IRI Growth Insights

C-SUITE CONVERSATIONS

Albertsons' COVID-19 Approach Feels Local

August 24, 2020

IRI's Growth Insights **C-Suite Conversations** showcase valuable insights and best practices as shared by CPG and retail industry leaders.

The following is excerpted from "Albertsons' COVID-19 Approach Feels Local," featuring **Vivek Sankaran, president and CEO of Albertsons Companies**. Vivek talks about finding some positives in the tumult of COVID-19, including family meals and remote working, as well as increasing opportunities for transforming CPG retail with technology. View the full **videocast** conversation with Vivek, or download the **podcast**.

We hope you consider this brief, as well as our C-Suite Conversations series, as an invitation to further the discussion of the future of our industry. As you'll learn from Vivek, technology can help us transform for the future, but nothing will replace actively listening to shoppers.

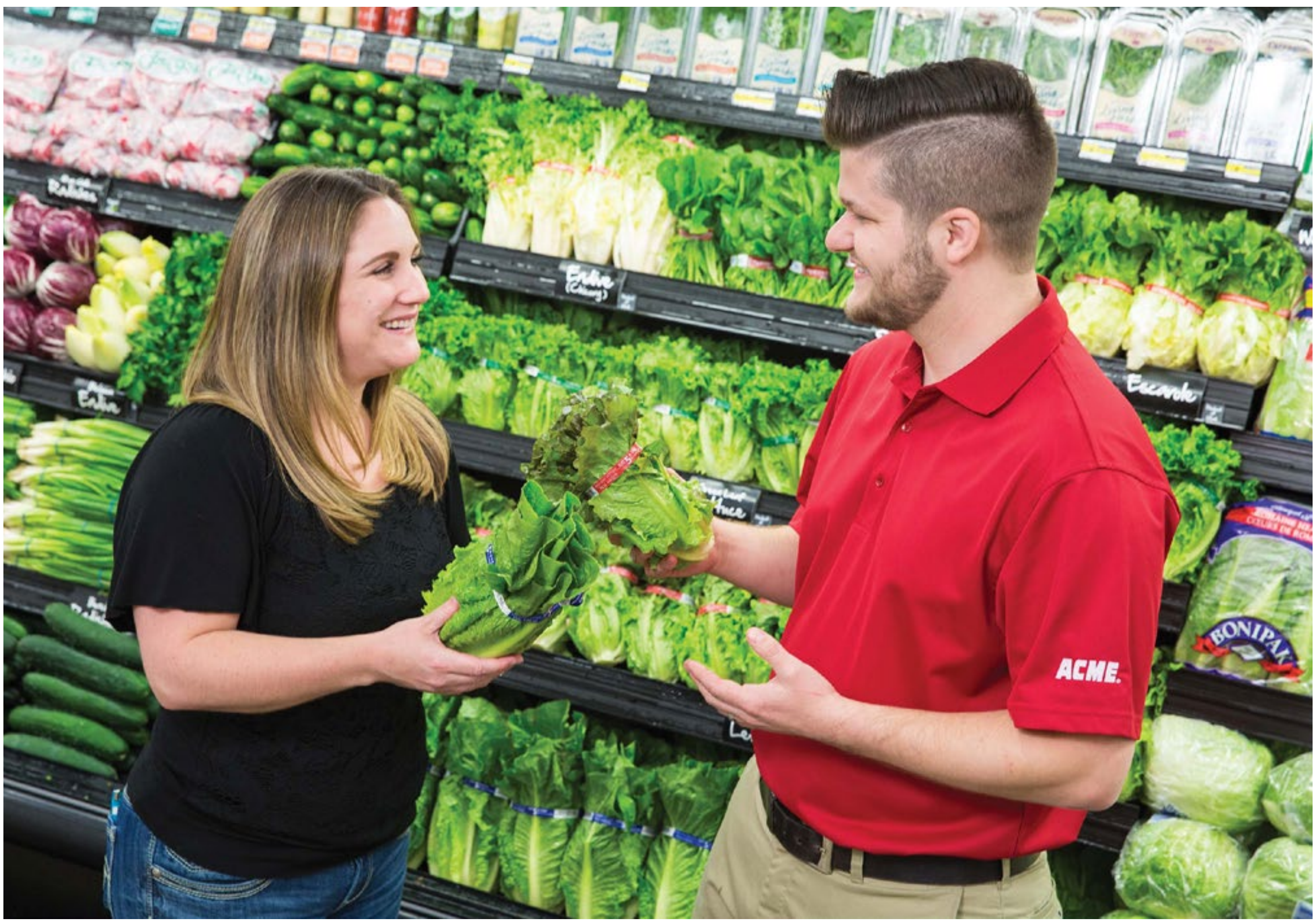
When COVID-19 broke out, Albertsons committed an additional $50 million for hunger relief. In Vivek's vision, Albertsons is a locally great and nationally strong company leveraging its $60 billion in sales to support well-merchandised and well-run local stores underpinned by technology to support productivity.

