

OLIVER'S MARKETS

In September 2005, Oliver's Markets (Oliver's) was nearing completion of an estimated \$500,000 remodel of its original Cotati, California store when its top management team, Steve Maass (owner) and Tom Scott (general manager) quickly had to decide whether or not to bid on an expansion opportunity. Oliver's Markets consisted of two supermarkets in Sonoma County, one in Cotati and the other in nearby Santa Rosa, which together generated about \$40 million in sales per year. Sonoma County was situated at the northern fringe of the San Francisco Bay Area, about an hour's driving time from the Golden Gate Bridge. Oliver's had just been informed by its grocery wholesaler that Kroger's, a national chain, was selling 20 supermarkets in the San Francisco Bay Area. Within a week of receiving the list of Kroger's locations for sale, Steve and Tom narrowed the choice to two stores – Ralph's Supermarket in Santa Rosa and Bell's Market in Novato. Novato was in Marin County, about 30 minutes' drive south of Santa Rosa. Oliver's had one week to tender a bid on Kroger's stores, either of which could cost an estimated \$2 million to retrofit, in addition to the on-going lease and operating costs.

In reaching a decision as to whether or not to purchase and retrofit the new site(s), Steve and Tom were primarily guided by logistics, that is, proximity to existing stores, and by expected leasehold costs. Of greater concern, perhaps, was how to continue to differentiate Oliver's from other supermarket chains. Prominent among these rivals, Trader Joe's, Costco, and Whole Foods had recently entered Oliver's sales territory with brand new stores; Wal-Mart and Target had also announced plans to develop regional "supercenters," that is, large format discount supermarkets, in California. See **Glossary** for an explanation of supermarket terms.

Oliver's History

In 1988, Steve Oliver Maass purchased the then bankrupt Cotati Farmer's Market. He recalled,

We came in here and it was just the worst store I'd ever seen. I looked at it and I said I know I can do a better job than this store has been doing. There's just no way I'd do this bad a job. But I had absolutely no grocery experience, none. I worked in the produce department of a grocery store, which isn't the same. We went to bankruptcy court and bought it for \$200,000, I mortgaged my house. There wasn't a lot of money so we painted, and cleaned, and cleaned. What Farmer's had done is they had eliminated things that didn't work, instead of trying to figure out how to make them work. They wouldn't carry lamb because they wouldn't sell it. They had very little to offer. The first question I asked was, "Why would anyone want to shop here?"

He named his new store "Oliver's Market" using his middle name because he thought that would sound more upscale than "Steve's Market." His wife Ruth worked in the store for about the first four years, much of the time as a self-trained bookkeeper. Oliver's was organized as a Sub-

This case was prepared by Armand Gilinsky, Jr. and John Moore (MBA student), Sonoma State University and by Richard L. McCline, San Francisco State University, as a basis for class discussion, not to illustrate either effective or ineffective handling of an administrative situation.

chapter 'S' corporation. Steve Maass was President and Ruth Maass was Vice President and Secretary. They were co-owners.

Oliver's added a deli in 1990, and an aisle of health foods in 1991. In 1994, the city of Cotati offered Steve and Ruth a low interest redevelopment loan of \$500,000. They used the money to expand by taking over the adjacent space, adding an additional 11,000 square feet for a total of 36,000 square feet with about 28,000 square feet of selling space. Steve recalled:

At that time I decided that, in every aisle, we would have the same things that Whole Foods did. We would give people a choice in all their health foods and we would integrate it throughout the store. There isn't a section you can go to where you won't have a good selection of organic or health foods and conventional. We didn't mirror Whole Foods so much as Whole Foods did a wonderful job on health foods, and people were going in there and buying it. But we couldn't sell health foods. The only reason we couldn't sell it was because we weren't doing it well enough. So, we learned how to do it well enough, and we did it everywhere.

Oliver's opened a second store in Santa Rosa on April 4, 2000, and thenceforth changed its name to Oliver's Markets.

The landlord came to us. I wasn't really that interested in expanding at the time, It was a good deal, as we didn't have to pay anything for the store. We considered hiring a nationally known retail architect, but decided that was too costly so, we just sort of designed it ourselves. We picked the colors out and figured out what we wanted for a deli. I think the deli was to a large degree fashioned after Woodlands Market, the best little market I've seen.¹

In 2005, Oliver's began a remodel of its Cotati store. Steve had hoped to invest \$2,000,000 in the remodel, but uncertainty over the future of the lease forced him to scale back his plans. Steve recounted, "Our landlords wouldn't talk to us. I couldn't even get a meeting going with them. I wanted to get another ten years on the lease so we could put a couple million dollars in here and do a really good job. Even with nine years left on this lease we're putting in \$500,000, because otherwise we'll get down to the sixth or seventh year and be in trouble."

Steve himself was now 59 years old and had been in the business since 1988. Ruth was ill with cancer. Steve and Ruth's only child, Eva, 40, had worked full-time for Oliver's for about four years, primarily as the scan coordinator at the Cotati store. She had worked part-time doing an assortment of jobs as needed – such as bookkeeper and gift buyer. Steve reflected that Eva was extremely smart and quite capable, but as a musician and painter her interests ran much more to the artistic side. As she tended to be more interested in Oliver's design and décor than on the business side, Eva had designed and purchased new fixtures for a remodeled gift department. Steve and Tom were both working to involve her more in various aspects of the operation.

Exhibit 1 presents milestones in Oliver's history. Oliver's recent track record is shown in **Exhibits 2 and 3**, containing 2000-2004 income statements for the two Oliver's Markets. The financial condition of Oliver's as a consolidated entity is shown in **Exhibit 4**, presenting 2003 and 2004 consolidated balance sheets. **Exhibit 5** provides a comparison of Oliver's performance to selected industry standards. **Exhibit 6** provides comparisons of Oliver's performance to industry-wide statistics on cost items including labor and rent.

¹ Woodlands Market was located in Kentfield, a town with upscale demographics in affluent Marin County, approximately 40 miles south of Santa Rosa.

Food Retailing in the United States

Supermarkets had become the dominant form of food retailer in the United States throughout the second half of the 20th century, but by the early 2000s, that dominance was being challenged by five major trends. These trends included: (1) the increasing dominance of warehouse club stores and discount supercenters such as Costco and Wal-Mart's Sam's Clubs, (2) increased purchases of prepared foods away from home in restaurants and fast food outlets, (3) chronic overcapacity in the supermarket industry, (4) changing shopping patterns due to the emergence of "lifestyle" food operators and Internet delivery services, and (5) higher labor costs, particularly for chains that had an unionized labor force.

Discount supermarkets. Owing to a growing number of price sensitive and time-pressed customers, traditional supermarkets struggled to protect their market share against discount supercenters or "hypermarkets," warehouse club stores, dollar stores, and drug stores. Such nontraditional retail outlets increased their share of consumers' food-at-home expenditures from 17.7 percent in 1998, to 30.8 percent in 2003. According to the U.S. Department of Agriculture (USDA), traditional retailers' market share declined from 82.3 percent to 69.2 percent over the same period.² Wal-Mart was both a driver and a beneficiary of this change in shopping patterns: its share of US supermarket sales reached 15.2 percent by 2003.³ In 2004, Wal-Mart opened its first California supercenter, marking the format's entry into the country's most populous state. By 2007, the number of Wal-Mart supercenters nationwide was forecast by *Progressive Grocer* to approach 2,000, translating into a 35 percent share of food store industry sales.⁴ Union Bank of Switzerland (UBS) predicted that traditional supermarkets' share of food sales would drop to 63 percent by 2006, as shown in **Exhibit 7**.⁵

Declining market share combined with growing store counts contributed to poor year-on-year comparable store sales growth results for the major supermarket chains. Many food retailers struggled with comparable store sales that had, at best, increased one to two percent and, in some cases, decreased. **Exhibit 8** presents 2000-2004 financial results for several national chains.

