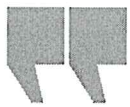


Case Study

In a recession, how should a supermarket chain acknowledge its employees' extra effort?
by Daniela Beyersdorfer, Vincent Dessain,
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Bonuses in Bad Times

Luisa Fernandez pulled into a parking spot behind one of Superado's stores on the outskirts of Seville but paused before getting out of the car. This was usually the best part of her week—visiting one of her company's supermarkets, talking to the store manager, walking through the aisles, watching employees interact with the customers.

She'd been doing it since she was a little girl, tagging along with her father as he grew his business from one small market in central Seville into one of Spain's largest grocery retailers, with more than 1,000 locations across the country. He'd kept up his site visits for 30 years, even after he'd gotten sick. When Luisa took over as CEO, after his death, she vowed to continue the tradition.

Today, though, she felt uneasy. Jorge Ramos, the manager of the store she was about to tour, had asked her to briefly address the staff, and she knew it would not be the usual cheerful exchange of ideas.

Spain was on the verge of a recession, and everyone was worried about money. Someone was bound to ask her whether Superado would pay bonuses this year. And she didn't yet have an answer.

Is the Party Over?

The previous night, Luisa had met with Maria Alva, Superado's vice president for finance. Preliminary group results for 2008 had revealed a sharp fall in both the number of transactions per store per day and the average value of each. The company had enjoyed steady increases in sales and profits for the past 15 years, but it was now up against the harsh reality of an economic crisis, and it was going to miss its targets.

Maria did not mince words. "You understand what this means, Luisa," she said. "We can't pay bonuses this year. Our policy is quite clear: Even if the employees have met their individual performance targets and the local stores have met theirs,

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we give bonuses only if we also meet the company's growth targets." She gave Luisa a hard look. "So you're going to have to make the call: No one gets a bonus this year. Not you, not me, not the store managers, not the cashiers, not anyone."

Luisa had suspected that this was a possibility, but she wasn't entirely prepared to take such a drastic step. "I understand the position we're in, but this is going to come as a huge shock to our employees. You know as well as I do that everyone thinks of the bonuses as part of their salary. They count on them, especially around the holidays." Superado's bonuses represented one to two months' pay for most employees, depending on their length of service, and in a typical year about 90% of people qualified.

Maria shrugged. "The policy is the policy."

Luisa took a deep breath. "I think we need Rodrigo's perspective on this." She dialed the extension of Superado's vice president of human resources, and he picked up on the first ring. In less than a minute, he had joined them.

Rodrigo Mendoza had worked closely with Luisa's father, and she valued his advice. She briefed him on the bonus issue. He'd clearly seen it coming.

"Look, the crisis has affected everyone, not just us," he said. "But we can hardly hold our employees responsible for the poor results. In fact, it's thanks to their efforts that our numbers aren't much worse. Sales per employee are almost 20% higher than at other supermarkets."

"That may be," Maria replied. "But it doesn't change the fact that we can't pay out bonuses of €200 million in a year when we've made only €220 million. What if the recession gets worse? Anything we paid out now would have to be made up next year by raising prices, which would send our customers running to Grand-place or other competitors. That would mean even worse results." Maria pointed to the stack of financial reports she'd dropped on Luisa's desk. "We're talking about the stability of the company here. In

the long run, the employees will care more about having a secure job than they will about one year's bonus."

She paused and softened her voice. "Of course, we have to recognize that times have changed, and we should lower our performance targets for next year. We could even revise our policy on bonuses so that they reflect performance relative to our peers. But I think a bonus is out of the question for this year."

Rodrigo didn't respond to Maria directly; instead he looked at Luisa. "Your father always said, 'You have to give to get.' If you don't treat employees well, they won't work hard for you. We're competitive because our people go the extra mile

"We're competitive because our people go the extra mile. Will they keep doing that if you take away their bonuses?"

for customers." He leaned in, visibly agitated. "Will they keep doing that if you take away their bonuses? You can't risk it, especially when times are this tough. Just think about what your father would do."

Maria looked exasperated. "No, think about what we need to do as a company in this economic climate," she said.

Luisa thanked them, and then considered her options as the two filed out of her office. Even without the bonus, Superado offered much more than other chains did. Employees had permanent contracts, and most workers—85% of them—were full-time. Shifts were stable, benefits were generous, and salaries were well above market levels. And all employees received management training. Would they really give all that up for a part-time, low-wage, no-benefits job at another retailer just because Superado didn't pay bonuses this year?

