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Which Comes First….the Customer or their EBITDA?

Major traditional supermarkets continue to make headlines for all the wrong reasons……accounting irregularities, Chapter 11's, disappointing sales, negative comparable store sales, labor strife…..you get the drift. Sure we can blame Wal-mart and increased competition for much of the pain, but it does beg the question; do these noble retailers need to re-think their business formula? In fact, many have made the argument that traditional supermarkets are becoming increasingly irrelevant compared to the mix of alternative and more "experiential" formats that are taking root.

But from where I sit, the core problem with traditional supermarkets is that in many cases they are victims of their own success metrics.

As one example, a recent news blurb from one of the best run major traditional supermarket chains in the country announced that senior management bonuses would be based upon the following performance criteria:

- Identical store sales performance
- EBITDA (earnings before interest, taxes, depreciation and amortization)
- Performance of strategic plan implementation
- Return on capital investments

Personally having the experience of being paid a bonus by two different retailers, I fully understand the rationale of the aforementioned metrics….if those numbers are good, shareholders are happy and it usually means you doing a pretty good job preserving and strengthening the franchise.

Behavior Follows Rewards…..

But there is a discernable downside to a corporate culture whose incentives are predominantly or even exclusively directly linked to financial performance. Allow me to pontificate. I think back to a rare opportunity I had several years ago as a part of a CIES contingent that sat down with Feargal Quinn, the legendary patriarch of Super Quinn's food stores in Ireland. We ask Feargal what his keys to success were. Without hesitation, he pulled a thick binder from his office book case and opened it up to a page called "Customers". As he explained, Feargal started every day with looking at one statistic……customer count. How many customers did they have yesterday, compared to the day before, to the week before, etc? He then would use that information as a barometer as to whether Super Quinn was doing a good job endearing themselves….making themselves relevant to their customers….earning their business one shopping trip at a time, so to speak.

Of course Feargal was aware of sales, profits, and the other financial metrics. But he viewed those numbers as subordinate to customer metrics. In essence, financial success was a result of building as strong rapport with customers, not as stand alone measurements that many supermarket executives regard them as today. The distinction is critical! Some might say that publicly traded companies can ill afford to subordinate financial success metrics to such things as customer count and shopper satisfaction, but I maintain just the opposite. For those major traditional food chains that are appear to be scrambling to re-invent themselves through technology, programs and new formats, a re-energized focus on customers is absolutely essential for success.

Would it not be refreshing for one of these "traditional supermarkets" to break from *tradition* by incorporating customer-centric metrics back into the mix of bonus incentive packages and annual reports? If a prominent chain would announce a new metric, like "key customer retention" as a major attribute in the executive bonus plan, I am convinced that in time, the correlation between customer focus and resulting positive financial results could even sway shareholders and the financial analyst community to value customer-centric metrics just as much as Feargal Quinn does.

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