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INSIDE

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WALKING HY-VEE

Listen in on our conversations

with Hy-Vee's Jay Marshall (left) and Bernard Beary.

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Walking Hy-Vee

We walked a store with two senior executives at Hy-Vee last month, discussing everything from category captains to display cases. Here's what they had to say.

BY **WARREN THAYER**

During a visit to Des Moines last month, we walked an 85,000-square-foot Hy-Vee store with Jay Marshall, vp of center store, and Bernard Beary, assistant vp–category management/dairy. During a relaxed conversation up and down the aisles, we covered a wide variety of topics you'll see here. The store, which opened in the fall of 2008, has 159 frozen doors and 280 linear feet of refrigerated space, not counting the eight-foot endcaps (six in medium-temp, and eight in frozen).

Some consumer research we looked at (see page 28) showed that Hy-Vee is known for variety.

Marshall: For years, we thought our shelves were too busy, and maybe shoppers were de-selecting and going elsewhere. But we're hearing now that we are getting great marks for selection. We know variety is important for our customers, so when we consider items, it is far more important to have something that is unique versus having one more variety of the same thing. In the dairy department, we focus on the five regional dairy players in our markets. For example, in this market (Des Moines) it is Anderson Erickson. Further north, it is Kemps. To the northwest, it is Dean Foods. In Omaha, it's Roberts Dairy. All these players are represented in their specific markets, and all of our shelf sets reflect that.

Beary: We also work with Cargill. They have developed some different types of Tonalin CLA products for us in private label. We have some very good Trim & Toned yogurts from them.

Marshall: Over the past few years, we've shifted from fast follower to innovator in private label. Younger customers have grown up with private label, and it is not a "generic" to them — it is one of their brands. So you have to have quality and selection, and sometimes you have to be there before the brands.

We haven't stayed with the category captain model. For us, it's like everybody's a category captain.

How do you work your space allocation and planograms?

Marshall: The American Dairy Association once studied whether we had the right space for the right items in our dairy department. We came out as being within one foot of where they said we should be across the entire department. It was something like they said we should have had 11 feet of sour cream, and we had 12. We were happy about that. We thought, "Okay, let's go worry about something else."

Beary: The Dairy Association came to us, asking to do the study, and we said "yes." We gave them the store measurements, our sales data, and how things were laid out.

Marshall: Randy Edeker (Hy-Vee president) really got the ball rolling on this. Early on, he gave us flexibility to study whether we were doing things right, and what could be improved. He let us decide what areas we wanted to study, and made sure we had what we needed. As a result, we made dairy into a department by itself, with short aisles, rather than just a long aisle across the back of the store. To me, it looked better and less intimidating. We are striving to figure out what the best flow is, we have seen some of the frozen aisles that are laid out this way, and those frozen departments do better. We haven't entirely quantified it yet, but we are doing some things with flow that we are really happy about.

Over the past few years, Hy-Vee has shifted from fast follower to innovator in private label.

How important are category captains to Hy-Vee?

Beary: We haven't stayed with the category captain model. For us, it's like everybody's a category captain. We ask vendors to bring us knowledge that we can use, and our folks will decide. You can't rely on just one source of information, so we have validators. Sometimes the validator is another vendor, sometimes it is us. But we create the final planogram. We listen to the category captains, and often they are right on. They might raise questions we need to think about. It's not always about "Do I get my fair share of space?" I don't hear that all the time from our vendors, and that is nice. They do let us know if they think we are way off.

How much autonomy do stores have on shelf sets?

Marshall: Whatever we do at corporate is a recommendation. The minute we hand it off to the store, it is up to the store to say whether they will use all of it, some of it, or none of it. The store manager makes that decision. The difference here is that we are employee-owned, and the people are really proactive. We do all the math, and explain why we did what we did, and give them the information so they can do with it what they want.

Can they bring in their own regional brand, if they want to?

Beary: Absolutely. It is their responsibility to do that. The autonomy we give to our stores, we also give to any vendor. They can sell anything to our stores, and help make that item grow without any approval from corporate. The First National Bagels here are an example. They came in and got the brand up and running in a number of stores, and now it's a staple for us.

Marshall: We find that if we pitch out ideas, the stores usually run with them. If we tell the stores exactly what to do, though, they struggle with that. We don't have to tell them what to do — they know what is best for their zipcode and their stores. The fact is, the ideas we get at corporate usually come from the stores. We just have to be good listeners. It's like the First National Bagels. They came from the stores, who went out and found a great supplier. They grew it, and now it's in almost all of the stores. Here's another example here, Mama Bosso Pizza, of Rock Island, Ill. The stores found it, and it's great pizza, doing well for us. Another hot item for us now is Blue Bunny's Ace of Cakes ice cream. It's an absolutely incredible product. We like to give the small- and medium-sized manufacturer an opportunity.

We've noted that some of our cases were too tall, and we're making them lower.

How are you handling your yogurt planograms?

