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Hy-Vee's Winning Ways

By Steven Rubow

Store Brand
Star



Grand Selection chili flavored olive oil adds spunk to ordinary salads and bread.

Here's why Hy-Vee is successful as a chain and as a marketer of its private brands: Location, Ownership, Organization, Brands, Promotion and Customer Focus.

Hy-Vee was presented the 2006 Salute to Excellence Award for the Supermarket category at the recent PLMA Show in Chicago. Why Hy-Vee? The numbers can speak for themselves in answering why they would be selected and highlighted. And perhaps these are reasons enough. Hy-Vee's sheer size and geographic concentration allows them to focus their efforts. Aligning with Topco, the nation's largest buying cooperative, and with Daymon, the nation's largest private brand broker, allows them to be much bigger than they would be alone and gives them both the clout and the information base to continue getting bigger. Both Topco and Daymon allow Hy-Vee a view into the larger world and to have close relationships with

like-minded retailers elsewhere.

Hy-Vee has grown successfully despite the appearance of 110 Wal-Mart and Target Supercenters on their competitive landscape. Hy-Vee has seen opportunities to grow beyond their Iowa borders into the similar demographics of nearby states. True they have not entered a market like Chicago yet, but there is a lot of room to grow before having to face the complexities of the mega-markets.

Looking Behind the Numbers

Looking behind the numbers gives an even more interesting and impressive picture as to why Hy-Vee deserves the spotlight for 2006.

Let's review six very distinct reasons why Hy-Vee is successful as a chain and as a marketer of their private brands: Location, Ownership, Organization, Brands, Promotion and Customer Focus. To understand how Hy-Vee can be so successful in the use of their private brands, one needs to first understand the first three.

Ideal Location

Hy-Vee is embedded in the heartland of America. Iowa is not the fastest growing state of the Union, but it is one of the more solidly growing areas of the country, as is much of the Midwest. This allows Hy-Vee the chance to build on a solid mid-western foundation and not have to deal with the huge

surges of population and land values that afflict other parts of the country . . . and it allows them to avoid the inevitable sudden slow-downs that follow those surges.

Sitting in the center of the country, Hy-Vee can observe the trends that are going on both coasts, as well as in Chicago and internationally. Sorting out which prove to be most successful, Hy-Vee can be the first to bring those successful trends to their markets. This has shown up in their private brand activity with such things as easy-open, pull-tab cans, aseptic packaging and premium brand products.

ESOP Ownership

Ownership of the employees, by the employees and for the employees, to paraphrase Abraham Lincoln's quote. Hy-Vee is an ESOP (Employee Stock Ownership Plan) retailer. That's not very common in today's world of big business, takeovers and mergers. It does represent the vision of Hy-Vee's early management, however, who wanted to have a structure that would transcend their leadership tenure and that would set the foundation for a retail structure that could forever



A variety of Hy-Vee premium and gourmet pet food, along with Paws Premium products from Topco.gives shoppers a reason to spoil their pets.

remain close to the customer.

According to the NCEO (The National Center for Employee Ownership), “ESOPs are most commonly used to provide a market for the shares of departing owners of successful closely held companies, to motivate and reward employees, or to take advantage of incentives to borrow money for acquiring new assets in pretax dollars.” (See www.nceo.org/library/esops for more information.) Companies turning to an ESOP plan would do so for primarily one of three reasons—as a takeover defense, as a way to transfer ownership or as an employee incentive. Clearly, Hy-Vee benefits from all three, but mostly from the third way, as an employee incentive.

As owners, Hy-Vee employees are intimately and enthusiastically involved in the direction that Hy-Vee takes. They are educated in whatever direction the company wants to embark and have opportunity for input, questions and approval. And they have a stake in the outcome. As owners of the business, the employees take a sincere interest in ensuring that programs designed to appeal to the customer, are actually and accurately implemented.