Food prepared away from home. In addition, foodservice operators — including restaurants and fast food outlets — increased their share of consumers' total food dollars. Long-term trends showed that increases in household incomes, due in part to the growth of dual-income households, had raised the share of food spending devoted to prepared foods and meals. By 2002, foodservice outlets accounted for 46.1 percent of all food spending, up from 45.4 percent in 1990 and 39 percent in 1980.⁶ According to *American Demographics*, 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 into a reduction of over \$7 billion a year in food spending.⁷

²Economic Research Service of the U.S. Department of Agriculture, www.ers.usda.gov/briefing

³*Progressive Grocer*, 83(7), May 1, 2004, p. 59.

⁴*Progressive Grocer*, 83(6) April 15, 2004, pp. 31-32.

⁵Neil Currie, analyst for UBS, advised against opening stores solely for the pursuit of market share. In a report published in *Progressive Grocer* he wrote, "There's too much capacity in the marketplace, leading to poor sales densities. While short-term sacrifices may have to be made to take out weaker competition, stores will be much more efficient if there are less around." *Progressive Grocer*, 84(6), April 15, 2005, p. 70.

⁶www.ers.usda.gov

⁷*American Demographics*, 25(10) Ithaca: Dec 2003/Jan 2004, p. 36.

Industry overcapacity. Despite a net increase of 411 supermarkets in 2004, many industry analysts considered the industry to be at overcapacity.⁸ Nearly one-third (31 percent) of households shopped in 29 or more retailers or retail channels per year.⁹ 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, as shown in **Exhibit 9**.

Changing shopping patterns. Early in 2005, 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.¹⁰ That is, a tiny minority of consumers acquired all their food for home preparation without visiting a traditional supermarket. They did this by shopping at warehouse club stores, supercenters, dollar stores, and niche operators such as Trader Joe's. Some also shopped over the Internet, but the demise of Webvan and the sale of Peapod had largely left this market to traditional retailers, with perhaps the sole exception of FreshDirect, a rapidly growing Internet-based delivery service in New York City. Although many chains offered Internet shopping, Albertson's advertisements proclaimed that it was the largest Internet grocery provider in terms of geographic reach.

Labor costs. Many traditional supermarkets faced another obstacle, higher labor costs, in their attempts to compete with Wal-Mart, Costco, and other non-traditional food retailers. The higher labor costs were due to the fact that traditional retailers were predominantly union shops. Three major Southern California supermarket chains, Safeway, Albertson's, and Kroger's settled a prolonged costly dispute with unionized workers in March 2004.¹¹

The food retailing industry in Sonoma County and throughout northern California prior to 2005 appeared to mirror the national scene with one major exception – the absence of Wal-Mart supercenters. **Exhibit 10** shows store counts and estimated sales for selected retailers. In 2003, Safeway was the number one food retailer in Sonoma County; Oliver's ranked ninth in sales (**Exhibit 11**).

Oliver's Store Operations

Oliver's flagship operation in Cotati was one part traditional supermarket, one part natural foods store and one part gourmet foods store. The main entrance led directly into the Health and Beauty Aids (HABA) area of the store, which featured vitamins, homeopathic treatments, and essential oils, and other natural HABA products. The department hired an in-store therapist four evenings a week to do massages. The placement and size of the department

⁸ *Progressive Grocer*, 84(6), April 15, 2005, p. 70.

⁹ Report found on www.retailindustryabout.com on April 10, 2005.

¹⁰ As reported by John Hennessey on retailwire.com. retailwire.com is partially sponsored by AC Nielsen.

¹¹ The bitter dispute, which affected 852 stores from San Diego in the south to Mammoth Lakes in the north, had begun on Oct. 11, 2003, when 21,000 union workers walked off their jobs at Safeway's 329 Vons and Pavilions supermarkets. Later the same day, it expanded to include a total of 70,000 grocery employees throughout the region when Albertson's and Kroger, which owned the Ralph's chain, locked out their union workers. The standoff centered on reductions in employee health care benefits proposed by the grocers, as well as a two-tiered compensation package that would result in lower pay and benefits for newly hired workers. Union leaders characterized the health care cuts as excessive. Safeway CEO Steve Burd told industry analysts that major cuts in expenses were necessary for his and other traditional grocery companies to compete with nonunion rivals such as Wal-Mart Stores Inc. Losses suffered by the grocers as a result of the strike were estimated at \$2.5 billion. Goll, D. (2004, February 27) "Grocers, union reach tentative settlement," *East Bay Business Times*, <http://www.bizjournals.com/eastbay/stories/2004/02/23/daily36.html>, accessed October 20, 2005,

gave the store its predominant feel as a natural foods retailer. In virtually every area of the store, shoppers could find natural food products including organic baby food, organic spices, and organic pet food.

Gourmet foods were also in abundance. In June 2005, Oliver's was one of just six retailers to be honored with an Outstanding Retailer Award by the National Association for the Specialty Food Trade. Oliver's had 108 stock keeping units of olive oil ranging from a 17oz. bottle of Star Extra Virgin for \$3.79, to a 101 oz. tin of Spectrum Naturals Organic Spanish that retailed for \$35.89. The store's cheese department featured cheeses imported from England, Italy, France and Spain that sold for as much as \$26.99 per pound. Steve stated, "Nobody has good cheese in this area and we're doing a phenomenal business in good cheese. I mean \$21, \$22 a pound, and we can hire someone for \$50 an hour that's going to double our cheese business, because she's unique enough and *we're* unique enough." The cheese department in Cotati did \$15,000-\$20,000 in sales per week. The store also featured a 3,000 square foot wine department staffed with two full-time employees every day and a biweekly wine tasting. Wine buyer Renay Santero said:

On a good day, we'll do \$16,000 in wine. The wine tasting is most beneficial to the customer. Because I have an on-sale license, I get every restaurant wine. What makes me a little different is that I get wines that other places cannot get.

The deli included a *taqueria*, a salad bar and an inside seating area. Tom said, "When Safeway took out their salad bar, we put one in." The deli benefited from a front-end cold case utilized to sell Oliver's branded take-and-heat entrees, such as Beef Stroganoff and Vegetarian Lasagna, which were produced in the kitchen of the deli in the Santa Rosa store.

Deli manager Roxanne 'Rocky' Abruzzo said, "It's the closest to homemade you're going to get without takeout ... we do an easy \$1,000 a day." The sushi bar located next to the deli was contracted to an outside vendor, AFC and Oliver's received 25 percent of the gross sales as profit. The bakery featured gourmet store-baked desserts and a coffee bar that served mochas and lattes in addition to brewed organic coffees. Produce included a large organics section and the department tried to source as much local produce as possible. The full-service meat department carried lamb, veal and buffalo in addition to three grades of beef. Tom stated, "We feel that we need to have a better quality of meat ... It's the same in produce. They're told to buy the best and charge what they have to get for it. ... So, having a steak that's twice the price of our competition is kind of a way of doing business in the summer here. This is a secondary shop for a lot of people in this neighborhood. They'll do their pantry loading at Costco or FoodMaxx and come here and buy their perishables." As evidence of this, Oliver's experienced a significant increase in sales during the 2004 holidays, jumping from an average of about \$369,000 per week to \$525,000 the week before Christmas.