LEADERSHIP

IRI: You launched an IPO during the pandemic, a recession and a period of civil unrest, all the while keeping the company organized, motivated, and creating great and stricter cleanliness protocols. Tell us a little bit about the strategies that are getting you through this difficult environment.

Vivek Sankaran: I believe the notion that Albertsons is locally great and nationally strong. I'll tell you something I admire about our culture, and clearly, I inherited this aspect of it. When the two companies, Albertsons and Safeway, came together in 2015, they were two very different cultures that came together. One was the Albertsons culture that wanted the store operator to be like a CEO locally, and the Safeway culture believed in leveraging scale. The team has managed, over the years, to bring the best of both together. I'll give you an example: One of the challenges for us in the early days of COVID-19 was getting our hands on supplies. While we were orchestrating relationships with some of the largest distributors for restaurants that had food, our teams were building local relationships with a whole host of other distributors. It's a fragmented market. You have some big players and then it's a very fragmented market. That combination, to me, was always about getting safety right; moving fast on personal safety for our associates. We knew if they were safe that they could make the customers feel safe, and it was also about supply. And we were nimble on supply. It's one of those great examples in my mind, of a culture and organization. And the way a company runs makes a difference in a very unpredictable environment, especially when nobody knew what was coming next. You had to be so nimble, and it's the culture that enabled that. And I think it will continue to pay off as we go forward.

You know, **WE KEEP LEARNING** how to leverage the scale; how to maintain entrepreneurship. That is the essence of our cultural challenge.



LOCAL

IRI: You worked for many years at PepsiCo and most recently you were the CEO of PepsiCo Foods North America. Any contrast between your life in CPG versus running a major retailer?

VS: The biggest difference for me, in the CPG role, is that you are one step removed from the customer. As much as we think we relate to the customer and we focus a lot on it, you're still one step removed from it. Your day-to-day interface is through a body of research or through a retailer. The amount of interaction in the retail environment is fascinating. I tell people, when a customer tells you something, don't judge it as right or wrong. It's just real. Their word is real. Accept it, react to it. If she likes it, she's coming back. If she doesn't like it, she's gone. That harshness of that customer interface in retail is both fabulous and scary, but it keeps you on your toes all the time. I think that's a massive difference. And it happens thousands and thousands of times a day in every store that we've got.

IRI: So, your background should really help you a lot with dealing with CPG manufacturers, because you've seen both sides. How are you leveraging that background to serve your shoppers better?

VS: The notion of having joint business plans and getting together with the CPG companies, we can't do that with everybody. We were, but we'll do less of that in this environment. But having that kind of planning so that we can bring what we are seeing with our customer base to them as early input, those are things that'll make a difference. We need to do a lot more of it. While we are America, we are extremely diverse at a very granular level.

I can tell you, there are stores in Seattle that are three miles apart, and one store predominantly sells red onions, and another store predominantly sells white onions. That's because somebody locally understands that the types of onions that people want makes a difference. And so, **AMERICA IS STILL EXTREMELY LOCAL.**

Those are things that we can work with. There's where the innovation and what CPGs can bring matter a lot. I think another opportunity is that if you, again, start with that customer and what happens with that demand signal, there's so much opportunity in making our supply chains more efficient.

