession planning, especially in small businesses CLC Drilling students in SOOT analysis C] Examining what a company has to do to successfully implement and execute its strategy O Helping students realize why simply " doing the same thing that was done last year only slightly better" is not always a very good tragic course to pursue This case is quite well suited for both written assignments and oral team presentations. As indicated above, you may want to consider assigning the Whole Foods Market case early in the Souse and then use the Olive's Market case as an oral team presentation or written case assignment toward the end of the course.

A good assignment question is as follows: Case 2 | Oliver's Markets Steven Amass, founder and CEO of Oliver's Markets has employed you as a consultant for Oliver's Markets and has asked you to develop and present recommendations for the future growth of his company. Please prepare a port critiquing Oliver's situation. Your report should include an evaluation of

current industry conditions and competitive forces, the forces driving change in the industry, the industry's key success factors, the positions of key rivals and how these rivals compare to Oliver's, and the factors that make the industry attractive and those that make it unattractive.

In addition, your report needs to include (a) a discussion of the compact/s strategy, (b) an assessment of Oliver's strengths, weaknesses, opportunities and threats, (c) an evaluation of its strategic and financial performance, especially how this reference compares to industry averages, and (d) a set of action recommendations that clearly define the course of action Oliver's should pursue, specifically if the company should expand, and if so where. Your report should be 4-6 pages and include any charts, tables or exhibits you believe necessary to support your analysis and recommendations.

Assignment Questions 1 . What are the key elements of the strategy at Oliver's Market? Which of the five generic competitive strategies discussed in Chapter 5 is Oliver's Market pursuing? 2. What competitive pressures must Oliver's Market be prepared to deal with? What do we learn about the nature and strength of the competitive pressures Oliver's faces from doing a five-forces analysis of competition (as described in Chapter 3)?

Which of the five competitive forces is the strongest? 3. Based on your analysis of the competitive pressures, is the supermarket industry in the Sonoma County area (where Olives is located) competitively attractive? Why or why not? Is there a potential for a company like Oliver's Market to realize above-average profits and return on investment doing business in Sonoma County? 4. What driving forces are operating in the supermarket industry in Sonoma County? 5. What does a strategic group map reveal about the

positions of the major players in the Sonoma County retail food market? Is Oliver's in a good position on the map? Why or why not? Who are Oliver's closest and toughest competitors? 6.

What are the key success factors for competing in the supermarket industry in Sonoma County? 7. What is your assessment of Oliver's financial performance and financial condition? Is the company in good financial shape? Why or why not? You should use the financial ratio summary in Table 4. 1 of Chapter 4 as a guide for doing the calculations added to support your assessment of how well Oliver's market is performing. 8. Based on case Exhibit 6, how well does Oliver's financial performance compare to the industry averages? Based on case Exhibit 8, how well is Oliver's performing compared to key competitors? G. What does a SOOT analysis reveal about the attractiveness of Oliver's situation?

Just how attractive is the company's situation and position? 10. Based on your analysis of the supermarket industry in Sonoma County and Oliver's situation, what problems and issues should Steve and Tom consider? Which ones are top priorities? Which are low priorities? 1 . Should Oliver's expand? If so, which site or sites should they purchase? Should Tom be allowed to buy into the new store? Based on the demographic information available in case Exhibit 13, how do the proposed sites compare to the current locations? 12. Aside from the expansion issue, what other recommendations would you make to Steve and Tom? 37 38 Teaching Outline and Analysis 1 .

What are the key elements of the strategy at Olives Market? Which of the pursuing? Oliver's strategy is predicated mainly on wide product selection,

product quality, very good customer service, and a best-cost provider type of nominative strategy. Its focus on Wide production selection is reflected in its broad product mix, including conventional, gourmet and natural and organic items, in almost all categories throughout the store. As noted in the case, Oliver's wants to be known for carrying items that other stores do not carry. That is the cornerstone of the value proposition it offers customers. Its wide product selection strategy also involves carrying locally produced items.

Oliver's product breadth appeals to a broad range of customers and has helped attract a diverse clientele. Oliver's pursuit of being a best cost provider as discussed in Chapter 5) is reflected in its combination of variety, quality and pricing. It offers a broader mix of products, to a more diverse clientele, at lower prices, than its major competitors, Safely and Whole Foods. It also attempts to offer upscale baked goods and superior home meal replacement items at prices comparable to similar conventional items found at competitors' stores. Being a non-union operator supports its best-cost approach by providing superior quality at a lower cost per hour.

That is, It is able to provide more customer service in the form of more employee hours than unionized competitors. Being privately owned is also a factor as Steve, the only shareholder, is willing to accept a rate of return that might be unacceptable for a publicly traded company. It has hired a diverse workforce and allowed broad self-expression in terms of dress and personal appearance. At the same time, Oliver's maintains high performance standards, especially for its management team. 2. What is competition like in the supermarket industry? What do we learn about the nature and strength

of the competitive pressures Oliver's faces from doing a five-forces analysis?
Which of the five forces is the strongest?