Oliver's Santa Rosa

While the layout of the Cotati store provided an "organic, health foods store" feel, the size and design of the Santa Rosa store provided more of an upscale, gourmet market ambience. The most significant difference between the two stores was size, as the Santa Rosa store occupied only 22,000 square feet with 17,500 in selling space. In 2004, Oliver's opened a 5,000 square foot warehouse to alleviate space constraints in Santa Rosa. The other significant difference was the focus on food service, bakery, deli, and *taqueria*, which ran almost the entire

length of the left hand wall. Tom stated, "The customers at the Santa Rosa store have the disposable income to just basically ask us to cook for them."

Marketing Strategy

Pricing. In 2002, Oliver's changed its pricing strategy to a program that involved setting its merchandise at prices relative to Safeway's, chosen because it was the dominant supermarket retailer in Sonoma County. Safeway was a traditional "hi-lo" retailer, meaning that low ad prices were used to offset high regular prices. For example, in early May 2005, Safeway advertised Clorox bleach for \$1.00 when the regular retail was \$2.59. Safeway was able to do this by negotiating special deals with their suppliers for ad periods. Oliver's set its everyday prices on traditional grocery items approximately eight to ten percent below Safeway's prices, having determined that being below Safeway by that amount provided acceptable margins while providing value to customers. Similarly, pricing in the natural foods department was maintained at just below the prices found at Whole Foods. Oliver's management considered the Whole Foods store in Santa Rosa to be its primary competitor in that market. Point-of-sale (POS) coordinator Laurie Tuxhorn reflected, "[Our pricing strategy] has proven to be really good to us. When I first took over this department and started doing printouts, we were so out of line. It was incredible how much lower we were." Department managers were responsible for setting prices in perishables departments such as deli, bakery, meat and produce. They were given a gross margin goal as part of the budget process and priced products to attain that goal. In line with Oliver's overall strategy, they tended to focus more on uniqueness and quality than on price.

Wine department manager Renay Santero said, "We've considered adjusting our margins to be more competitive. What makes sense to me is to turn people on to something that maybe nobody else can get a hold of."

Tom stated that Oliver's price strategy was, "to try to communicate value amidst the perception of quality. We don't have a problem selling the idea that our product is better. We try to do that in a way that allows customers to feel that they're getting value." Tom admitted that his pricing strategy was not communicated well to customers and that Oliver's was perceived to have higher prices than Safeway. He opined that typical consumers could not believe that an apparently upscale two-store independent could have lower prices than a major chain store given the chain store's clear advantages in economies of scale.

Promotion. Oliver's also offered a weekly ad, an in-store flier featuring items at no more than ten percent above cost and temporary price reductions provided by vendors. Tom stated, "We pass through virtually everything we get ... The one big price impact program is the 'Direct to You' program that's geared at ... the kind of thing you'd buy at Trader Joes's." Oliver's offered a ten percent discount to seniors on Wednesdays before 4 p.m. The Santa Rosa store was quite successful with this program due to its proximity to an affluent senior community, Oakmont. In 2004, Oliver's began experimenting with an everyday low price program on key items. Laurie, the POS coordinator, recalled,

We have a program that Tom started a while back called the 'staples program' where he compares our prices to Safeway for everyday items such as Tide, Nabisco crackers, things like that. We just want to show the customer that even with the Safeway Club card going on, we're still cheaper than them on everyday items.

Steve expressed his concerns about the mixed messages Oliver's might be sending to customers, "We have all these pricing programs like 'Direct to You' and 'staples,' which we stopped temporarily while we try and figure out whether we are price or quality focused."

Private label. Oliver's had a small private label program that included vitamins, spices and juices. The take-and-heat entrees from the deli also carried the Oliver's label. The private label program was generally used as a way to provide value to its customer rather than as a way to build the Oliver's brand; there were no plans to significantly expand the private label line.

Customer service. Oliver's prided itself on its willingness to try to get any product a customer requested, according to Steve:

Most stores look at how many turns they get on an item to determine if the product is worth carrying. We almost do the opposite. If somebody wants it, we're going to have it ... so we become the place that people call and say, 'Somebody said if anybody would have it, you would.' It's not the item we look at, it's the overall picture ... it's not whether that one item sells well, it's what it adds to the rest of the store.

Stores had a special request kiosk against the front wall near the checkout counters. Tom noted:

We were the first store around here to carry Glaceau Vitamin Water. We're always looking for something new to add to the mix. If a customer wants us to carry something, we'll at least slot one case and see how it goes, and it only falls off the shelf due to competition from other items.

Mission and Culture

Oliver's Mission Statement, written by Tom, was available to employees and customers as it was printed on the back of the stores' item locator maps. It read:

Our mission is to provide the communities we serve with the finest grocery store in the marketplace. To this end we seek out our customer's specific needs and tailor our products and services to meet those needs. We carry the largest possible selection of natural, conventional and gourmet products. We carry only the highest quality meat, produce and deli products, buying locally whenever possible. We also strive to provide merchandise at the lowest possible cost so that we can offer value to our customers and maintain fair price. We treat each customer like a guest in our own home and we strive to exceed our customer's expectations every time they shop with us.

We believe that our employees work to live, not live to work. We believe that each employee's talents and creativity contribute to making Oliver's successful. We also support employees in their life goals by offering competitive wage and benefit packages and special scheduling whenever possible.

Oliver's is committed to playing an active role in the communities we serve. We support local schools and civic groups. Whenever possible, we fill staffing needs from the local neighborhood.

Oliver's offered a casual, relaxed shopping environment. Most employees, including management, wore blue jeans and company-supplied t-shirts or baseball caps with the Oliver's logo. Male employees were allowed to wear earrings and facial hair. Employees played classic rock-and-roll on the in-store compact disc system.

Human Resources

Department managers ran their departments as if they were independent businesses. Tom stated that the performance of the individual departments, and of the company as a whole, was driven very much by the managers' individual personalities. Each was given the autonomy to decide what products to carry and how to price them. Each was expected to look for innovative ways to grow his or her department and to enhance the store's position in the market. Renay, formerly a Lucky's manager, said, "There's a lot of autonomy. They allow us to do what we think is best for the store. We negotiate price. We set our own prices. We have our own business plans. It's not like working in a chain where I was told what to do."

Rocky, a veteran of twenty-two years as a deli manager with Safeway, agreed, "There, I was just the most experienced clerk in the department. Here, it's like the Safeway corporate job and the deli manager job all tied into one. It enables me to use my brain, and still get behind the counter and help customers."

Oliver's maintained department-level fiscal accountability by requiring department managers to turn in financial statements every week. The department managers reported figures on cost of sales, labor, gross margin and supplies to their store managers. The accounting department generated monthly statements, which were compared to the departments' weekly statements. All departments that sold perishable products were inventoried twice per year as opposed to the industry standard of monthly inventories. Early in 2005, Tom put the cheese department in Cotati on a monthly inventory schedule and reiterated his preference that all departments selling perishable items conduct inventory as often.

Tom, 46, in addition to being general manager, was the manager of the Cotati Oliver's. Eric Meuse, 32, had started with Oliver's as a courtesy clerk in 1989. He had worked his way up through grocery management; Steve had promoted him to store manager when Oliver's expanded into Santa Rosa. Tom and Eric functioned as business coaches for the department managers. This was a role that had evolved over time, and it had been facilitated by the development of the employment contracts for department managers. Tom and Eric were able to approach issues as mentors, sharing their observations in terms that related to the manager's contract and potential bonus. They helped them to reach goals, rather than ordering them to do specific things. The coaching role was considered successful, first of all, to the extent that financial goals were achieved. The second measure was the professional growth of the department managers in terms of their business acumen and their leadership of their own crews. Renay commented, "It's like family. They're dedicated to helping me with my career."