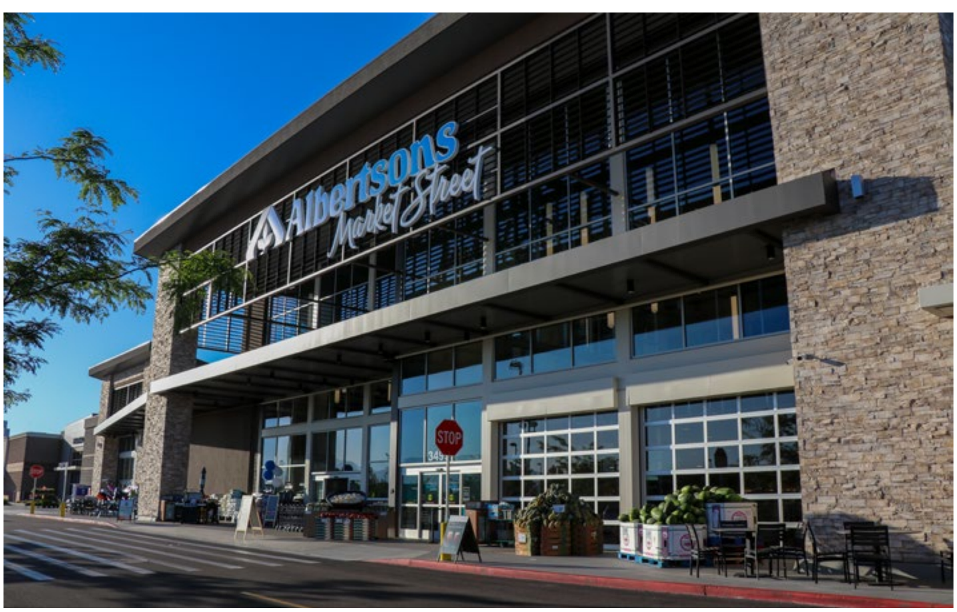
As Albertsons Companies, we have all those opportunities in front of us. We recognize that how we leverage our scale can make the interface with our CPGs even better for our customers, and that is the journey we're on.

IRI: With the pandemic, how do you anticipate joint business planning that may have traditionally occurred once or twice a year evolving?

VS: I think I see it in two ways. First, there's a lot that you cannot predict. We thought COVID-19 was going to be better in June and now it's looking tougher.

It's important to recognize that you have to be more nimble about acting in shorter-term windows, and **THOSE WHO REACT FASTER WILL DO BETTER.**

In the longer term there's a real paradox, because we have this heightened level of demand, but I can empathize with a CPG leader who is thinking, "Do I add capacity now or not?" You know, companies are held to a very high standard on ROIC (return on invested capital). For them to add capacity, they really have to get their mind around whether this demand is going to stick or last just for a few more months. A lot of them are going through that challenge, so I can appreciate what they have done in reducing the number of SKUs so that they can keep longer runs. But I tell all our CPG partners that they were innovating in the past for a reason. And that reason was the customer; the reason was the diversity in America's customer. That's not changed, and I hope they continue to bring the innovations to retail that were such an essential part of their growth and our growth and the vibrancy in retail that we had pre-COVID-19.



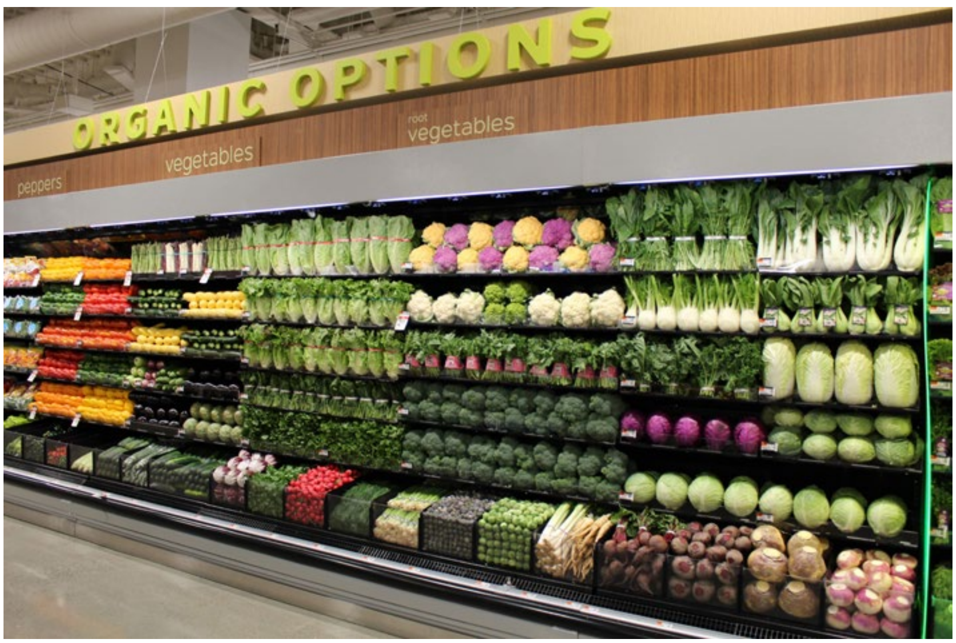
IRI: What has changed and what has not with COVID-19? What do you think are a few key trends that are here to stay because of the pandemic?