That Hy-Vee employees buy-in to the ESOP concept is in evidence by the actions of their employees. Upon first visiting a store, you can immediately tell that all the employees park at the perimeter of their store’s parking lot, not up close where they want their customers to park. They engage in real conversation (as opposed to

corporately prepared scripts) when you question them on the location of an item or on the quality of their private brands. It's really very refreshing.

Federal Organization



Pass the peas please. Hy-Vee offers 4 different lines of green peas to suit all different types of consumers.

As a result of the ESOP ownership structure, a very unique management organization has developed. Charles Handy, a noted British management guru, has beautifully defined the type of organization that Hy-Vee represents—the federal organization. In his book, *The Hungry Spirit*, Mr. Handy says, “The point of federalism is that too much power should never be in one place or function. The center is the servant of the parts, a facilitating mechanism with powers delegated to it by those parts.” When you speak with Hy-Vee management or employees, you understand very quickly that they pay more than lip service to this concept. To most, the culture that has evolved would be foreign and, perhaps even frustrating. It would also become evident that it is the style of operation that most would want for themselves.

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Each Hy-Vee store is managed almost independently. Headquarters provides the stores with those functions that the stores indicate they want done centrally: much of the buying, advertising and private brand product development are done in Hy-Vee's West Des Moines headquarters, but because these efforts have been "delegated" to headquarters by the stores, the stores appreciate and support what is done for them. It's like most retailers would like it to be, or like they say they would like it to be, but it takes real dedication to the concept of ESOP ownership to make it happen.

Strong Private Brands

Hy-Vee is all but unknown to consumers across the country, yet it is one of the best known brands in Iowa and the immediate surrounding geography. This is a result of their very high market share in Iowa and the constant and consistent marketing of their brand. Originating as a contraction of the founders names (Charles Hyde and David Vredeenburg), Hy-Vee's name has become synonymous with price, quality and service.

Hy-Vee presents four major private brand names, three of them anchored by the Hy-Vee name itself: Hy-Vee. This is their mainstream line, appearing in most categories and designed to at least match the national brands. Even this mainstay brand has been modified where an advantage exists to "sub-brand" or "co- brand." Hy-Vee Mother's Choice was

selected to brand disposable diapers. Hy-Vee Soft Essentials is used for bathroom and facial tissues. And Hy-Vee has sought co-branding opportunities, such as the very popular Veggie Tales for some child-oriented foods.

Hy-Vee Grand Selections. Reserved for very targeted, legitimately premium products. While limited at this point, this will likely expand as product development catches up with market opportunities.

Hy-Vee HealthMarket. The main product line under this brand is a very broad VMS (Vitamins-Minerals-Supplements) product line. This brand has a lot of future potential with customers becoming more concerned about their health and their longevity.

Midwest Country Fare. This is the name Hy-Vee has selected for what is traditionally referred to as Second Level Quality, or Price-Fighter brands. Label design is nicely done, as is packaging design itself.

Hy-Vees' association with Topco has opened opportunities for expanding their private brand program by using some of the Topco brands. Full Circle has allowed for faster expansion



With a game on the back of the box, Hy-Vee enables children to have fun

into organic and natural products, as has Paws for their pet accessory and treats or Academix for office and school supplies. The association with Topco's professional quality assurance staff has also benefited them and enhances their ability to deliver their important quality reputation with their customers. *while eating fruit snack.*

But brands can become stale... not so with Hy-Vee. They have kept current with the important trends in retailing as well as private branding. Look at the aseptic packaging for their Hy-Vee chicken broth or the response to the growing organic trends, with their adoption of Topco's Full Circle brand or the co-branding use of the Veggie Tales brand.

Hy-Vee understands and is using their private brands to enhance the value of the Hy-Vee franchise in many additional ways. They have extended their private brand to include gasoline in Hy-Vee gas stations outside selected Hy-Vee stores and in the hiring of over 100 dietitians to help answer diet related questions of their customers.

