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Transforming SUPERVALU by Exploiting Scale and Becoming Hyperlocal

Introduction

In late 2011, SUPERVALU, the third largest grocery company in the U.S., was concerned because its stock had been underperforming its sector since early 2008. In 2007, SUPERVALU's share price hit a high of about \$49 a share, but by calendar year 2011, the stock hovered between \$6 and \$11 per share (see figure 1). In addition, the company had one of the highest debt levels among American companies—\$6.8 billion of junk-rated debt.

Shareholders essentially look at our company and say we're the next grocer to go bankrupt. —Craig Herkert, CEO

Though the bulk of SUPERVALU's sales came from its retail business, the company also maintained a wholesale supply chain business that served 2,700 independent stores and accounted for 23% of revenue. But the traditional retail channel, in particular, was struggling. Same-store sales had been falling since 2007, with retail revenues down 17% from 2009 to 2011. By late 2008, SUPERVALU's PE ratio was less than half that of key competitors Kroger and Safeway, and the board realized it needed to take action.

In 2009, SUPERVALU's Board of Directors hired Craig Herkert as CEO to turn the company around. Herkert was an experienced retailer: he had spent twenty-two years at Albertsons, followed by nine years at Wal-Mart where he became President and CEO of the Americas. He was excited by the challenge at SUPERVALU, because it was an opportunity to try something new, in a company that was ready to make major changes in how it did business.

His approach was to initiate a business transformation that leveraged both scale and local autonomy.

Background

SUPERVALU can trace its history back to 1870, as a wholesaler of dry goods serving Minneapolis–St. Paul and surrounding rural communities in Minnesota. Over the years, the company grew to be one of the largest wholesale distributors in the U.S., mostly by serving a network of independent family-owned grocery stores.

In the 1980s, SUPERVALU itself became a small-scale retail grocer after it acquired Minnesota-based Cub Foods, which at the time operated five stores in the Twin Cities area.

This case study was prepared by Anne Quaadgras, John Taveras, and Jeanne W. Ross of the MIT Sloan Center for Information Systems Research. This case was written for the purposes of class discussion, rather than to illustrate either effective or ineffective handling of a managerial situation. The authors would like to acknowledge and thank the executives at SUPERVALU for their participation in the case study.

Retail acquisitions continued steadily through the 1990s, and by December 2003, SUPERVALU's retail operation consisted of 257 stores, primarily on the East Coast and in the Midwest.

In 2006, SUPERVALU acquired West Coast grocery chain Albertsons, which added 1,124 stores to the fold. This was SUPERVALU's largest acquisition, and it changed the company's revenue model. Until 2006, SUPERVALU had been primarily a wholesaler, but the acquisition of Albertsons meant that SUPERVALU would drive most of its revenues and profits from retailing:

All of a sudden...we became the country's third largest grocery store company overnight, with really no cultural history on running a grocery business, and certainly no built-in capacity to do so.

—Craig Herkert, CEO

Each retail chain, referred to as a banner¹ by management, retained much autonomy following acquisition. Each banner had its own president and management team, and functioned much like an independent entity. The company chose to keep the banner names, rather than rename all stores, to ensure continuity for local customers:

A customer who has been shopping—let's say at Albertson's—for twenty years because her mom shopped there for twenty years before that...what they know is the name on the front of the building...I am passionate about this idea of banners because we have this brand equity, which is well over a hundred years old in some of these companies.

—Pete Van Helden,
EVP, Retail Operations

To take advantage of its distribution capabilities and newfound size, SUPERVALU's decisions were made at headquarters. Corporate determined all pricing and merchandising. Store directors had

¹ In early 2012, Supervalu owned and operated 1,108 full service retail stores under the following banners: ACME (116 stores), Albertsons (445), Cub Foods (46), Farm Fresh (43), Hornbacher's (6), Jewel-Osco (181), Lucky Stores (4), Shaw's and Star Market (169), SHOP 'n SAVE (42), and Shoppers (56). Source: SUPERVALU website, accessed January 11, 2012.

to execute the plans, and were audited regularly to make sure they did it right.