VS: A year ago or year and a half ago, we would talk a lot about the notion of on-the-go. It was very real; breakfast was on-the-go, lunch was on-the-go, and even dinners were on-the-go. And we talked about how many of us grew up in a family structure that sat down for an evening meal. And we talked about how that just blew up. Mom might be coming back from work and running between four sporting events. It's so amazing that that degree of emphasis on being on-the-go just disappeared like that. Now we're seeing a lot more people eating at home. Products that are selling well in our stores are meal-centric items, baking items, meats, that people are going to cook with, such as spices, etc. You can see meal-centric behavior coming in.

Now, I think two things are happening. One is a lot of sameness to our lives because we are doing video conference calls every day. We're all realizing, too, that working remotely is not such a bad idea. But on the other hand, I encourage you all to think about what a great opportunity it is to have a meal at home with family so many evenings a week. Maybe we'll never get this opportunity again, but you're getting it now. And I think people are recognizing that it's fun. You know, "I'm connecting with my family again in ways that I didn't before." I think those two forces, in my opinion, are going to make eating at home stickier for longer than we think; those two forces are going to be pretty powerful and get people to eat at home more. That's the single biggest shift I'm seeing: less on-the-go, more of that prepared trip where I'm going to shop for the week. It's bigger basket trips and more complete baskets in one store. That's the trend we're seeing, and I think it's going to stick.

IRI: That has immensely benefited grocery. Grocery used to donate share to other classes of trade for decades, but now grocery's market share has picked up in the last few months. E-commerce has also accelerated. How do you see those two trends evolving from your perspective?

VS: E-commerce has accelerated, but I don't know if the rate of acceleration will stay the same. It'll level off to a point but will stay at a higher level than pre-COVID-19. And then it might get back to that same level of acceleration. E-commerce has gotten to a different level of scale, however. When it gets to a different level of scale, you have the ability to accelerate changes and you can do more with it. The rate of e-commerce acceleration will stay slightly higher than pre-COVID-19. I think it's fabulous. It's what customers want and we're going to give customers what they want. And you're seeing the retail sector at large responding to that point.



Now, with regard to grocery itself, if you're going to cook a lot more at home, you want quality in your produce and quality in your meats. You cannot freeze fresh produce. You go back to where you have that differentiation, especially on the fresh section of the store. And then if you want to reduce the number of trips, then you certainly want to complete your basket in one store. Grocers tend to be typically really good at fresh and tend to carry variety, whether it is gluten free, or organic, etc. You get it in all our stores. And I think that's helping support the notion of completing your basket.

LOYALTY

IRI: It's interesting that the first thing you thought about was the quality and freshness of products, and then filling baskets versus the efficiency of time that it takes to go to the store in an environment where people want to get in and get out quickly and don't want to spend a lot of time shopping. Do you envision that this will stay? What actions are you taking to connect with these consumers and retain them over time as they've come back to the grocery environment?