Rocky amplified this view, stating with a grin, "I always tell Tom, my worst day here is better than my best day at Safeway."

Eric noted, "The fun part about Oliver's is that we all set the standards. Everyone works as a team in creating the vision for Oliver's. Together, we decide which road we're going to take. Everybody has a little bit of say in it."

Tom agreed, "Ultimately, I think, we find good places in that tension, in that sort of give-and-take between all of us here."

As store managers, Tom and Eric had responsibility for tracking financial performance and for maintaining Oliver's standards in such areas as merchandising, customer service and cleanliness. In conjunction with their department heads, the two store managers oversaw all human resource functions. They were responsible for recruiting, training and evaluating all employees. Whenever possible Oliver's promoted from within. According to Tom, "There's a certain cultural learning curve in coming to work for us. Guys who come from the chain stores

have a real problem with the entrepreneurial nature.” Tom stated that all department managers in Santa Rosa had been promoted from within and he estimated that this was also true of over seventy percent of the managers in Cotati.

The key component of Oliver's human resource program was its use of an employment contract with all department managers. Oliver's had been using these contracts since about 1998. Tom said, “It's one thing to say, ‘If you hit this number, I'll give you this much money,’ but the ritual of signing the contract has power to it.” The contracts spelled out required hours, personal time off, holidays and bonuses. Company management structured the bonuses so as to address the needs of the individual departments as they fit in with overall strategy. The primary factor in the bonus calculation was net profit percentage, defined as sales minus cost of goods and minus all operating expenses, including labor. Other factors, such as inventory control, were also included in the bonus calculations for particular managers.

Of her contract, Renay said, “You're on contract to make *this*. If you don't, you don't bonus, and potentially, you don't have a job.”

Being a non-union operator gave Oliver's flexibility in pay structure. In a typical unionized Northern California supermarket, deli clerks reached top scale at about \$13.50 per hour while journeyman grocery clerks, including checkers, made over \$19.00. Union stores were also required to provide benefits to all courtesy clerks that worked over 16 hours per week and to all other clerks who worked more than 24 hours. At Oliver's top level deli clerks made about the same amount as cashiers, \$14 to \$15 per hour. Oliver's benefited from additional cost savings as only employees that worked over 32 hours per week were eligible for benefits.

Eric felt that he needed more help with human resource issues: “I think if we had a dedicated professional, just one for the two stores, they could take care of a lot of issues we have, such as hiring people we shouldn't have.” Tom agreed with Eric that more help was needed and that poor hiring practices and ignorance about the details of worker's compensation laws had cost Oliver's dearly. It had suffered a number of injuries in the year the Santa Rosa store opened and the change in their accident rate contributed to an increase in their premiums from \$200,000 to \$1.2 million in one year's time. The rates had since come down, but they were still at a thirty percent premium over industry standards. Tom also cited the need to improve Oliver's training program, especially in the meat department where Oliver's needed to develop its own apprentice program if they were to remain non-union throughout the store. Most butchers were trained either in family shops or through the apprentice program at the local union meat hall. However, Steve did not feel that there was enough work for a 40-hour professional and instead outsourced training to a consulting firm.

The General Manager's Role

Tom's role as general manager required him to do tasks beyond that of store manager. With input from Eric and the department managers, Tom was responsible for writing all department budgets and for negotiating them with Steve. Tom also wrote the ad budget and ran Oliver's advertising program, coordinating newsprint and radio ad with respective agencies on a weekly basis. He was responsible for the quarterly “Direct to You” mailer. He actively pursued co-op money from vendors to support additional radio advertising during the holidays, and spent an additional \$25,000-\$30,000 during that period. Tom was also responsible for maintaining all training materials. He spoke about his background:

I began working at Alpha Beta (the ancestor of the current Albertson's Chain) in 1975 as a bagger in high school. I worked my way through my undergraduate studies at Cal-State San Bernardino

(BA in Political Science 1982) at Alpha Beta. In 1985, while working as an assistant store manager, I enrolled at Sonoma State University and took a sufficient number of accounting courses to sit for and pass the CPA exam. I then went to work for Eckhoff Accountancy Corp in San Rafael in 1988. I never received certification due to lack of audit experience. In 1989, I became a minority owner and Controller for Montecito Markets. We opened a store in Rincon Valley and shortly thereafter one in Lakeport. In 2001, I sold my shares and went to work for Steve as the General Manager in Cotati. When we opened the Santa Rosa Store, I moved up there and ran it for the first five years. I was brought down to Cotati in October of 2004, to shore up some management problems and co-ordinate the limited remodeling we've been doing. Eric was promoted to Store Manager in Cotati and transferred to Santa Rosa when I came down here.

A recent graduate with an MBA degree from a Sonoma State University, Tom had been directly involved in all aspects of opening the Santa Rosa store, in the Cotati store remodel, and performing the financial analysis for the potential new store acquisitions.

Tom assumed that if a second Oliver's in Santa Rosa were opened, he would be replaced as Cotati store manager and be freed up to function solely as general manager. Due to the time-consuming nature of his duties as store manager, Tom had had little opportunity to coach Eric and the other managers in the Santa Rosa store. He felt that he was successful in his role as store manager, but that his general manager duties suffered from the demands put on a store manager. Additionally, Tom's entire salary was charged to the Cotati store and his bonus was based solely on that store.

Nevertheless, Tom expressed some frustration stemming from his uncertainty about what direction Steve wanted to take Oliver's for the long-term. If Steve wanted to own Oliver's for twenty more years, then Tom thought he was doing the right things. If he wanted to sell in five years, they needed to make some changes. At the same time, Tom was comfortable with the level of supervision he received, noting that, "Steve is very generous ... he knows when to be involved and when not to."

The Expansion Decision

In weighing the decision to bid on one or both Kroger-owned supermarkets, Steve and Tom compiled demographic data and financial data for each location. Tom explained Oliver's site selection criteria:

We are looking for existing buildings with older leases that are renting below current market value. We look for an area that is growing in population with at least 10,000 households making over \$75,000 per year, with at least 25% of the population having had college educations, all within a three-mile radius. An important criterion is the absence of Whole Foods within the trade area as they appeal directly to the same demographic. We do not currently cater to Hispanic shoppers, which could be an issue for the proposed Stony Point Road (Santa Rosa) location.

Tom estimated that they would need to invest approximately \$2 million in each store to make it an Oliver's Market. **Exhibit 13** presents comparative demographic data for the Santa Rosa Ralph's supermarket and Novato Bell Market. **Exhibit 14** summarizes information about existing and potential competitors in each location.

Kroger's Santa Rosa supermarket, Ralph's, was a traditional market, with deli, bakery, dry and frozen grocery, produce, meat and liquor. Tom thought that he could run the store in its current condition, incorporating natural and organic items, and be profitable. He estimated that

the market rate rent for this site would be about \$360,000 per year. Ralph's was located in a center that was fully occupied by more than twenty other businesses, including a Long's Drugs, Radio Shack, Carl's Jr., Kentucky Fried Chicken, Subway and Domino's Pizza. The center also housed a Chinese restaurant, a Mexican restaurant, a hair salon, a mail center and a bank.

