

## FRIENDLY FAMILY MARKET MAHÓN<sup>(1)</sup>

Charles Palmer turned 50 on 10 June 2010. Since January 2000 he had worked as a store manager at Booths. In February 2011, Charles had a severe health crisis and as soon as he recovered, he and his wife, Lisa, decided to turn their life around. The company offered him a generous settlement agreement including a high severance payment, and he did not hesitate to accept it.

The Palmers sold all their properties in Manchester and in the spring of 2012 purchased a nice house in Alcaufar, a picturesque small village in the south of the Menorca Island where they had been on vacation several times. It did not take long for Charles and Lisa to get all settled in their new home. They were surprised to see that more than a hundred retired couples were living in their surroundings and soon became friends with some of them, particularly with the Suttons.

Edward (Ed) Sutton, was a chartered accountant until he retired in 2007. He and his wife, Florence moved to Mahón in 2009. When he met Charles, he mentioned he felt there was a good business opportunity, as many British living in Menorca missed the products they were used to buying before retiring and could not find them in Spain. On 15 October 2013, while they were having dinner together, Ed suggested Charles the possibility to set up a small supermarket in a retail unit located on a very busy corner in downtown Mahón. After a couple of hours (and some glasses of wine), they decided to start operating in 2014. But Charles wanted to minimize risks and convinced Ed to sign

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<sup>(1)</sup> Case published by the Research Division of San Telmo Business School, Spain. Prepared by professor Manuel García-Ayuso Covarsi. This case is developed only as the basis for class discussion. Cases are not intended to illustrate any judgement on the effective or ineffective management in a specific situation.

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a franchise agreement with a well-known British supermarket chain he knew very well: Friendly Family Market Inc.

It was tough to do all the paperwork themselves, but all their efforts paid off and Friendly Family Market Mahón, Inc. became a reality on 20 December 2013. On that date, each of the partners deposited €50.000 in a bank account and received 50.000 shares. Ed withdrew €1.000 to have some petty cash. The legal fees (including notary and registry fees) amounted to €700 and were paid by Charles and Ed with their own money. In the afternoon, Ed purchased stationery and other office supplies with a total cost of €300, which were also paid in cash.

On 31 December they signed a one-year lease agreement with the owner of the retail unit (that would be extended automatically for a further term of 1 year, unless any of the parties notified their desire to terminate the contract with a two-month notice), starting on 1 January 2014, with a monthly rent of €1.500. That afternoon, Ed and Charles met with Gregg Johnson, the franchise development department manager, in order to review the state of things and go through the *To do list* before the opening day.

The first week of January was a bit hectic for Charles and Ed. On Thursday 3<sup>rd</sup>, they signed the franchise agreement; in the afternoon, they also signed electricity and water service contracts plus an insurance policy. On Friday they interviewed several candidates and hired four employees; and next Monday construction work started. The Franchisor delivered and installed all the equipment over the next few days and on Saturday 12<sup>th</sup> all the goods were delivered and meticulously arranged in aisles, heads and cashiers.

The supermarket opened its doors to the public on January 14<sup>th</sup> Charles and Ed worked shoulder to shoulder to build a solid reputation and a loyal customer base.

The year went by incredibly fast. On January 2<sup>nd</sup> 2015, Charles and Ed met to analyze the performance of their business in 2014. Charles was afraid that this adventure could turn into a nightmare and that he might be wasting his time, money and health in a non-profitable company. He was particularly worried about the large amount of money they had put in the business, as he felt his retirement benefits had gone down the drain, as he used to say.

*“Ed, I am deeply concerned about all this. I came here to enjoy a peaceful life after my retirement and I am afraid I may end up working harder and losing money. Since you are the expert accountant and have all the information, I need you to tell me how we are doing.”*

*“Well, Charles”, Ed replied. “I will try to provide you with a fair view of our financial position:*

- *As you recall, we set up our company with an initial capital of €100.000. On January 2 we obtained a €60.000 loan from the Bank of Mahón to be*