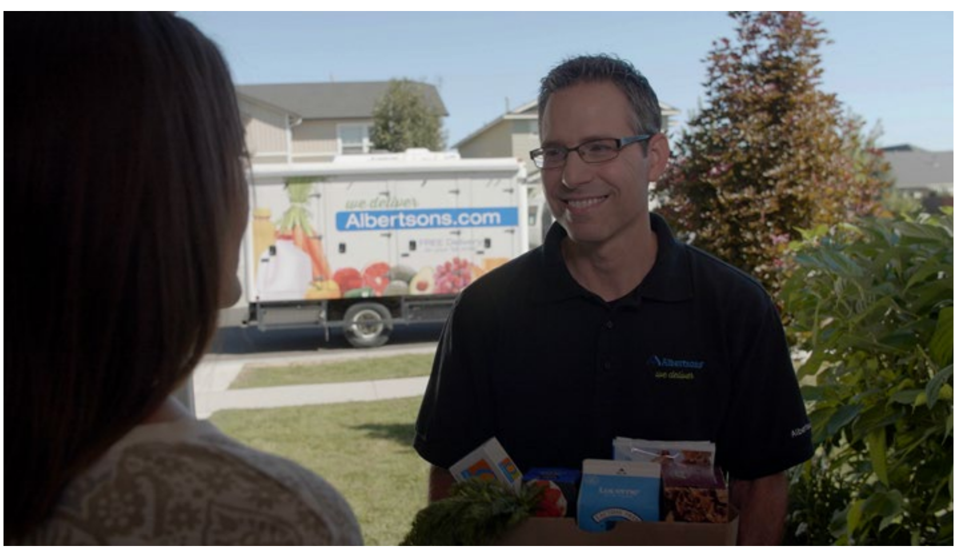
VS: Clearly, our objective is to retain these customers and a higher baseline business that we've added because of this pandemic. We have the loyalty program and other things, so we understand customers at a granular level and we're working to keep them shopping with us. Foodservice grew 70% between 2009 and 2019, to $771 billion. And away-from-home food spend overtook in-home food dollars to become the leader. Now that happened in the greatest economic expansion we can all remember in a long time, without COVID-19, and without work from home as context. Even in the best scenario, let's say now we're down 10% that shifted the other way. It's going to be slow just getting back to pre-COVID-19 levels. But you have a recession, you have work-from-home policies, and you still have a pandemic and worries around it. If I were betting, I would be betting toward this behavior becoming entrenched for longer. And the shift away from home taking longer than it did in the last decade before COVID-19. If you accept that behavior, then you're going to go back to fresh. But I think we're all going to be trying to provide people with more convenience, prepared meals and so on in our stores, too.

IRI: You were just talking about e-commerce and the role of technology in changing the retail landscape. How do you think about technology or reinvention impacting Albertsons as an organization, and running a $60 billion company?

VS: I've been on this story for a few years now about this passion for technology, and the way I articulate it to people is I ask them to look at their phone. Is there any app they've got on their first page that they don't use typically? No. Is there any app that works nine out of 10 times? No. If there's an app that fails one out of 10 times, it will not be on your phone. Is there any app that takes 30 seconds to load? No. Yet in our business lives we tolerate all of those things. We'll say, "Hey, most of the time it works. It's a little slow. I mean, I get that circle and it's a little slow, but it works. It's very helpful." And we talk like that. We in business have accepted this notion that mediocrity is OK in technology. I don't understand it; as human beings, we leave the office and our expectation for technology goes up 10X. Companies have to embrace that if it's helping us in our personal lives, it should help us even more in our professional lives. That's step number one. We've all gone through Lean Six Sigma and we've done all those things for decades in business. We're getting to the place where if you want to jump on a new S-curve on productivity, if you want to jump on a new S-curve on growth ideas, if you want to jump onto a new S-curve on managing data, you have to embrace technology. There isn't a part of the business that I look at where my first question isn't, "What are you going to do with technology for growth and productivity?" And that's how we think of our strategy. There's a growth agenda, there is a productivity agenda, and there is a technology agenda that is supporting growth and productivity. And there's a talent and culture agenda that's supporting all three.

IRI: Think about the three to five most transformational areas or ideas. Any thoughts on where you see the biggest opportunity to use technology, for growth and for productivity?