Kroger's had decided to put its two Bell Markets in Novato up for sale. Oliver's management was interested in the South Novato Boulevard site because it had a very favorable lease and because it was the southernmost store in central Novato, meaning that approximately half the population would have to go past their store to shop at competing stores. Estimated market rate rent for this location was about \$460,000 per year. This Bell Market was located in a center considered tiny by comparison to the Vintage Oaks Mall that housed Costco across the freeway, still the site housed the only post office in Novato. It also featured an Ace hardware, a bicycle shop and a couple of small restaurants.

Oliver's Future

Steve and Tom had previously considered expanding to three stores, even making an offer on one, but nothing had come of these bids. Steve stated unequivocally that he would not open a third store on his own. He was interested in the possibility, however, because it would provide the opportunity to explore some sort of ownership position for Tom. Tom's future was a concern to Steve. He was comfortable with Tom's leadership style and with his decision-making. He felt that he and Tom were very much alike and that Tom ran Oliver's the way he, Steve, would run it. That allowed Steve to be as involved as he wanted to be, with no particular day-to-day responsibility.

Steve felt that his days of working 60 to 80 hours per week were past and admitted, "I am uncertain what I would do if Tom left to pursue something else; perhaps then it would be time to sell." If Oliver's expanded, however, Tom could buy into the company and become a minority partner. Tom would then need to relinquish his position as store manager and function solely as general manager. Steve was nervous about the decision to bid on either (or both) supermarkets, and debated whether or not Oliver's should expand at all. Also, as his wife was ill and his daughter was not actively involved in running the family business, Steve wondered if perhaps a new expansion initiative might provide the impetus for him to begin to step aside and thereby allow his trusted general manager, Tom, to buy into and eventually take over the business. Steve said, "We have grown every year except the last two years. I attribute it to our not doing as good a job as we could do. I can't do anything about Costco, but I can do something about the job we're doing here. I don't think the age of smaller stores like ours is gone."

Glossary

Grocery Store — Any retail store selling a line of dry grocery, canned goods or nonfood items plus some perishable items.

Supermarket—Any full-line self-service grocery store generating a sales volume of \$2 million or more annually

Convenience Store— Any full-line, self-service grocery store offering limited line of high-convenience items. Open long hours and provides easy access. The majority sell gasoline with an annual sales of \$2 million or more.

Independent — An operator of fewer than 11 retail stores.

Chain — An operator of 11 or more retail stores.

Wholesale Club - A membership retail/wholesale hybrid with a varied selection and limited variety of products presented in a warehouse-type environment. These 120,000 square-foot stores have 60% to 70% GM/HBC and a grocery line dedicated to large sizes and bulk sales. Memberships include both business accounts and consumer groups, e.g., Sam's Club, Costco, and BJ's.

Supercenters - A large food/drug combination store and mass merchandiser under a single roof. The supercenters offer a wide variety of food, as well as non-food merchandise. These stores average more than 170,000 square feet and typically devote as much as 40% of the space to grocery items, e.g., Wal-Mart, Kmart, Super Target, Meijer, and Fred Meyer.

Sources: *Progressive Grocer's 2003 Marketing Guidebook* and Bishop Consulting, 2003.

Exhibit 1: Oliver's Markets' Milestones

1988 – Oliver's in Cotati opened

1990 – Service deli added

1991 – Health foods added

1994 – Cotati store enlarged with an additional 11,000 square feet
Natural and organic products added in every category throughout store

2000 – Oliver's in Santa Rosa opened

2004 – Opened 5,000 square foot warehouse adjacent to the Santa Rosa store

2005 – Cotati store remodel started in May

2005 – Oliver's named one of six Outstanding Retailers of 2005 by the National Association for the Specialty Food Trade.

Source: Oliver's Markets, Inc.

Exhibit 2: Oliver's Markets' Five-Year Income Statements, 2000-2004 — Cotati

	2000	2001	2002	2003	2004
SALES					
Grocery	\$5,929.2	\$6,192.4	\$6,154.9	\$5,835.4	\$5,658.2
Floral	211.8	236.2	249.4	223.3	196.8
Liquor	2,016.0	2,038.2	2,090.8	1,902.7	1,823.3
Meat	1,696.6	1,761.4	1,795.1	1,745.1	1,678.9
Natural Foods	3,051.8	3,296.7	3,692.1	3,743.3	3,788.6
Produce	1,886.5	2,059.9	2,235.9	2,205.3	2,254.0
Deli	1,806.1	2,041.1	2,537.8	2,725.6	2,619.4
Bakery	1,007.4	1,086.8	1,158.8	1,149.2	1,046.8
Sushi Bar	274.8	260.4	270.4	270.5	232.6
Billbacks	<u>108.0</u>	<u>78.1</u>	<u>45.5</u>	<u>51.8</u>	<u>56.4</u>
TOTAL SALES	17,988.3	19,051.4	20,230.8	19,852.2	19,355.3
COST OF SALES					
Grocery	4,150.9	4,294.4	4,249.1	4,008.1	3,961.1
Floral	153.3	172.5	174.9	143.4	135.4
Liquor	1,415.1	1,440.8	1,480.0	1,379.6	1,374.0
Meat	1,177.3	1,142.5	1,202.6	1,209.4	1,141.4
Natural Foods	1,942.0	2,099.9	2,394.3	2,465.6	2,487.5
Produce	1,159.7	1,244.6	1,325.0	1,317.8	1,364.5
Deli	877.7	1,006.4	1,198.5	1,348.9	1,295.5
Bakery	579.9	643.5	656.0	628.8	595.5
Sushi Bar	<u>208.6</u>	<u>195.4</u>	<u>202.8</u>	<u>202.9</u>	<u>174.7</u>
Total Cost of Sales	<u>11,664.5</u>	<u>12,240.0</u>	<u>12,883.2</u>	<u>12,704.5</u>	<u>12,529.6</u>
GROSS PROFIT	6,323.8	6,811.3	7,347.6	7,147.7	6,825.7
OPERATING EXPENSES					
Wages	2,640.4	2,925.3	3,137.1	3,298.7	3,214.8
Benefits	593.5	684.7	1,014.7	1,163.7	1,256.3
Supplies	324.1	304.7	295.2	314.1	300.1
Rent	320.8	334.0	364.1	350.1	378.3
Telephone	10.9	12.7	7.4	6.6	6.9
Utilities	172.8	291.9	264.1	259.3	256.7
Garbage	32.3	34.5	42.1	46.2	49.0
Repair	179.1	144.5	165.2	149.9	167.4
Customer refunds	0.4	0.4	0.2	0.4	0.2
Depreciation	111.8	60.0	93.0	162.0	165.0
Taxes and licenses	27.9	19.1	32.9	23.5	23.4
Admin	456.4	476.1	467.7	496.3	503.7
Other costs	<u>108.0</u>	<u>131.9</u>	<u>179.2</u>	<u>209.1</u>	<u>224.6</u>
Total Operating Expense	<u>4,978.5</u>	<u>5,419.8</u>	<u>6,062.9</u>	<u>6,479.9</u>	<u>6,546.3</u>
INCOME FROM OPERATIONS	1,345.3	1,391.5	1,284.8	667.8	279.4
OTHER INCOME AND EXPENSE					
Interest expense	12.2	11.6	11.3	11.1	10.8
Other income	=	<u>(11.0)</u>	<u>(15.9)</u>	<u>(14.9)</u>	<u>(12.7)</u>
Total Other Income (Expense)	<u>12.2</u>	<u>0.6</u>	<u>(4.6)</u>	<u>(3.9)</u>	<u>(1.9)</u>
NET INCOME (LOSS)	<u>1,357.4</u>	<u>1,392.1</u>	<u>1,280.2</u>	<u>664.0</u>	<u>277.5</u>

Source: Oliver's Markets, Inc.