We were paying [store directors] fairly significant dollars to execute our plan and not think about it. Up until March [2011], we were telling every single store what merchandise had to be on every end cap.²

—Craig Herkert

SUPERVALU struggled to address the competitive pressures of the growing presence of low-cost retailers such as Wal-Mart and Target in the grocery industry. On several occasions, management reacted to lower-cost competitors by lowering prices in all SUPERVALU stores. But lower prices did not quickly generate new sales, so price cuts simply decreased revenues, leading the company to return to higher prices. In the process, the company lost market share in many key markets (see figure 2 for an example).

Turnaround Strategy

Faced with increasing competition and deteriorating financial performance, in October 2010 Herkert set a turnaround strategy that sought to lower costs by leveraging SUPERVALU'S scale. This "One Company" strategy consisted of a series of transformation initiatives that would achieve economies of scale through standardization, especially in its back office processes. The idea was that since all the banners were part of the same company, pooling their resources could improve the company as a whole.

At the same time, SUPERVALU drew inspiration from its thousands of independent wholesale customers who were succeeding, not through price, but through localized service.

These 2,000 independent [mom-and-pop] grocers we serve today, how the heck did they survive in a world with Wal-Mart? Shouldn't they all be out of business? But not only are they not out of business, they're thriving. In fact, they're doing better than the stores we own. Why is that?

—Craig Herkert

² End caps are the display areas at either end of an aisle that feature key sale items.

SUPERVALU coined the term “hyperlocal” to describe the reason for independents’ success. “They’re really of the neighborhood,” Herkert realized:

We said, well, gee, if that works, why don't we just run the stores we own the same way?...So then we said, let's be America's neighborhood grocer.

—Craig Herkert, CEO

While lower costs resulting from the One Company strategy would certainly help, to survive in the increasingly competitive grocery industry, SUPERVALU knew it would have to lower prices. But unlike past price cuts, these would have to be sustained.

I've been through more price reduction initiatives than you can possibly count in my career, and they all failed. Why? Because we never funded them.

—Pete Van Helden,
EVP, Retail Operations

SUPERVALU aimed to achieve sustainable pricing by pre-funding it via the savings it would achieve through the One Company transformation initiatives. This way, “We know we have the money before we spend it,” Van Helden explained.

But pre-funded price-cutting alone was not enough. To become America’s Neighborhood Grocer, SUPERVALU knew it had to delegate some decision making to the store directors.

The person that leads each of our stores has a disproportionately large impact on our results...part of being hyperlocal is delegating out certain amounts of decision-making accountability.

—Dave Pylipow,
EVP, Human Resources

Therein lay a conflict.

There is a tension between winning by scale and winning by being relevant to the neighborhood. —Wayne Shurts, CIO

The One Company strategy would require moving from banner-based to centralized business processes, while becoming America’s Neighborhood

Grocer would require moving from centralized to store-centric decision making. Combined, these two strategies would require both increased collaboration across banners and increased delegation of control to store managers. But with no cultural precedent to enable these changes, how would SUPERVALU right the ship and succeed?

Driving Change

By growing its retail business through acquisition, SUPERVALU obtained a set of autonomous regional chains, each with its own culture and way of working:

What we acquired was wildly disparate cultures, wildly disparate go-to-market strategies, and wildly disparate systems—quite old by the way. —Craig Herkert

As a result, there was little cohesion among the banners:

Each banner had great pride in what they developed and “not invented here” was all over the place. —Wayne Shurts

SUPERVALU realized that to successfully execute its turnaround, it needed to move from a culture of autonomy and hierarchy to one of shared success, transparency, and open communication.

SUPERVALU set out to execute its business transformation by doing three things: (a) centralizing back-office processes and creating shared infrastructure through collaboration by banner presidents, (b) creating a culture of sharing by store directors across banners, and (c) empowering store directors with greater autonomy.

