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TEACHING CASE

Alpha: strategic diversification and cultural change in the US food retail sector

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SYNOPSIS

This case study was developed from an actual scenario. The case documents the historical evolution of an organization in the Supermarket sector, and its attempts at diversification. The case has been used successfully in courses dealing with organizational and cultural change, and the utilization of "soft skills" in project-based management.

This is a short case, ideal for classroom use and discussion. The issues are easily accessible to students, and there is a single wide-ranging question that allows for the inclusion of many issues surrounding strategic decision-making, and behavioural and cultural change.

ORGANIZATION NAME

Alpha

GEOGRAPHIC

USA

INDUSTRY

Supermarket/Retail sector

YEAR OF CASE

1991 to 2009

LEARNING OBJECTIVES

After debating this case, a student should be able to:

1. Understand some of the challenges of strategic acquisition, and issues around diversification and consolidation,

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2. Debate the issues around integration of diverse business models,
3. Appreciate the importance of organizational culture as the "glue" that binds organizations, and
4. Engage with issues around how leaders need to manage and steer these issues.

TARGET LEARNERS

This case can be used at the undergraduate or the graduate level, although it is better suited to an introductory level discussion of change, where many scenarios can emerge. Students should be aware of the basic elements of organizational behavior and organizational theory. It has been used in courses relating to change, strategic intent and strategic advantage, and in courses concerned with behaviours within the project domain.

KEY QUESTION:

If you had been Jim Wakefield in December 1998, what would have been your strategy for change, and how would you have implemented it?

Keywords

Organisational Change; Culture; Communication; Changing Business Strategies

Author's Note

This case, which I have been using in my teaching for the past twelve years or so, evolved from a short case about the ASDA supermarket chain in the UK, which was drawn from the 2nd edition of John Hayes 'The Theory and Practice of Change Management.'(Palgrave Macmillan, 2002). Over the years, the case has been changed and updated, the organizations involved have been made anonymous, and the location has been moved to the USA. I thank Professor Hayes for his permission and advice on developing the case.

PART 1:
Alpha: Strategic diversification and cultural change in the US food retail sector

Rationale

This case is designed to reinforce some of the issues surrounding cultural change in evolving organizations. There are also embedded issues relating to the choice of business models and the issues relating to diversification.

As with most case studies, there is not enough definitive information to fully answer the questions, so you will need to make, and justify, a number of assumptions while analyzing the case and making recommendations.

A successful start

Alpha was one of the earlier companies in the US to invest in large, edge-of-town superstore-type supermarkets, with plentiful free vehicle parking, selling food and related household products.

Alpha was created in the 1950s as a subsidiary of a major publicly quoted retail group. It started business by opening a string of very large discount stores in converted industrial and warehouse premises in the south of the US. In the early days, shoppers were offered a limited range of very competitively priced products.

When Alpha went public in 1991, it was the fourth largest food retailer in the US, selling an ever-widening range of food and non-food products. Its success continued to be based on high volume, low margins and good value for money, under the slogan of *"Alpha Price."*

A change of strategy: the pursuit of higher margins

In the first two years after going public, Alpha began to shift toward a new strategy that was focused on raising margins. A range of new initiatives involved seeking efficiencies to reduce costs, while simultaneously introducing more high-margin – known as "value added" – products such as prepared foods and a wider range of non-food items, including small furniture items, and TV & HiFi products.

There was also a drive to expand into the north and the northeast of the US, and along the east coast in Maryland and North Carolina, where incomes were traditionally higher and customers had greater spending power. This change of strategy presented a few challenges:

- Alpha's expansion policy was slow to get off the ground, partly because planning permissions for large retail developments were more difficult to secure in the north, where the cost of land was significantly higher and many of the best sites were already being developed by competitors.
- Sales were lower than anticipated because Alpha's value-for-money image and its relatively austere store layouts tended to be unattractive to relatively wealthy northern customers, who were used to shopping in more up-market stores. Alpha attempted to

brighten up some of its stores and further distance itself from its "discount" image, but this did not generate the anticipated contribution to sales volumes or operating profits.

- Another related problem was that long-standing customers in the south of the US (where the company had initially built its business) appeared to be confused and alienated by what Alpha was beginning to offer them, and many switched their allegiance to new cut-price retailers who were more focused on offering value for money.