VS: Customer-facing is a huge opportunity. Whether it's getting more granular with the loyalty engines we have, getting more granular about the demand signals that we're getting into our stores and into e-commerce, being able to predict the order patterns that are occurring on e-commerce. And when I say technology, I'm including data in it. Don't think robots, think harnessing the power of data, too. Having the demand signal so you're better in-stock, sending it all the way through the supply chain, all of those things are one part of it. There's technology and productivity. It's automation of all of the work that we do in our distribution centers; it's automation in our stores. There's so much that is productivity-centric that I am thinking robots; I'm thinking of the types of physical activity that you can do more efficiently with robotics. The lens I'm always putting on it is that it has to be helping a growth priority or a productivity priority; otherwise it doesn't have a role. I will tell you that we're also doing a lot on creating a cloud-based infrastructure so that it can be more flexible and malleable. It's served us really well and we saw huge spikes in our e-commerce omnichannel business over the last several months. And we were delighted because we were on a cloud and we just expanded it nicely. Amazingly, the technology was not our constraint over the last few months.



IRI: How are the data and insights embedded in your digitization efforts at Albertsons? Do your merchants use them routinely?

VS: In our business, we think that we should use more data; as a retailer, we think of transactions. We think of customer count, we think of basket size and so on. That's one part of the data that we use. And those are the input signals that we're managing the whole business to. Granularly, you look at the demographics around stores. But the other piece of data that we're increasingly thinking about is the lifetime value of a particular customer.

Is this household engaging more or less with us? Are they engaging in more categories with us? **WHAT CAN WE DO TO CREATE MORE LIFETIME VALUE AND STICKINESS?**

This is the temporal data that I see and act on in a narrow window. And then there's the longitudinal data, and I learn about a particular household over time and how I'm able to create more value for them and in turn, create more value for us.

IRI: This industry seems to think most purchases are separate from the prior purchases and that the interactions with consumers don't seem to create future positive or negative changes in their behavior. It's a source of opportunity because we're not in an industry that's traditionally used lifetime value concepts, and therefore doesn't make decisions where maybe the short-term benefit is flat, but the long-term benefit is high because it's creating loyalty and more trips.

VS: It's surprising that telephone companies that we may have transactions once every three years think of lifetime value. Yet in grocery where shoppers transact three times a week with us, we don't think of it. That's the opportunity for our whole sector and for Albertsons.

TECHNOLOGY

IRI: As you think about technology enabling the organization, there's one school of thought that wants to make access to the information or the prescriptive analytics easy for end users. So, call it the Google search model of the future for a merchant or a marketer. And then there's another school of thought that wants to make all users really good at using the tools and create more sophistication in the employee. One view is "make it easy" and another is "make everybody better." Do you have a thought on that as you've been thinking through the transformation of the organization?

VS: I hadn't thought about it that way before but if I reflect on it, in a store environment, if I'm trying to get the grocery team to order frozen better, their primary objective with that technology and the question you should be asking is, "Have you made their life simpler?" If you made their life simpler, they're going to adopt it. If it made their life harder, they are going to ditch it. That's what they should be doing. When you put in an automated ordering system, you don't want to massively deviate from what they typically do. You just want that information to feed them to be more accurate, better, and over time that they actually trust that it's the right thing for them. It makes it easier because they don't have to count as much, etc. They can spend less time ordering and spend more time taking care of a customer. That's one scenario.

There are other cases, e.g., promotions, where I want the technology to challenge even the way we do it. Because you want technology and data and the science behind them to challenge what we choose to do and how we do it and when we do it.

YOU WANT THE TECHNOLOGY TO TRANSFORM PROCESSES. So, I think it really depends, but if you're trying to change the behavior of 200,000 people every day, 10 times a day, make it super easy.

All day, the sophistication is way behind, it happens in the background. If you want to change 200 people on a very important topic, then the technology should enable fundamental change. And we have a little bit of both going on.

IRI: Going back to your paradigm of "open your phone, look at the apps, they have to work, and they have to be fast," you're thinking about our lives as consumers. Most of these mega cap companies make it easy to access the information; they've made your life easier with app stores, Google, e-commerce platforms and voice devices.

VS: Even on the ones where I'm talking about wanting to change process, the user interface and the ease of working with it is still extremely important. It's the place where you get the biggest noise, even when it's very sophisticated; the reference point is the apps that you got over here, that's what's setting the bar on what's easy now.

IRI: You talked about customer lifetime value. We also talked about new consumers and shoppers; what are some of the things that attracted them to you? And what are your plans to retain them and get the maximum value from them and also offer the maximum value to them?