Centralizing Processes and Developing Shared Tools

As parts of a company assembled through acquisition, each banner operated on its own antiquated legacy system. This was a major source of inefficiency for SUPERVALU, and kept the company from enjoying its scale. As part of its One Company strategy, SUPERVALU began centralizing some systems and back-office processes. For example, each banner had operated its own independent point-of-sale (POS) system, which limited the company’s ability to run cross-

banner promotions and product initiatives. To provide a single source of data, enabling a richer cross-banner rewards program for customers, by May 2012 the company planned to replace each store's POS system with a centralized system.

The company was also implementing a single, centralized process to manage hiring of store employees:

We're putting in place a uniform hiring process. Decisions are made locally, but using one set of tools; we're not paying for multiple sets of tools. —Dave Pylipow, EVP, Human Resources

To encourage creation and adoption of common tools that met the needs of all the banners, the leadership team introduced a way for banner presidents to collaborate on business transformation initiatives. Specifically, each of the ten banner presidents was made responsible for building and piloting a business transformation tool within his or her banner, and then rolling out the tool across the other banners. Ultimately, each banner would build one tool and get nine in return from the other banners.

One such tool involved using POS data to measure movement of produce items, and determine how much to hold in stock and how much space to allocate. Holding the optimal amount of red peppers, for example, would reduce spoilage and lower costs, and thus provide a source for price reductions.

According to Shurts, the decision to have each president responsible for implementing a tool across all ten banners completely shattered the model of “not invented here”:

The banner presidents work with one another in a much healthier way by developing these tools and rolling them out together. You also get rid of this whole thing about, OK, here comes another tool from corporate. —Wayne Shurts, CIO

Creating a Culture of Sharing

In March 2011, the company brought together all 1,100 store directors for the first time in its history. In that meeting, the leadership team

introduced the company's turnaround strategy and the role that store directors would play in it.

The meeting was well-received by store directors:

It was a great program to get everybody focused on the same thing: one team winning. Everybody's talking about hyper-local, everybody's talking business transformation, everybody's focusing on the same thing. We're not getting conflicting messages down the chain. —Mark Beale, Store Director, Albertsons

Herkert referred to it as a seminal moment. Senior management and many store directors felt that meeting was the first moment symbolizing unity across banners.

As part of the effort to encourage a culture of sharing, the leadership team introduced Yammer as a tool for sharing ideas:

We believe [store employees] know what ails us and they probably have some good ideas around how to fix what ails us...and social media is just the tool that can come in and unleash that and make good ideas [and] new dialogue spring up, flatten this organization and have a whole other layer of our colleagues involved in doing what's right for the company—generating new ideas. —Wayne Shurts

Yammer was initially implemented at SUPERVALU to create cohesion among the executive team members. The team had been physically split between offices, and the hope was that Yammer could help the team better communicate and collaborate. But that idea never got traction. The executive team simply did not want to use it, especially once they had all moved into the same building.

One executive suggested opening it up more broadly to other employees, and according to Herkert, “all of a sudden this thing takes off.” Store directors started using Yammer to communicate, share ideas, and get advice from other store directors. A store in Chicago, for example, became the number one seller of pizza in its

district as a result of a marketing idea the store manager obtained from a colleague via Yammer.

In addition to receiving the general company feed, employees were also able to join private groups relevant to them within Yammer. Two prominent groups were “College Stores” and “Beach Stores,” which were dedicated to stores located near those types of locations. These private groups were formed organically, and not mandated by corporate. Successful marketing campaigns, such as one involving \$6 pizza on Fridays geared toward college students, were initiated on Yammer.

Besides sharing merchandising and marketing ideas, employees have used Yammer to bypass levels of communication and speed up business processes.

We’ve seen examples where somebody says [on Yammer], “Boy, I understand we have xyz product in our system someplace. I can’t get it in my store; anybody know how I can get it?” And lo and behold, somebody says, “I know,” and in a much shorter period of time than would have ever happened historically, we have it in their store...That used to go through layers of communication and it might have been months before we’d find a way to get it in there. —Dave Pylipow, EVP, Human Resources

Many credited Yammer with helping to shift the culture from one of differences and competition to one of sharing and openness.