A change of strategy: diversification

Toward the end of the 1980s, the senior management of Alpha began to consider the possibility that saturation might limit future growth in food retailing, and the decision was taken to diversify further into non-foods. Some of the most notable acquisitions included:

- 1996 – Beta Home Improvement Stores (with about 100 city center "high street" sites). Beta offered furniture, electrical and white goods (fridges, stoves, etc.), and many other items, including paint, wallpaper, bathroom fittings, etc. The strategic case for this acquisition centered on potential synergies between the supermarkets and home improvement stores, with Alpha seeing the opportunity of building new home improvement outlets adjacent to some of its supermarkets.
- 1997 – Delta Garden Centers (a group with a significant presence and a well-established market presence – particularly in the mid-West). Unfortunately this acquisition did not make the anticipated contribution to profitability because recessionary and competitive pressures in the early 1990s, together with issues in the housing market, led to a retrenchment in the marketplace.
- 1999 – Zeta Enterprises, which manufactured and sold garden tractors, power garden tools, and small construction machinery. This acquisition, which was 'almost a merger as Zeta was also a public company, had synergies with both Beta and Delta, was another major disappointment. Alpha attributed the poor performance to one-off problems, such as a new range of garden tractors that failed to sell, and a shift towards the rental of small construction machinery. It was anticipated that the problems would be short-lived, but performance failed to pick up as expected.
- 2002 – Alphadrive (an Alpha venture). This new car-retailing business was launched at sites adjacent to five of Alpha's superstores, with the intention of rolling it out to about 70 percent of all stores. Vehicles were advertised using a comprehensive internet site, and the vehicles were sold from a secure area of the Alpha supermarket car parks.

A change of strategy: refocusing on the core business

Following the acquisition of Zeta, Alpha's shares significantly under-performed. In 2002 Alpha surprised the market with a major change of strategy. Instead of continuing with the policy of diversification, Alpha decided to refocus on its 'core' superstore business.

The Alpha-Zeta acquisition ended with a management buy-out of Zeta (although Alpha then bought a 25 percent stake in this new company). Alphadrive and most of the Beta business were also sold and the intention was to dispose of Delta's garden center business as well. However, following the collapse of the equity market, it proved impossible to obtain the anticipated profit from the sale of Delta Garden Centers, so the business was retained (and later expanded with the acquisition of Gamma Landscapes in 2005).

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In order to develop the core business, it was decided to invest up to US$2.5 billion over a period of three years. Most of this investment was earmarked for accelerating the opening of new stores, especially in the north, but there were also other demands. Alpha had lagged behind its competitors in a number of areas, including:

1. Own-label products. The main competitors to Alpha in the supermarket sector had all invested heavily in own-label products (that offered higher margins and better value to customers), whereas Alpha had only started to introduce them in the early 2000s, and on a much smaller scale.
2. Computerized point-of-sale (POS) equipment. Competitors had invested heavily in technology that improved stock control and provided better customer service at checkouts.
3. Internet sales and home delivery. Many of Alpha's rivals were gaining significant market share in the grocery sector through offering online ordering and a 'specific time window' delivery service.
3. Centralized distribution networks. The competition had also developed centralized distribution networks for fresh foods that pushed down costs, enabled stores to receive fewer "just in time" deliveries from vehicles carrying full loads, and reduced the requirement for store-related warehousing space.
4. Store refurbishment. Alpha had neglected many of its stores, which were beginning to look very tired and in urgent need of refurbishing.

Alpha recognized the need for investment in all these areas, but had significant issues in deciding on the priorities, given they did not have enough funds or management resources to do everything that was required at once.

A leap forward that contributed to a major debt problem

In 2007 a consortium that was planning to buy another large US supermarket group agreed that, if their bid were successful, they would sell 62 superstores to Alpha for US$2 billion. This was seen as a very attractive proposition. It offered Alpha the possibility of making up for lost ground and regaining its old position as the fourth-largest US food retailer. It also promised to double the number of Alpha stores in the north and contribute an extra US$2 billion to sales. Alpha bought the stores in September 2007.

Alpha's performance following the purchase of the new stores was poor. Profits were down, and Alpha's 25 percent stake in Zeta contributed a loss. The Delta-Gamma Garden Center and Landscapes business was also in trouble. Alpha had net debts of over US$2 billion from the end of 2007. Alpha's share price began to slide, compared with major competitors, and in August 2008 it dropped a further 30 percent. The announcement of an issue of new shares to raise capital at the end of the month led to another massive fall in the share price.

Cultural Change at Alpha

In the early years at Alpha there was a lot of energy, creativity and a willingness to experiment and test new ideas. However, with changes in strategy as acquisitions took place, some of the most talented managers were moved or promoted to run the newly acquired businesses. This resulted in a stagnation of innovation and ideas within the grocery business that generated the majority of the income for the Alpha group.

This inevitably resulted in the supermarket side of the business receiving less investment as resources were diverted to fund the diversification program, and the integration of the acquired organizations. As a result of the diversification strategy, innovation and change were no longer championed and there were signs that the business was becoming more bureaucratic and concerned with cutting costs as a means of protecting margins. This affected investment, and ensured that Alpha fell behind its competitors, especially in the areas of stock control and logistics management.