Marshall: Somehow we have to find more space for yogurt. Our standard set has been 24 feet, but we have some where we have tried 32 feet and our biggest is 36 feet. We really need to push our standard up to 32 feet, since Greek has become such a big item that it needs its own section.

Any thoughts on brand blocking, here or elsewhere?

Beary: We look at the decision tree, and that is where we work with the knowledge of our manufacturer partners. It can vary by category. How do consumers shop individual categories? Do they make a list by brand, or by category? When a private label product doesn't have the penetration we want, we set it right next to the brand. If we own a category, we brand block it with us as the main brand. That's kind of how we go.

The Trion devices that push products forward also result in shoppers keeping the doors open for a significantly shorter period, saving energy.

I understand you're making some changes in case heights.

Beary: We've noted that some of our cases were too tall, and we're making them lower. You may get more product inside the taller cases, but most of our shoppers are women, and they can't always reach the top shelf. The person who does our frozen planograms pointed this out, and we took a tape measure to the stores. We were actually in a store with the woman who oversees our Health Markets. She's about average size, but she couldn't reach anything off the top shelf. While we were standing there, in comes a lady who opens the door, stands on the seal, and picks an item off the top shelf. ▸

I remember talking to case manufacturers a couple years ago, who said that they were making taller cases for retailers who wanted extra packout, but these same manufacturers were worried about a problem with reach.

Marshall: I think we followed that course also. We initially saw we could get 10% more packout, and we were excited about that, until we realized the problem. So we've gone from 144 doors to 159. We had to add doors since the shelves weren't so high. Our next push is to get all refrigerated products behind doors, to warm things up. It can get cold back here. About five years ago, we put doors on milk, juice and such, and there haven't been any issues with that. Years ago, when we put doors on the frozen aisles, we saw a little drop-off because of the barrier, but then it came back. But we never had a dip in milk or juice. We'll be adding French doors, with handles in the middle, to some of the refrigerated cases. We saw those doors at last year's NFRA (National Frozen & Refrigerated Foods Association) convention in San Francisco.

Hy-Vee has a good-sized gluten-free section within its healthy lineup.

What's your philosophy on endcaps, and frozen in general?

Marshall: We like to treat endcaps as promotional displays, and never as aisle extensions. For years, we had stores with really short aisles, and they had to use endcaps for space. Today, we do put ice in endcaps, but everything else is a promotion. The endcap here (points) has a variety of novelties — we like to keep it all to one category.

Beary: Our philosophy in frozen is to break out the main categories and make everything easier to shop. For example, we had a breakfast set that was 11 doors long, all mixed together. So we said, let's make waffles three doors, and dough two doors, and so on. We still finished with 11 doors, but it was a more cohesive statement, and easier to shop.

Looks like you have some Trion devices that push the entrees forward here.

Marshall: Yes, we worked with ConAgra to test these in 10 stores. This is a Trion device, and it looks fantastic. We're trying to gauge the energy savings, too. In our tests, we found that the doors are shut 25% more of the time, which translates to energy savings. That's a big number for us. We presume it's because shoppers can see the items more easily, so they make their selection and then open the door, rather than opening the door and then looking at the products to choose them. We also believe that the devices allow better circulation of air behind the product.

Beary: A lot depends on how empowered they (sales reps or brokers) are. If they've got the handcuffs on, they can't use the autonomy we give them. Like I said, any store can buy 15 truckloads of pizza if they can sell it all, and they won't have to call anybody at corporate to get approval. So it is really up to that salesperson to make the deal that is going to sell the most. They get involved. Those are the people who really succeed with us. They understand the Hy-Vee culture — instead of fighting it, they use it as a strength.

I don't see many doors with the little shelves held on by suction cups, for cross-merchandising products. Safeway does a great deal of that.

Beary: Some stores do really well with them, some don't. Those are the things the individual stores know best. We've seen them work well with pepperoni in the frozen pizza aisle, and syrups with ice cream.

Any parting tips for manufacturers on dealing with retailers?

Marshall: Manufacturers who tell you what's important to them are the ones that don't always win. But the ones who know what is important to you can help you get there. You'll both win, because you'll help them win. ■

HY-VEE AT A GLANCE

Headquarters: West Des Moines, Iowa
Website: www.hy-vee.com
Store count: 233 • Annual sales (est.): $7.0 billion
Founded: 1930

WHY THEY SHOP HY-VEE

It's ahead of the pack in nearly all attributes that consumers consider when choosing a grocery store.

Hy-Vee comes out ahead of the norm in 20 out of 23 attributes that are among the reasons shoppers choose where to shop, according to last August's Consumer Intentions and Actions Survey (CIA), put out by BIGresearch (www.bigresearch.com), Worthington, Ohio.

The national averages ("Adults 18+" column in chart) are based on a survey of 8,201 adults — a sample size that provides a margin of error of +/- 1.1%. Here's the number of responses for each of the chains listed: Hy-Vee, 81; Walmart, 1,524; Aldi, 141; and Kroger, 586. Counts below 100 should be considered directional; however, from personal observation in the market, they seem spot-on.