Rivalry Among Supermarkets – Intense Students should realize that rivalry is the strongest of the five forces among firms within the supermarket industry. Rivalry in the industry is driven by the following factors: C] There are a large number of competitors C] Slow industry growth C] High fixed costs C] Consumers have low switching costs between supermarkets Firms in the industry are employing diverse competitive strategies D Most firms are not diversified outside of the supermarket industry so there are high strategic stakes C] There are high exit barriers in terms of fixed assets ND real estate leases Threat of Entry – Moderate to Strong In the case of the supermarket industry, the second area of intense competition is that of new entrants to the market.

New entry can take the form of small specialty markets, as well as entry from firms with existing operations in other markets. As evidenced in the case, new entrants have dramatically changed the food retail landscape over the past decade. So-called niche operators such as Whole Foods and Trader Joe's have proved to have significant appeal. Club store operators Cost, Cam's Club and BC Wholesale are very profitable and generate tremendous sales volume per store. Dollar stores and drug stores have greatly increased the number of food items they sell. The greatest threat is probably that posed by the Wall-Mart Superstructures, and to a lesser degree, Target.

Entry threats in the Sonoma County market arena are shaped by the following factors: C There is a large pool of well funded entry candidates,

especially from chains not currently operating in the market CLC Growth-minded competitors are always looking to expand into profitable new geographic segments C] There are sizable economies of scale in the supermarket business-? large chains have bestially greater bargaining power with suppliers than small enterprises like Oliver's C Cost and resource disadvantages independent of size exist in terms of securing the best locations 0 Brand preferences and customer loyalty do play a role in this industry, but price is often more important (a low- priced entrant like Wall-Mart could well prove to be a competitively potent player in this market) C] Capital requirements are moderate and can be overcome by small local enterprises, as evidenced by Oliver's (I Slow industry growth (which works against additional entry), but growth in ice markets like natural and organic foods is likely to be higher Threat of Us busiest - Strong Fast-food outlets and casual dining restaurants continued to take food dollars away from food retailers. As noted in the case, the USDA reported that the percentage Of food dollars spent on food away from home had risen from 39% in 1 980 to over 46% by 2002. While stores are battling each other for a share of consumers' wallets, it is also clear that consumers' shopping patterns have changed.

As noted in the case, some consumers no longer even shop at supermarkets as household penetration has dropped below 100%. Household shopping trips to supermarkets have dropped and the supermarket's share of U. S. Food retail dollars continues to decline. The pressure on traditional supermarkets is exacerbated by changes in Americans' eating habits. As stated in the case, people in the U. S. Are having other people cook for them

more than they used to. The percentage of the food budget people spend on prepared meals has grown from 39% in 1980 to over 46% by 2002. This provides an opportunity for supermarkets if they have a compelling food service offering, but that also serves to intensify the competition with fast food outlets and restaurants.

The threat of substitutes is driven by the following factors in this industry: C] Substitutes are readily available and attractively priced C] Many consumers view the substitutes as more convenient and of comparably quality O Costs of switching to substitute products are low Bargaining Power of Suppliers – Moderate to Weak While major consumer products goods companies (CAP) such as Procter & Gamble, Kimberly-Clark, and Kraft Foods featured enormous product lines and advertising budgets, they were all engaged in their own competition for shelf space in all retail formats. Additionally, most chains operated their own distribution facilities and leveraged their size to combat the power of the large CAP companies. The chains were, therefore, not dependent on wholesalers for the bulk of their product. This left the wholesaler with little power.

Oliver's was not large enough to self-distribute and so relied on Unified Western 39 40 as their wholesaler. This was largely an interdependent relationship as unified was limited in what it could sell to major chains and was as dependent on independent operators like Oliver's as Oliver's was on them. Labor, a second significant supply item, was also weak. Through the strike/ sock-out in southern California and the contract negotiations in northern California, the United Food and Commercial Workers union had been forced to make significant concessions to union operators. In the case <https://assignbuster.com/case-olivers-assignment/>

of Oliver's, they were a non-union shop so their labor supply possessed little power.

The bargaining power Of suppliers is influenced by the following factors in this industry: L] Seller switching costs to alternative suppliers are low C] Industry members account for a big fraction of suppliers' total sales C] The items being supplied by most suppliers are commodities that are available room other suppliers C However, there are relatively few suppliers in any specific geographic area Bargaining Power of Buyers - Customers - high in the aggregated, moderate to weak for individual shoppers Students are likely to point to the fact that individual shoppers can request adjustments, such as matching an ad price offered by another operator, as evidence of the power of buyers. This does indicate that buyers, in the aggregate do have considerable power due to: C] Low switching costs were nonexistent.