[Yammer] is a huge vehicle for us to share best practices, whereas before if somebody had a great idea, it was held close to the chest... “I don’t want to let anyone else know what’s making me great because then they might take my job.” —Mark Beale, Store Director, Albertsons

Beale credited CEO Craig Herkert with driving this culture change merely by being a very active participant on Yammer.

He is the one who started this and I can honestly tell you that every time I have posted something on Yammer, I’ve gotten

a response from him. And to me that just shows his dedication to the program...I’m sure he’s a busy man, but for him to be able to comment on each store’s post, to me that’s just phenomenal. —Mark Beale

Herkert blogged every Saturday on Yammer and took pride in employees’ newfound access to him.

In the past, if a store director wanted to get some information to me, he or she would have to tell their [District Manager], who would tell their area VP, who would tell the senior VP of Ops, who would maybe tell the president of that organization, who would then tell Pete Van Helden—the EVP of Ops—who would then tell me. And now it’s on Yammer and I see it. —Craig Herkert, CEO

Yammer was not fully adopted by all store directors—about 20% of store directors were on it by September 2011, according to Herkert. (See more Yammer-related data in figure 4.) But the leadership team had no intention of forcing adoption. In fact, Pete Van Helden, EVP of Retail Operations, believed that one of the reasons for Yammer’s success within SUPERVALU was that it was not mandated by corporate.

You will get on and you will find it to be valuable for you. And you will choose to stay on there, not because I’m making you do it. You’re going to do it because you find good reason to be on there. And if you don’t, don’t worry about it. —Craig Herkert

Empowering Store Directors

Traditionally, store directors had little influence in how their store was run. Almost all aspects of the business, particularly marketing and merchandising, were determined at headquarters and pushed to the store director for execution. But Herkert realized that store directors could do much more.

We ran our business for the 10% [at the bottom of the bell curve] because we made sure that no knucklehead could run a bad store, instead of running it for the 90% who care. —Craig Herkert

In its effort to become America's Neighborhood Grocer, the company began delegating authority to store directors. Merchandising half of all end caps in each store was one of the major decisions handed off to store directors. End caps are valuable spaces to prominently display products, and traditionally those spaces were fully controlled by corporate. Now store directors could decide which merchandise to feature based on their understanding of customer needs.

Store directors were also given more leeway in merchandising their stores based on the needs of their community. For example, a store near a college decided to sell Scantron forms because the only other place nearby that sold these forms closed at 5:00 p.m. Likewise, stores in Hispanic neighborhoods, for example, could choose to carry items more relevant to Hispanic cuisine.

Much of store directors' influence on inventory and merchandising, however, was limited to items along the perimeter of the store (typically produce and other perishables). They also had no control over pricing. Pricing, as well as merchandising of most items within the aisles, continued to be centrally managed by corporate, to capture economies of scale. Nonetheless, store directors' newfound influence was in stark contrast to the prior status quo.

It's different for every store, but this is a beach store and hyperlocal to us has meant many different scenarios, whether it's getting involved with the retirement homes or little league or beach clean-ups, or just basically bringing in new items that the customers are looking for that maybe they've seen somewhere else.

—Mark Beale,
Store Director, Albertsons

Given the increased responsibilities of the store director, the company realigned its training, development, and incentive programs. In partnership with a consulting firm, SUPERVALU developed a comprehensive annual performance review to assess store directors on ten competencies and five "success habits." Figure 5 includes a portion of the performance review.

Store directors who rate highly on all fifteen criteria in the review are considered "Great Store Directors." With that title come many perks, including full control of their work schedule, greater flexibility on merchandising, higher compensation and bonuses, and a special company retreat with spouses invited.

If they achieve the status of Great, they have no handcuffs...We basically say, you don't need to be supervised...because of the assessment you went through, we trust that you make good decisions.