Location, selection, price and quality were all key differentiators for Hy-Vee. The ranking of attributes helps show why shoppers pick their grocery store of choice, suggesting competitive strengths and weaknesses. It'll tell you what's important to whom, and why shoppers may migrate to different stores from time to time, or stay very loyal.

In the first column, you'll see average responses from adults 18+. The next column shows responses from people who say they shop "most often" for groceries at Hy-Vee. The percentages represent how often these people cited the various attributes as among the reasons they choose to shop there.

The question asked of consumers was: "What are the reasons why you buy your groceries there?" From a list, they were asked to check all that apply.

In our chart, 68.7% of Hy-Vee shoppers say that "price" is a reason they choose to buy their groceries there. You can read across the chart for the responses by shoppers of several different retailers. ■

KEY ATTRIBUTES USED FOR CHOOSING STORES

Responses by shoppers of different chains, asked why they buy their groceries where they do. Tinted numbers show where Hy-Vee scores above average.

Attribute	Adults 18+	Hy-Vee	Walmart	Aldi	Kroger
Price	74.5%	68.7%	92.6%	99.2%	81.3%
Selection	57.3%	70.5%	60.0%	34.0%	70.3%
Location	71.1%	83.1%	69.0%	57.6%	83.8%
Quality	47.9%	67.8%	35.3%	44.2%	59.5%
Service	28.6%	46.6%	17.3%	13.6%	33.4%
Advertising	12.7%	26.9%	7.0%	3.8%	20.1%
1-Stop Shopping	30.3%	17.5%	56.3%	12.9%	24.5%
Bakery	16.0%	16.1%	14.7%	2.2%	16.7%
Deli	17.9%	19.5%	17.2%	0.6%	19.2%
Ethnic Foods	5.4%	11.7%	3.9%	2.0%	5.0%
Fresh Produce	32.0%	42.9%	25.2%	21.0%	36.6%
Meat/Seafood Dept.	24.6%	31.5%	17.3%	5.5%	27.2%
Organic/Whole Foods	7.7%	13.7%	5.2%	1.5%	7.8%
Prepared Meals	8.0%	10.8%	8.9%	2.7%	8.0%
Curbside Pickup	1.0%	4.4%	1.1%	1.5%	0.1%
Double Coupons	12.9%	4.9%	3.5%	0.6%	30.0%
Knowledgeable Employees	11.1%	12.4%	5.5%	6.5%	14.2%
Trustworthy Retailer	21.0%	28.9%	15.1%	14.0%	24.2%
Open 24/7	18.6%	38.3%	44.1%	1.4%	22.9%
Store Appearance	20.9%	31.0%	15.9%	7.9%	27.8%
Store Layout	22.2%	27.1%	20.0%	12.5%	24.9%
Unique Products	6.0%	11.6%	4.8%	9.1%	6.0%
Wide Aisles	12.9%	18.5%	16.0%	6.9%	14.6%

Source: BIGresearch Consumer Intentions & Actions (CIA) Survey, August, 2010.
**The sum of the % totals is greater than 100% because respondents can select more than one answer.*

NET PROMOTER SCORE: 38.7*

Hy-Vee had a Net Promoter Score nearly 9 points above the average for a supermarket, indicating strong shopper loyalty — three points higher than Kroger.

To arrive at the Net Promoter Score, customers are asked to rate, on a scale from 0 (not at all likely) to 10 (extremely likely) the probability they would recommend their store of choice to friends.

10 and 9 responses indicated Promoters; 8 and 7 responses are Passives; and 0 through 6 are Detractors. The Net Promoter Score is calculated by subtracting the percentage of Detractors from the percentage of Promoters.

My guess on what happened here is that the Aldi shoppers, who index so highly on price, came out best on percentage of promoters. Price is an enormous differentiator, and those who shop for price are generally enthusiastic promoters of the stores they choose, and unlikely to switch. Quality and selection may be equally important differentiators for some shoppers, but these attributes are less likely to stir strong passions. At least that's my opinion. ■
—Warren Thayer

How likely is it that you would recommend this store for groceries to a friend or colleague?

Scoring Group	Adults 18+	Hy-Vee	Walmart	Aldi	Kroger
Detractors (0-6)	21.7%	13.4%	23.6%	9.5%	19.2%
Passives (7-8)	26.8%	34.6%	28.2%	23.0%	26.2%
Promoters (9-10)	51.5%	52.1%	48.1%	67.4%	54.6%
Net Promoter Score*	29.9%	38.7%	24.5%	57.9%	35.4%

Source: BIGresearch Consumer Intentions & Actions (CIA) Survey, August, 2010.
**Net Promoter, NPS and Net Promoter Score are trademarks of Satmetrix Systems, Inc., Bain & Company, and Fred Reichheld.*