VS: In terms of why we got them, it's layers of things that start with the fact that we have stores in some terrific locations. The fact that our stores have been around for a long time and are in markets and retail locations that are close to where people live. Then you add to that the fresh assortment and the variety, and both are important. Remember, it's the complete the basket mindset. Those are the layers, and then it's our ability to be really nimble and drive the agenda and provide them with what they came looking for so that they're not disappointed. And then they come back again because we want them to feel like they can go to our stores and reliably get almost everything they want. We need to give the shopper that confidence. Our biggest engine that allows us to retain them is continuing what I'll call the fundamentals of everything I just talked about, but then having that more granular approach to our loyalty program. That's the added feature. Besides running a great store every day, it's the loyalty program and everything we can do to make sure that we retain them both on the frequency with which they shop and the size of the basket. That's what we're putting a lot of energy into. And a lot of customers now shopping with us are spending more with us because of the omnichannel capability we have. But that also is a data-intensive transaction, so that's another one that gives us the opportunity to retain them.

IRI: We anticipate that as they face greater uncertainty of unemployment benefits, the consumer is going to be a lot more careful going forward than the last three months and exercise more recessionary behavior. How are you fine-tuning Albertsons' value proposition to appeal to those value-conscious consumers?

VS:

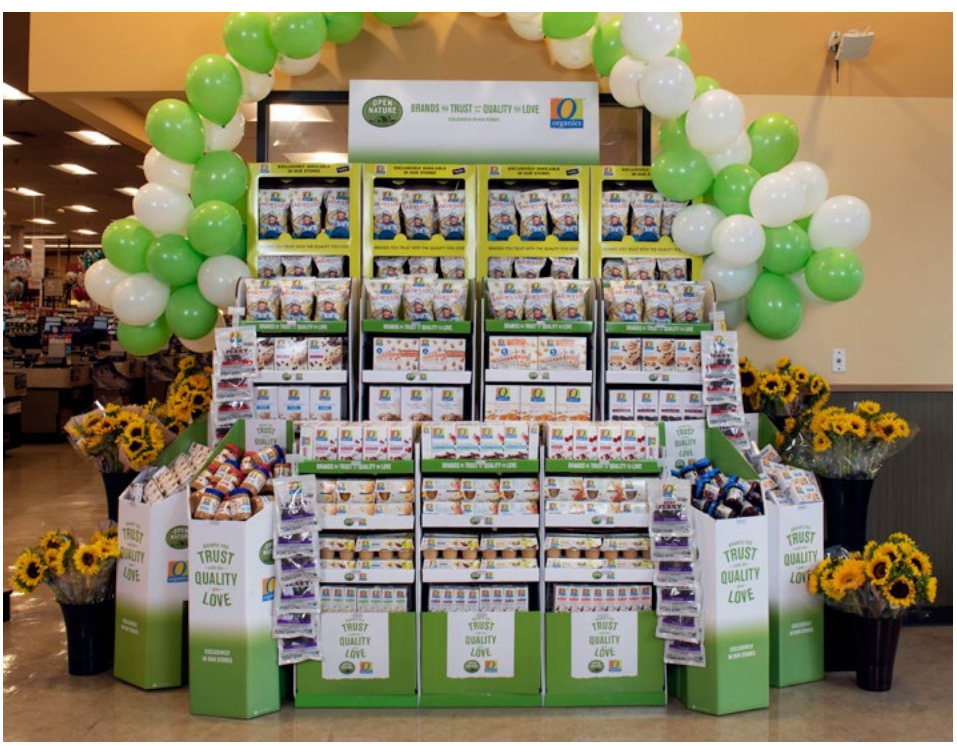
This recession, unlike the last one, **IS A LOT MORE UNEVEN ACROSS THE COUNTRY.** I literally mean by zip code. There's a great article in The New York Times (August 6, 2020) with some research about the granularity of unemployment. **OUR APPROACH WILL BE GRANULAR TO ADDRESS THAT.**

And the way you address that is by making sure that in the markets that matter that we offer a deeper value for those customers that need it. And that can come in many ways, including pricing, pack size, different assortment or a better own-brand presence in those markets. We know of recessionary categories or items within categories that tend to index more in a recession. It's important in this recession to take a much more granular approach because it was not led by a financial sector that affected everybody. Some are struggling more than others and if you happen to be in a particular market area, the consumer is likely to be struggling more.