—Pete Van Helden,
EVP, Retail Operations

Also as part of the realignment, Great Store Directors were assigned an executive mentor. This relationship was two-way: the executive provided guidance, but store directors also advised executives, on initiatives and business ideas.

SUPERVALU also committed to developing store directors who were not "Great." District managers were trained to coach those store directors. In fact, in the first year of the program, only 54 store directors were considered Great, but by year two, over 200 store directors were classified as such. According to Van Helden, "Everybody could be great." Those with poor performance (failing four of the ten competencies) had six months to improve, or they would be let go.

The Great Store Director program also served as a talent acquisition and retention tool.

The ability it gives me when I go after a competitor's store director, to say "if you come to work for SUPERVALU, and you can achieve Great status, here is what you get." And it's a great tool for retention, because I think no other company offers these kinds of perks for great store directors.

—Pete Van Helden

Next Steps

By 2011, the Business Transformation strategies had begun to generate results and provide a source of pre-funded price cuts. In the fiscal 2011 Annual Report to Shareholders, Herkert listed "significant cost savings" as a major accomplishment:

SUPERVALU removed \$175 million from its cost structure through the consolidation of administrative functions, procurement efficiencies, and facilities management. —Craig Herkert, CEO

And in October 2011, Herkert noted that identical store sales were down less than 2% (they had been falling at over 5% per year since 2009):

Am I happy with where we're going? Yes. We are far from winning. But we have reversed our trends across the enterprise. Very publicly, we have reversed our trends across the enterprise. We continue to see the right trajectory. But I want to be clear, we are nowhere near where we need to be to say, OK, we're done, we're winning. This is a multi-year effort for us.

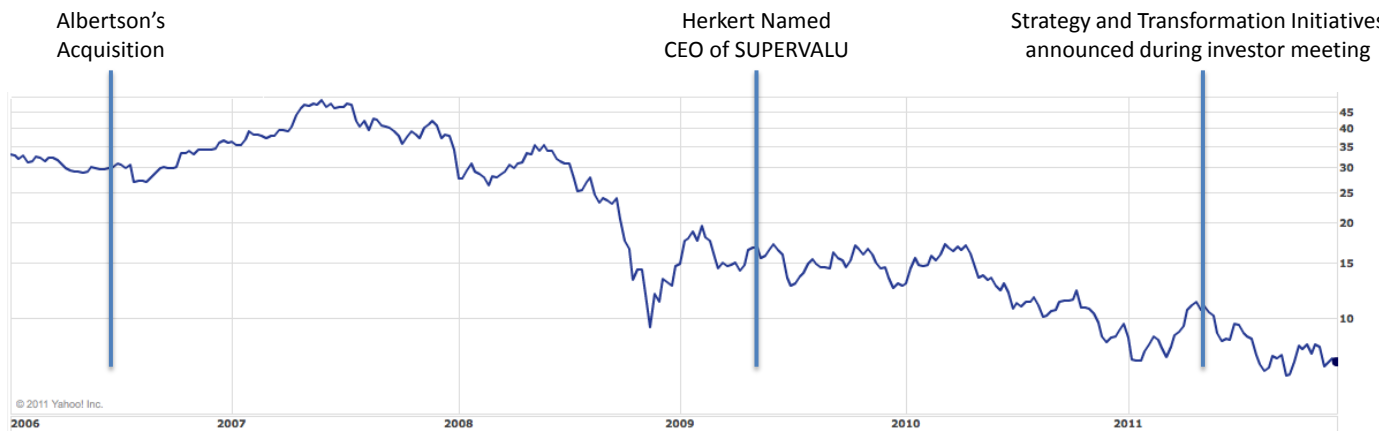
This company has been going in a wrong place for a long time. We have several years of work in front of us to get this thing right. —Craig Herkert

But the industry was growing more competitive as consumers' options for grocery shopping continued to increase. And with so many changes happening at once, keeping an active and engaged employee base was also an ongoing challenge for the company.

Despite these challenges, Herkert and his executive team were optimistic about the future of the company.