Any individual supermarket customer could certainly choose to shop elsewhere, with little consequence o them. C] Slowing demand L] Weekly ads profit customers with a substantial amount of information The stock products of the various supermarkets are largely undifferentiated However, customers do not act in the aggregate and individual buyers only have weak to moderate power as: Individual buyers purchase in small quantities. Each individual customer represents a minute fraction of the sales volume of a given supermarket. L] Supermarkets can differentiate some offerings, especially the already prepared food Students should realize that the competitive forces that Oliver's faces make the industry unattractive.

The intensity of the rivalry, the significant threat of new entrants and substitutes and the power of buyers in the aggregate are likely to continue to put pressure on the long-run profitability of the supermarket industry. Industry in the Sonoma County area (where Oliver's is located) competitively Superior students will notice that differentiated sellers such as Whole Foods and Trader Joey's are experiencing excellent growth as well, and it would be safe to say from their growing market share that both are satisfied with growth and performance their strategies are generating. Traditional permeates, however, are finding that they are getting squeezed in the middle. No longer able to provide the lowest prices and suffering from a standardized product offering (or weak differentiation at best), the traditional chains are losing ground at a staggering rate.

Safely, Albertson, and Kroger are struggling with low comparable store sales growth and inconsistent or declining profitability. This makes them a threat to Oliver's, because as the larger cost-competitive chains begin to encroach on the supermarkets' business plans, those traditional sellers will try to move from that crumbling battle ground onto more attractive arenas and attempt to differentiate. At the same time non-traditional food retailers exhibit strong revenue growth, positive comps store sales and expanding bottom lines. If there is an attractive area in food retailing, it appears to be amongst these non-traditional retailers. Retailers that market primarily to the middle class also seem to be getting squeezed.

Upscale marketers, such as Whole Foods, and low cost operators like Wal-Mart, Cost, and Trader Joey's are enjoying significant growth while traditional supermarket chains like Safely, Kroger, Albertson and others squeezed in

between are fighting each other for survival. Based on this information students should recognize that while the supermarket industry in Sonoma County is not especially attractive due to the intensity of competition, upscale firms such as Oliver's can earn an attractive return on investment while doing business in Sonoma County (provided it continues to do well going head-to-head against Whole Foods Market which stocks many Of the same items and caters to mostly the same type Of clientele). 4.

What driving forces do you see operating in the supermarket industry in Sonoma County? Based on information in the case, students should point to several factors happening nationwide and in Sonoma County: 1 . The market share gains being posted warehouse club stores and discount superstructures such as Cost and Wall-Mares Cam's Clubs. Nontraditional retail outlets increased their share of consumers' food-at-home expenditures from 17. 7 percent in 1 998, to 30. 8 percent in 2003. Over the same time period, traditional retailers' market share declined from 82. 3 percent to 69. 2 percent. The growing national presence of warehouse clubs and Wall-Mart Superstructures is creating much heightened competitive pressures on traditional supermarket chains. 2. Increased purchases of prepared foods away from home in restaurants and fast food outlets, thus dampening the volumes of food items that consumers are purchasing at supermarkets. By 2002, foddering outlets accounted for 46. 1 percent of all food spending up from 45. 4 percent in 1990 and 39 percent in 1980. From 1996 to 2001, married couples with children reduced the fraction of their food budget spent on food to be prepared at home from 62 percent to 59 percent, translating

onto a reduction of over \$7 billion a year in food spending at retail grocery outlets. 3. Chronic overcapacity in the supermarket industry’.

As sales growth slowed in the supermarket industry and the number Of supermarkets increased, many analysts considered the industry to be at overcapacity (that is, there are more supermarket stores than really needed to serve the market-? why is probably why Kroger is withdrawing from the Sonoma County market and has put its stores up for sale). 4. Changing shopping patterns due to the emergence of “ lifestyle” food operators and Internet delivery services. Due to increased competition from non-traditional food retailers, supermarkets suffered from a decline in shopping trips. In 1999 the average household made 83 trips to supermarkets; by 2004, that statistic had fallen to 69 trips. Early in 2005, household penetration of supermarkets was below 100 percent for the first time in recent memory. One percent of shoppers, over a period of a year, had found that they could live without visiting a supermarket.

They did this by shopping at warehouse club stores, superstructures, dollar stores, and niche operators such as Trader Joey’s. Some also shopped over the Internet. 41 4. Labor costs were increasing in the industry, especially for chains whose labor force was unionized. This especially hurt the traditional supermarket chains who were (1) more likely to have unionized shops than the non- traditional food retailers and (2) more likely to be forced to charge higher prices to cover their higher labor costs. 5. What does a strategic group map reveal about the positions of the major players in the Sonoma County retail food market? Is Oliver’s in a good competitors?