Exhibit 3: Oliver's Markets' Five-Year Income Statements, 2000-2004 — Santa Rosa

	2000	2001	2002	2003	2004
SALES					
Grocery	\$2,988.9	\$4,287.1	\$4,569.0	\$4,935.7	\$5,090.3
Floral	58.9	200.5	223.8	251.9	248.6
Liquor	962.1	1,389.1	1,548.5	1,576.7	1,647.2
Meat	1,206.6	1,766.9	1,933.9	2,226.5	2,318.2
Natural Foods	1,278.6	2,112.5	2,503.5	2,930.0	3,252.8
Produce	1,056.7	1,651.7	2,037.0	2,400.5	2,544.1
Deli	1,310.4	2,177.3	2,640.7	3,200.7	3,546.4
Bakery	493.9	786.5	924.5	990.1	981.0
Sushi Bar	146.5	200.8	226.6	235.3	229.9
Billbacks	<u>24.8</u>	<u>55.7</u>	<u>29.5</u>	<u>28.1</u>	<u>43.7</u>
TOTAL SALES	9,527.4	14,628.0	16,636.9	18,775.4	19,902.1
COST OF SALES					
Grocery	2,193.5	2,984.1	3,162.7	3,365.5	3,470.5
Floral	50.2	171.5	171.9	162.6	161.3
Liquor	732.5	1,003.6	1,080.5	1,154.3	1,252.9
Meat	856.7	1,167.6	1,211.5	1,498.1	1,558.8
Natural Foods	802.6	1,383.6	1,605.5	1,958.6	2,142.1
Produce	722.9	1,055.4	1,252.4	1,472.3	1,517.8
Deli	714.7	1,096.8	1,187.0	1,505.1	1,656.6
Bakery	304.0	473.3	542.1	583.0	570.7
Sushi Bar	107.4	152.3	168.1	176.5	172.3
Total Cost of Sales	<u>6,484.7</u>	<u>9,488.3</u>	<u>10,381.6</u>	<u>11,876.0</u>	<u>12,503.0</u>
GROSS PROFIT	3,042.7	5,139.7	6,255.2	6,899.3	7,399.1
OPERATING EXPENSES					
Wages	1,890.4	2,527.0	2,764.5	3,128.3	3,320.1
Benefits	321.7	574.8	898.7	1,118.5	1,309.3
Supplies	245.2	242.0	246.4	286.6	292.8
Rent	196.5	288.5	337.0	377.4	410.0
Telephone	5.9	5.8	6.9	5.9	6.2
Utilities	119.1	185.1	181.0	213.0	200.2
Garbage	21.9	35.0	28.1	33.1	44.2
Repair	74.7	106.4	103.0	113.6	127.4
Customer refunds	0.3	0.2	0.3	0.6	0.2
Depreciation	266.0	144.0	197.0	250.0	279.0
Taxes and licenses	17.8	28.7	22.3	25.8	28.3
Admin	287.2	356.9	386.0	468.7	517.6
Other costs	<u>64.1</u>	<u>91.9</u>	<u>108.7</u>	<u>165.3</u>	<u>207.7</u>
Total Operating Expense	<u>3,510.8</u>	<u>4,586.5</u>	<u>5,279.8</u>	<u>6,186.9</u>	<u>6,742.8</u>
INCOME FROM OPERATIONS	(468.1)	553.3	975.5	712.4	656.3
OTHER INCOME AND EXPENSE					
Interest expense	126.0	157.5	144.2	103.1	85.8
Other income	<u>3.2</u>	<u>-</u>	<u>(7.6)</u>	<u>(7.9)</u>	<u>(7.9)</u>
Total Other Income (Expense)	<u>129.2</u>	<u>157.5</u>	<u>136.5</u>	<u>95.2</u>	<u>77.9</u>
NET INCOME (LOSS)	<u>(338.9)</u>	<u>710.7</u>	<u>1,112.0</u>	<u>807.6</u>	<u>734.2</u>

Source: Oliver's Markets, Inc.

Exhibit 4: Oliver's Markets, Consolidated Balance Sheets, 2003-2004

<i>Fiscal year ending 12/31</i>	2003	2004
ASSETS		
CURRENT ASSETS		
Cash and marketable securities	\$2,411,598	\$2,310,120
Inventory	2,276,374	2,461,271
Note receivable		100,000
Prepaid expenses	534,718	345,883
Other current assets	742	5,673
Total current assets	\$5,223,433	\$5,222,948
FIXED ASSETS		
Equipment	3,218,389	3,568,810
Less accumulated amortization	(2,482,489)	(2,861,360)
	735,900	707,450
OTHER ASSETS		
Goodwill and intangible assets	71,441	71,441
Less accumulated amortization	(11,730)	(11,730)
	59,711	59,711
TOTAL ASSETS	\$6,019,043	\$5,990,109
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$1,135,870	\$1,144,713
Accrued payroll	211,522	124,076
Other accrued liabilities	620,746	597,420
Total current liabilities	1,968,138	1,866,209
LONG-TERM DEBT		
Note payable	1,000,331	809,585
Stockholder loans	121,841	118,669
	1,122,172	928,254
STOCKHOLDERS' EQUITY		
Common stock	200,000	200,000
Retained earnings	2,424,774	2,728,733
Accumulated adjustments	(703,976)	(624,929)
Current year income	1,007,935	891,842
	2,928,733	3,195,646
TOTAL LIABILITIES AND S/H EQUITY	\$6,019,043	\$5,990,109

Source: Oliver's Markets, Inc.

Exhibit 5: Oliver's Markets vs. National Average Supermarket Performance, 2004

	National Average	Oliver's Cotati	Oliver's Santa Rosa
Average supermarket:			
Selling area in square feet	31,245	28,000	17,500
Volume in millions	\$13.35	\$19.36	\$19.90
Number of checkouts	9	8	6
Number of full-time equivalent employees	69	110	115
Weekly sales per:			
Store	\$256,730	\$372,217	\$382,733
Checkout	\$28,414	\$46,527	\$63,789
Full-time equivalent employee	\$3,730	\$3,384	\$3,328
Employee hour	\$93.25	\$84.59	\$83.21
Square foot	\$8.22	\$13.29	\$21.87

Source: *Progressive Grocer*, April 2004, pg. 32. Oliver's Markets figures: supplied by Oliver's, for fiscal year 2004.