IRI: How do you think about your own brands for the recession, but also beyond the recession?

VS: That is another thing where your perspective changes when you come from CPG to retail. I love own brands. If you go back 10 or 15 years, the proper value proposition on own brand was it's a lower price point, you compromise on quality. But you can't win with that anymore. Today, there's a role for own brands as an opening price point, yes, but the consumer is not going to compromise on quality. The bigger excitement about own brands is the innovation we bring. Our fastest-growing brands among our own brands are O Organics and Open Nature. They're the fastest growing because they give our customers some sort of differentiation, something special.

I love our Open Nature cauliflower pizza. It's just fantastic. It's a great product, and I can't find it anywhere else, obviously. When you take your own brands into that kind of a direction, it starts becoming a destination. Not all of it, but a set of items. A few items in that store start becoming a destination, and she's going to come back for that. There's an opening price point, but then there's the innovation. A CPG company today needs to be investing in brands and innovation. There's going to be A brands and there's going to be B brands. But if you're a C brand, that's a dangerous place to be. What's the role of the C brand? We've got choices we can give customers.



IRI: Do you see own brands playing a role in customer lifetime value and customer loyalty? Are you seeing that happen as you roll out higher-quality own brands?

VS: Yes, our customers who over index on own brands are spending a lot more with us. I always worry about the cause-effect of those kinds of things, but you need to have things in your store that are destinations. CPGs are not destinations, because by definition their ambition and business model are to be omnipresent. So, the destinations have to come from fresh and own brands. It's destinations that bring people back into that store. We can innovate around fresh and own brand. Any other branded player has no incentive to create a destination for any one retailer.

IRI: One of your ex-colleagues, from the company you previous worked for, in describing you, said, "Vivek is one person, one leader in the company, into whose office I go, and when I come out, I feel good. Even if he is being critical of my work or providing me coaching, we always feel good when we get out of his office and we are inspired, and we are motivated." Now with 2,200 stores in 34 states with this very innovative local culture, what's the magic trick by which you inspire all of your colleagues?

VS: That's a nice compliment from my ex-colleague. I love being out there. I get so much energy when I visit a store and when I'm meeting people. And I try to learn from everybody. I'm in this role because I've had many lucky breaks. I'm a very lucky guy; I was lucky to get a visa to come to America, first of all. I've had a lot of luck and I've had a lot of mentors. In some ways I'm very grounded in the belief that I am who I am, and when I'm interacting with people, I'm trying to pay that forward in some way. When I get out to the stores, I learn so much from it. Here's one thing I know: We are about 300,000 employees strong. I know that 299,999 employees know more about retail than me because I'm the newest member of this family. So, I am always in a learning mode and people love to teach and talk and I get a lot from it.

IRI: If you were to run into yourself two years ago in your prior role, what advice would you give to your prior self of things that you should continue to do and things as the leader of a big, meaningful package goods company, that you should think about differently?

VS:

If I had a chance to go back in time to be the CPG leader I was, I would spend more time in stores, and I would spend more time in stores beyond my category. That's the mistake I made. I thought of my category as my world and maybe it's true, and in some ways I should think that way, **BUT THE CATEGORY IS ALWAYS PART OF THE BROADER DYNAMIC OF A STORE.**

And if I had sat down and understood what's going through a retail leader's mind – and by the way, it's an online store or a physical store – it is managing that interface with the customer and what we are trying to accomplish. I don't think I had an appreciation for that. In some ways I think I was myopic. I was credible; I was deep, but I was myopic from a retailer standpoint.

Let's continue the conversation. We invite C-Suite leaders to share their perspectives on the changing CPG retail demand curve in an upcoming episode of Growth Insights. Please contact your IRI representative or **email us**.

About IRI

IRI is a leading provider of big data, predictive analytics and forward-looking insights that help CPG, OTC health care, retailers and media companies to grow. With the largest repository of purchase, media, social, causal and loyalty data, all integrated on an on-demand cloud-based technology platform, IRI guides over 5,000 clients globally in their quests to remain relentlessly relevant, capture market share, connect with consumers and deliver growth. **IRIworldwide.com**

Corporate Headquarters: 150 North Clinton St., Chicago, IL 60661, USA, +1 312.726.1221

IRi
Growth delivered.