Aggressive Private Brand Promotion

Hy-Vee is not afraid to aggressively promote their private brands, to the customer as well as to their employees. Reviewing the many things that Hy-Vee does to support their private brands can be helpful as a guide for what others can do.

“Traditional” signage. The expected private brand

signing is evident as you roam the aisles. But there's already a difference: rather than the usual Compare and Save shelf tickets, Hy-Vee's shelf signs call attention to the challenge for the customer to compare prices, but only the Hy-Vee brand price is printed in large bold numerals. This allows the challenge to compare to be larger and involves the customer in the comparison.

#1. In categories where the Hy-Vee brand is the best seller, a #1 Best Seller sign calls that to the customer's attention. This addresses the fact that when we say that the private brand should be positioned next to the leading brand, the Hy-Vee brand can, in fact, be that #1 brand. And it helps employees recognize that the Hy-Vee brand is, in fact, number one in more than 50 categories.

Front and Center. In many categories, Hy-Vee store management has positioned the Hy-Vee brand at eye level and in the center of the category. This can (should) be done in as many categories as possible to reflect the retailer's support for their brands. It identifies the fact that the Hy-Vee brand is more important in the eyes of store employees, who will be more excited about encouraging customers to try those brands.

SKUs. Hy-Vee has gone rather deeply with their private brand variety in selected categories, such as Hy-Vee HealthMarket Vitamins/Minerals/Supplements and Hy-Vee light bulbs. Other brands can then eventually either be diminished or even eliminated as the Hy-Vee brand

becomes stronger and stronger.

“Hy-Vee Holiday Brands for Grands.” This promotion is an example of the lengths to which Hy-Vee goes to promote their own brands. Each week leading up to the holidays, a surprise visit was made to selected Hy-Vee customer homes. One winner each week would receive \$1,000 for every Hy-Vee private brand item found in that home (up to \$25,000) . . . others would receive \$100 (up to \$2,500). That’s commitment on a “Grand” scale. This same level of commitment is found in their displays, their display locations, their private brand ad space, etc.

Hy-Vee University. Hy-Vee promotes their private brands internally, as well, through employee education and training. Their office in West Des Moines includes a 30,000 square foot conference center used for employee meetings, training and continuing education programs. A Hy-Vee History Center was opened six years ago. Education is something that Hy-Vee has believed in for some time. In fact, Rick Jurgens, President/CEO/COO, has taught marketing courses at the Business College of Iowa State University and Ron Pearson, Chairman, has taken time to write books on retailing and marketing. What top management thinks is important, as evidenced by their actions, will be mirrored through the ranks.

Customer Focus

All five of the areas discussed above (Ideal Location, ESOP Ownership, Federal Organization,

Strong Brands and Aggressive Promotion) point in one direction—paying strong attention to the customer. By constantly listening and responding to the customer, a retailer can discover customer needs and wants early on, monitor ongoing reaction to directions taken and catch mistakes early on.

Most of the Hy-Vee model could work elsewhere. Their model reinforces the researched and proven fact that there is an almost 100% correlation between how the employee feels about their job and/or about their management with how the customer feels about the retailer. The same would be true about how an employee feels about their job and about the things that their management team asks them to do.

Higher correlation leads to higher sales and profits. Private Label magazine salutes Hy-Vee for their continuing effort to lead the way to use private brands to reinforce the direction of their company. We expect to see many more innovations over the next year.

Hy-Vee Facts	
Sales	\$5 Billion
Stores	200+
Year Founded	1930
Headquarters	West Des Moines, Iowa
Employees	49,000 employee-owners (an ESOP company)
# of PL Brand SKUs	2,500-3,000
Store Brands: Hy-Vee, Hy-Vee Grand Selections, Hy-Vee, HealthMarket, Midwest Country Fare, as well as sub-brands such as Mothers Choice for diapers and Soft Essentials for bath and facial tissue) and some Topcoo brands, such as Full Circle, Paws and Academic.	

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