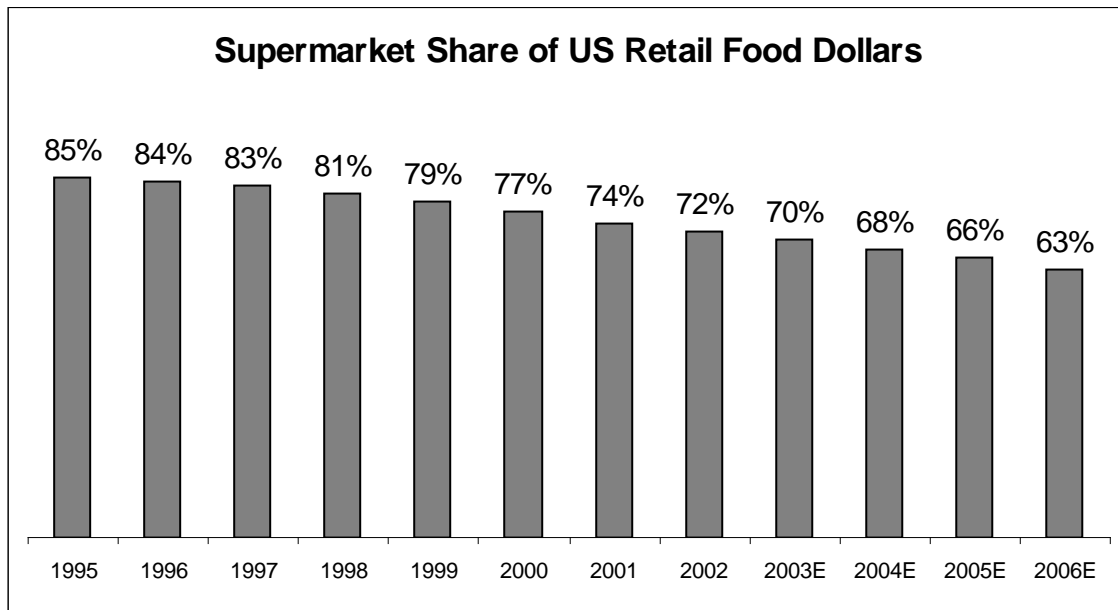
Exhibit 6: Oliver's Markets vs. National Average Supermarket Operating Costs, 2003

	National Average % of Sales	Oliver's Markets, Consolidated 2003, % of Sales
Gross Margin	27.6%	36.4%
Expenses:		
Payroll	11.4	16.6
Employee Benefits	3.5	5.9
Utilities	1.3	1.2
Property Rentals	1.8	1.9
Taxes & Licenses	0.4	0.1
Insurance	0.3	0.2
Depreciation & Amort.	1.3	1.1
Maintenance & Repairs	0.7	0.7
Supplies	1.1	1.6
Other Operating Costs	<u>3.8</u>	<u>3.5</u>
Total Expenses	25.6	32.8
Operating Profit	<u>2.0</u>	<u>3.6</u>

* Note: Percentages may not add to 100 percent due to rounding.

Sources: FMI *Speaks 2004 Key Industry Facts* – Prepared by FMI Information Service, July 2004, p. 16.

Exhibit 7: Supermarket Share of US Retail Food Dollars, 1995 – 2006 (estimated)



Source: *Progressive Grocer*, April 2005, p. 62.

Exhibit 8: Food Retail Chain Store Financial Statistics, 2000 - 2004*All figures are in millions of dollars and include international operations*

	2000	2001	2002	2003	2004
Safeway (note 1)					
Comp store sales growth (%)	2.8%	2.3%	-0.7%	-2.4%	0.9%
Revenue	\$ 32,103	\$ 34,434	\$ 34,917	\$ 35,727	\$ 35,823
Gross profit	9,666	10,776	10,996	10,724	10,595
Gross margin %	30.11%	31.30%	31.49%	30.02%	29.58%
EBIT	2,282	2,589	948	574	1,173
Net Income	1,092	1,254	(828)	(170)	560
Kroger (note 2)					
Comp store sales growth (%)	1.9%	1.5%	0.8%	0.3%	1.7%
Revenue	\$ 49,000	\$ 50,098	\$ 51,760	\$ 53,791	\$ 56,434
Gross profit	13,196	13,700	13,950	14,154	14,294
Gross margin %	26.93%	27.35%	26.95%	26.31%	25.33%
EBIT	2,183	2,359	2,569	1,370	847
Net Income	874	1040	1202	312	-100
Albertson's (note 3)					
Comp store sales growth (%)	0.6%	1.3%	-0.4%	-2.4%	0.2%
Revenue	\$ 35,221	\$ 36,294	\$ 35,316	\$ 35,107	\$ 39,897
Gross profit	9,989	10,337	10,298	10,048	11,187
Gross margin %	28.36%	28.48%	29.16%	28.62%	28.04%
EBIT	1,588	1,248	1,801	1,316	1,229
Net Income	765	501	485	556	444
Costco (note 4)					
Comp store sales growth (%)	11.0%	4.0%	6.0%	5.0%	10.0%
Revenue	\$ 32,169	\$ 34,797	\$ 38,762	\$ 42,456	\$ 48,107
Gross profit	3,847	4,199	4,779	5,221	6,015
Gross margin %	11.96%	12.07%	12.33%	12.30%	12.50%
EBIT	1,037	992	1,132	1,157	1,385
Net Income	631	602	700	721	882
Whole Foods (note 5)					
Comp store sales growth (%)	8.6%	9.2%	10.0%	8.6%	14.9%
Revenue	\$ 1,839	\$ 2,272	\$ 2,698	\$ 3,149	\$ 3,865
Gross profit	633	789	932	1,078	1,341
Gross margin %	34.42%	34.73%	34.54%	34.23%	34.70%
EBIT	94	104	141	167	216
Net Income	-5	65	82	100	132
Wal-Mart (note 6)					
Comp store sales growth (%)	5.0%	6.0%	5.0%	4.0%	3.0%
Revenue	\$ 180,787	\$ 204,011	\$ 229,616	\$ 256,320	\$ 285,222
Gross profit	40,067	44,914	51,317	57,573	65,249
Gross margin %	22.16%	22.02%	22.35%	22.46%	22.88%
EBIT	9,245	9,767	11,334	12,664	14,144
Net Income	6,235	6,592	7,955	9,054	10,267

Notes:

- 1) Safeway had opened 34 'Lifestyle' stores in 2003 and had remodeled 108 stores to the format by the end of that year.
- 2) Kroger Co. includes advertising expense in cost of goods sold.
- 3) Comp store sales for 2003 were down 0.1% for stores not affected by southern CA strike.
- 4) Costco includes membership sales in total revenue.
- 5) Whole Foods includes Occupancy expense in cost of goods sold.
- 6) Comp store sales figures are for US stores only.

Sources: Annual reports as found on company websites and sec.gov.

Exhibit 9: Shopping Trip and Basket Size Statistics

	1999	2000	2001	2002	2003	2004	5-yr. change
Percent of households that shop at selected retail outlets							
Supermarkets	100%	100%	100%	100%	100%	99%	-1%
Mass merchants	95	94	95	93	91	89	-6
Drug stores	87	86	86	86	85	84	-3
Supercenters*	52	51	51	54	54	54	2
Dollar stores	52	55	59	62	66	67	15
Warehouse	50	49	50	52	51	51	1
Convenience/gas	50	48	45	46	45	44	-6

Annual trips made per household							
Supermarkets	83	78	75	73	72	69	-14
Mass merchants	26	25	24	23	21	20	-6
Drug stores	15	15	15	15	15	15	0
Supercenters*	15	17	20	22	25	27	12
Dollar stores	10	10	11	12	13	13	3
Warehouse	9	10	10	11	11	11	2
Convenience/gas	13	14	15	14	15	15	2
Total	171	169	170	169	172	170	-1

Basket \$ size							
Supermarkets	\$31	\$32	\$32	\$33	\$33	\$34	+\$3
Mass merchants	36	38	39	41	41	42	6
Drug stores	18	19	19	20	20	20	2
Supercenters*	45	49	51	53	55	56	11
Dollar stores	10	11	11	11	11	11	1
Warehouse	82	83	82	83	83	83	1
Convenience/gas	9	10	10	10	11	12	3
*Includes Kmart, Target, and Wal-Mart supercenters.							

Source: *Progressive Grocer*, April 2005, p. 60.