The appointment of Jim Wakefield

Jim Wakefield was offered the role of CEO in October 20088 and took up his appointment in December the same year. By the time he arrived, Alpha was rapidly running out of cash.

Jim found an organization that was bureaucratic, hierarchical, and highly centralized. There was a large headquarters of staff in the new custom-built Alpha House, located in the south, away from the areas where Alpha was investing. Directors had little contact with the people who reported to them. The culture was risk averse. People at all levels appeared to be intimidated by their bosses and told them what they thought they wanted to hear. They also seemed reluctant to take any initiatives that would call attention to themselves. Morale was low.

The trading department was driving the positioning of the business. Buyers, who were based at Alpha House and had little contact with store managers, determined what the stores would sell. Planning based on rigorous market research seemed to be non-existent. The booming internet sector was contributing virtually nothing to Alpha sales volumes. The new CEO had concerns about the quality of management and the apparent unwillingness, throughout the organization, to make best use of the talent that existed.

Store managers felt ignored and found it impossible to have any meaningful input to thinking at Alpha House. There were also problems within stores, where vertical communication was poor and customers were not valued.

If you had been Jim Wakefield in December 1998, what would have been your strategy for change, and how would you have implemented it?

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PART 2
Teaching notes

Learning objectives and key issues

The key issues in this short case relate to the challenges of re-focusing diverse and fractured organizations, and the importance of fostering a culture in which behavioural elements such as commitment, motivation, and trust can be developed. More advanced classes may want to introduce elements such as emotional intelligence, and different cultural types.

Practitioner and/or research competencies highlighted

After debating this case, a student should be able to:

1. Understand some of the challenges of strategic acquisition, and issues around diversification and consolidation,
2. Debate the issues around integration of diverse business models,
3. Appreciate the importance of culture as the "glue" that binds organizations, and
4. Engage with issues around how leaders need to manage and steer these issues.

Teaching strategy

This case is intended for class discussion. It can be discussed at the individual level in small classes, but a more effective strategy involves small groups of students who can either consider the whole case, or different aspects. Small group presentations (informal or formal) assist students in articulating ideas and potential future actions for Tom Stafford. Students could role-play scenarios involving key people at Alpha.

Before any discussion, students should be aware of relevant theoretical and practical approaches to culture change, and the execution of effective change in organizations. Some formalized lecture content should therefore precede any case-based discussion.

Related theory

This case can be used to expose a wide range of theoretical situations, drawing on motivation theories, communication and commitment theories, and issues around teams and building trust. It is expected that students will have been introduced to the basics of organizational theory, and in particular to concepts and theory surrounding motivation, commitment, trust, and organizational culture.

Experience of using the case

This is a relatively simple case that provides the opportunity to explore a number of different aspects. It can be used to consider strategic decisions, but has been found to be more effective when it is focused on cultural change.

This means that discussions can coalesce around issues of communication (and particularly issues around centralized versus decentralized decision-making), elements of motivation, commitment, trust, and team-based working, and how to embed these elements in organizations with significant legacy issues.

Allowing open discussion permits many issues to emerge, and a SWOT-style analysis (see Appendix 1 below for an example) can be a useful way to encourage student cohorts and groups to articulate the many issues. Students can then be asked to:

1. Prioritize issues that emerge from the SWOT, and
2. Suggest ways of implementing/executing strategies to resolve such issues.

Appendix 1

Strengths	Weakness
• Sales volumes • Purchasing power • Wide Range of products • Brand awareness	• Culture (particularly north/south differences) • Poor market analysis • Low product differentiation • Poor planning/market research • Internal communication
Opportunities	**Threats**
• Private brand expansion • New technologies (POS) • Supply chain improvement • Stock control • Culture Shift • Decentralization of decision-making • Internet	Competitors leading in: • Own label products • Technology • Supply chain and distribution • Employee morale • Flexibility and speed of change • Lack of Internet Presence

About the author

Stephen Leybourne is a Professor at Boston University, where he teaches innovation, and project and change management. He received his PhD in 2002 from Cardiff University in the UK, and his research activities focus on the use and abuse of improvisational working practices, particularly in project-based work, and the location of project management within the wider academic landscape. He is an associate editor of *Project Management Research & Practice*.

Leybourne has presented at conferences such as the PMI® Research Conference and the Academy of Management, winning 'best paper' awards at AoM2006 and from the International Management Development Association in 2010. He has been a leading manager for several international banking institutions and has been an academic for the last fifteen years.

Leybourne has published widely and in a variety of journals, including *Journal of Change Management*, *International Journal of Management Concepts and Philosophy*, and the two leading project management journals in the field, *International Journal of Project Management* and *Project Management Journal*.