She didn't think so. Superado was an outstanding employer, and its low turnover rate—3.8%—reflected that. Still,

bonuses had been part of the deal for 30 years. How could she change that?

Hard at Work

Luisa was still mulling over her problem in the parking lot when someone knocked on her car window. It was Jorge, the store manager.

"Glad you remembered to park in the back," he teased as she got out of the car. That's where staff and management at all Superado stores always parked their cars. The front was kept clear for "*los jefes*," or "the bosses," which is how employees were taught to refer to customers. Concern for the jefes' needs was also behind the company's unusual pricing model. While most Spanish supermarkets varied prices throughout the year with frequent promotions, Superado kept its prices low but steady. Luisa's father had believed that customers prefer predictability, and so far, the evidence was on his side.

Jorge walked Luisa inside and began her routine tour. They started in the warehouse at the back of the store, where workers were unloading pallets of food from delivery trucks, and then reloading the pallets with waste for the recycling center. Next, they walked through the store itself, which was laid out in six simple sections (meats, fish, baked goods, fruits and vegetables, cosmetics, and a deli), each with its own distinctive decor. In the produce section, Jorge called over a plump, middle-aged employee with a warm smile.

"Luisa, you remember Rosa," he said. "Rosa has been with us nearly 10 years, almost since the opening of the store. She's the one who came up with the loose produce idea."

Luisa remembered it well. Superado used to sell its fruits and vegetables waxed and packed for presentation. Although the produce looked nicer, some shoppers had in recent years started buying their fruits and vegetables from competitors instead. In talking to her customers, Rosa had discovered that most of them found the packaging unnecessary. And they resented being forced to buy

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a pack of six apples, for example, when they needed only two—especially since it made the purchase more expensive. She'd suggested switching to loose produce at her store, sales had picked back up, and every other site quickly adopted the practice. "Rosa, tell Luisa what we were talking about yesterday," Jorge prompted.

Rosa beamed. "It's like this, senora," she began. "We see the jefes getting more and more worried about their budgets. I think we can help them if we cut down on the product range. I know it seems odd, but when they see all the things we have, they get overwhelmed. They have to make hard choices about what they really need versus what they might like to have. If we help them avoid that pressure by offering really good deals on fewer products, I think we'll end up getting more business, not less."

"Interesting idea, Rosa, thank you," said Luisa. "Jorge must be thrilled to have you."

"Yes, I certainly am," he said. "In fact, I'm happy to have everyone in this store. I don't think I've ever seen a team work harder or smarter than I have in the past few months. We're really pulling together."

Luisa and Jorge kept walking. "There's something I wanted to mention to you," he said, suddenly less cheerful. "Grandplace has just moved into our neighborhood with a small-store format. It's trying to poach our customers—and our employees. Rosa said a manager was talking with people at the bus stop last week."

Jorge regarded Luisa ruefully. "I've heard the same thing from several other store managers. They're even offering signing bonuses."

"Has anyone left yet?" she asked.

"No one from this store," he replied.

"Everyone's happy here. But I just wanted to make sure you knew."

Luisa was about to respond, but something near the exit caught Jorge's eye and he quickly excused himself. Looking over, Luisa saw four people queued up at one of the cash registers. Always diligent, Jorge had probably gone to open another checkout line.

Time to Adjust?

After closing for the day, employees began to gather for the staff meeting. Luisa glanced through her notes.

Jorge would open with a presentation on the past year's performance and goals going forward. He would then ask Luisa to take over. She planned to first congratulate Jorge and his team on their store's being one of the best performers in the region. But then she would have to present the estimates on Superado's group performance, which would show that not all other stores had been doing as well and that the company would miss its annual sales and profit targets.

During the Q&A session, someone would surely raise the bonus question. Luisa knew that anything less than a frank and straightforward answer would be unacceptable. And once she'd given the employees an indication, she'd have to stick to it to remain credible. Many of the store's staffers knew employees at other Superado sites. The news would spread quickly.

Looking around at the gathering crowd chatting excitedly, Luisa felt a sudden rush of gratitude toward the employees. It was their daily efforts, year after year, that had made her father's company what it was today, and for that alone they deserved a bonus. Yet, as the financial tables in her notes reminded her, the economic reality had changed. It was her responsibility to see to it that Superado survived and thrived.

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Should
Superado give
its employees a
bonus this year?

See commentaries on the next page.



"...and this brain specimen was exposed to high levels of pointless meetings."