Exhibit 10: Store Counts and Estimated Grocery Sales, Northern California Food Retailers, 2004

	Number of stores	Estimated Grocery Sales (\$ Millions)
Safeway	251	4,688
Albertson's	158	3,230
Raley's	113	2,320
Costco	35	2,250
Trader Joe's	44	340
Whole Foods	18	320
Ralph's (Kroger's)	17	363

Source: Sales estimated using figures from *Progressive Grocer's* annual list of the 50 largest food retailers (May 2005) and from information found on company websites.

Exhibit 11: Sonoma County Retail Food Sales, 2003

Rank (1)		Number of Stores	Total Sales (\$ millions)	Estimated Grocery Sales (\$ millions)
1	Safeway	12	240	240
2	Costco (2)	2	340	211
3	Albertson's	7	108	108
4	FoodMaxx	2	78	78
5	Raley's	3	73	73
6	Whole Foods	3	65	65
7	Ralph's (Kroger)	3	61	61
8	G&G	2	50	50
9	Oliver's	2	40	40
10	Wal-Mart (3)	2	121	36
11	Fiesta	2	20	20
12	Petaluma	1	13	13
13	Andy's Produce	1	11	11
14	Molsberry	1	10	10
15	Big John's	1	8	8
16	Berry's	6	8	8

Sources:

(1) Figures derived from the *Santa Rosa Press Democrat's Outlook 2004* survey of Sonoma County businesses. The businesses listed above all made the paper's list of the 350 largest companies in Sonoma County.

www.pressdemo.com

(2) Estimated grocery sales for Costco were determined using *Supermarket News's* estimate that 62% of Costco's sales are derived from traditional grocery categories.

(3) Estimated grocery sales for WalMart were derived using *Supermarket News's* estimate that 30% of WalMart's discount store sales are derived from traditional grocery categories.

Exhibit 12: Selected Demographic Data for Oliver's Markets Cotati and Santa Rosa

	Cotati*	Santa Rosa**
	94928	Census
	94931	Tracts
Population	50,458	34,966
# Households	15,867	14,777
Ave HH Size	3.18	2.37
Under 14	20.8%	16.6%
15 to 24 years	18.7%	9.7%
25 to 44 years	32.3%	21.5%
45 to 64 years	20.2%	28.1%
Over 65	8.0%	24.1%
	100.0%	100.0%
Race		
White	80.9%	90.1%
Black	2.0%	0.9%
Asian	5.2%	2.5%
Other	11.9%	6.5%
Hispanic or Latino of any race	13.3%	6.4%
Educational Attainment for Population 25 years and over		
Less than High School Grad	12.3%	7.3%
High School Grad	23.3%	17.9%
Some College	30.0%	26.9%
Associate Degree	9.8%	8.8%
Bachelor's Degree	17.8%	23.8%
Graduate or Professional Degree	6.7%	15.2%
Percent high school graduate or higher	87.7%	92.7%
Percent bachelor's degree or higher	24.5%	39.0%
Household Income		
Less than \$10,000	6.0%	3.3%
\$10,000 to \$14,999	4.2%	3.5%
\$15,000 to \$24,999	8.9%	7.7%
\$25,000 to \$34,999	11.3%	10.8%
\$35,000 to \$49,999	16.5%	15.0%
\$50,000 to \$74,999	25.1%	20.1%
\$75,000 to \$99,999	14.3%	13.1%
\$100,000 to \$149,999	10.1%	15.2%
\$150,000 to \$199,999	1.9%	5.3%
\$200,000 or more	<u>1.7%</u>	<u>6.0%</u>
Total	100.0%	100.0%
Median household income (dollars)	\$ 52,010	\$ 62,067

Source: American Fact Finder on www.census.gov

**Census tracts 1516, 1522.02, 1524, 1525.01, 1525.02, 1526 – advertising area for Oliver's Santa Rosa.

Exhibit 13: Demographic Data: Ralph's Santa Rosa and Bell Markets, Novato

Description	Ralph's Market 461 Stony Point Rd., Santa Rosa, CA 0-3 mile radius	Bell Market 1535 S Novato Blvd, Novato, CA 0-3 mile radius
Population		
2010 Projection	122,986	47,700
2005 Estimate	114,839	46,905
2000 Census	106,307	46,114
Growth 2005-2010	7.09%	1.69%
Growth 2000-2005	8.03%	1.72%
2005 Est. Population by Race Classification		
White Alone	75,395	38,393
Black or African American Alone	3,042	852
American Indian and Alaska Native Alone	2,269	229
Asian Alone	5,489	2,553
Hispanic or Latino	38,236	6,676
2005 Est. Population by Age		
Age 0 – 14 (%)	21.46%	17.87%
Age 15 - 24 (%)	14.28%	11.49%
Age 25 - 44 (%)	31.95%	24.54%
Age 45 - 64 (%)	22.93%	32.09%
Age 65 and over (%)	9.38%	14.01%
2005 Est. Median Age	33.72	42.39
2005 Est. Average Age	35.17	40.63
2005 Est. Pop. Age 25+ by Educational Attainment*		
Less Than High School Graduate	16,886	3,093
High School Graduate (or GED)	16,705	5,953
Some College, no degree	19,490	9,092
Associate Degree	6,487	2,688
Bachelor's Degree	10,159	8,150
Master's Degree	2,476	2,611
Professional School Degree or Doctorate	1,584	1,545
Households		
2010 Projection	41,870	18,686
2005 Estimate	39,745	18,238
2000 Census	37,534	17,824
Growth 2005-2010	5.35%	2.46%
Growth 2000-2005	5.89%	2.32%
2005 Est. Households by Household Income	39,745	18,238
Income Less than \$15,000	4,154	1,043
Income \$15,000 - \$24,999	3,917	1,039
Income \$25,000 - \$34,999	3,971	1,119
Income \$35,000 - \$49,999	6,367	2,133
Income \$50,000 - \$74,999	8,880	3,446
Income \$75,000 - \$99,999	5,598	2,763
Income \$100,000 - \$149,999	5,050	3,500
Income \$150,000 and more	1,809	3,193
2005 Est. Average Household Income	\$64,736	\$102,150
2005 Est. Median Household Income	\$54,123	\$78,062
2005 Est. Per Capita Income	\$22,942	\$40,153
2005 Est. Average Household Size	2.80	2.52

Source: Claritas on-line demographics database, www.claritas.com, supplied by Oliver's Markets.

Exhibit 14: Competition in Proposed Locations for Oliver's Markets

Store	Estimated square feet of selling space	Estimated weekly sales in thousands	Estimated distance in miles	Notes
Santa Rosa location				
Ralph's/proposed Oliver's	20,848	n/a		Could run as is and remodel while open. Estimated \$1-2 million to remodel.
FoodMaxx	50,000	840	0.5	
G&G	53,000	750	1.0	Plus 25,000 square feet of warehouse
Lola's	6,000	220	1.2	
Safeway	35,000	500	1.4	
Raley's	38,000	500	2.3	Includes pharmacy
Novato location				
Bell Market/proposed Oliver's	16,917	n/a		Some cases need replaced. Could remodel while open.
Whole Foods	39,000	n/a	0.6	Anticipated opening – early 2007
Trader Joes	10,000	n/a	1.0	Scheduled to open November 2005
Safeway				
900 Diablo Ave	60,000	900	0.1	One block north.
470 Ignacio Blvd	25,000	500	3.5	South off Hwy. 101.
Albertson's	45,000	300	1.2	North on same major road.
Bell Market	20,000	131		Also for sale
Apple Market	26,000	230	3.2	
Costco	137,000	2,028	1.5	South off US 101 on opposite side of freeway

n/a = not available.

Source: Oliver's Markets