When the book is written about this company, it will be about winning. —Craig Herkert

Figure 1
SUPERVALU Stock Price Chart



Source: Public data from Yahoo! Inc. and other sources, plus interviews

Figure 2
Regional Market Shares

	Market Position	# of Stores	2011 Share %	2010 Share %	Change
Bakersfield, CA	1 (Albertsons)	12	19.4	20.3	-0.9
Baltimore, MD	3 (Shoppers)	19	7.6	8.2	-0.6
Boise, ID	1 (Albertsons)	20	31.6	32.9	-1.3
Chicago, IL	1 (Jewel)	170	33.9	35.1	-1.2
Fargo, ND	1 (Hornbacher's)	10	35	35.4	-0.4
Minneapolis, MN	1 (Cub Foods)	38	20.7	22.1	-1.4
Philadelphia, PA	1 (ACME)	82	16.8	17.6	-0.8
Providence, RI	2 (Shaw's)	19	16.1	18.4	-2.3
St. Louis, MO	3 (SHOP 'n SAVE)	13	17	17.5	-0.5
Virginia Beach, VA	2 (Farm Fresh)	44	20.3	21.4	-1.1

Source: Summarized from an analysis by SupermarketNews.com,
http://supermarketnews.com/retail_financial/not_so_super_0425/index4.html

Figure 3
Financial Summary

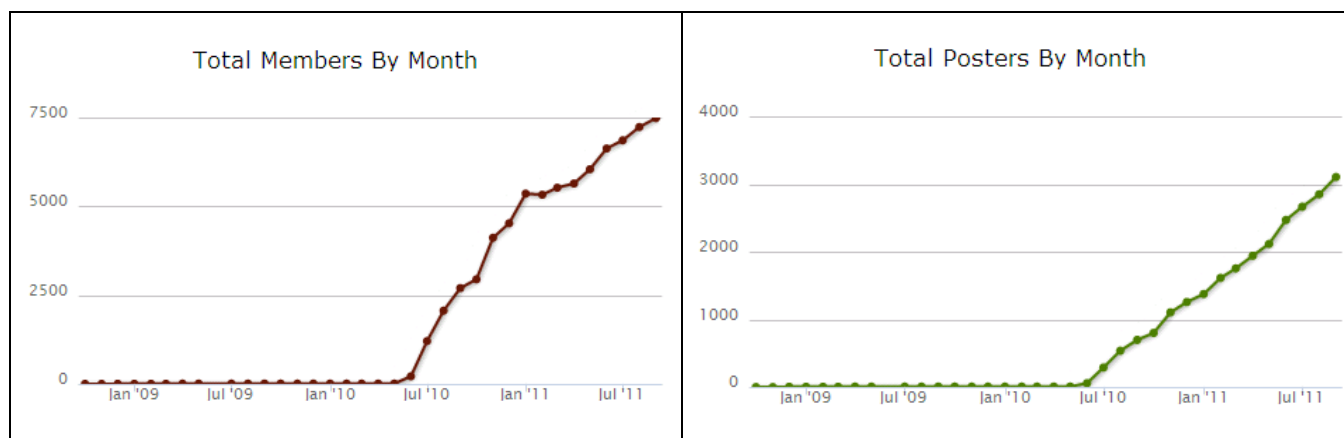
	Wholesale	Retail	Total Revenue
Feb 2008	\$9.7 B	\$34.3 B	\$44.0 B
Feb 2009	\$9.9 B	\$34.7 B	\$44.6 B
Feb 2010	\$9.0 B	\$31.6 B	\$40.6 B
Feb 2011	\$8.6 B	\$28.9 B	\$37.5 B

Note: Although not part of the transformation discussed in this case study, results from the company's 381 hard-discount Save-A-Lot stores are included in the financial statements.

	Feb 2011	Feb 2010	Feb 2009	Feb 2008	Feb 2007
Long Term Debt (\$M)	\$6,348	\$7,022	\$7,968	\$8,502	\$9,192
Debt to Equity Ratio	473.7%	243.2%	308.7%	142.8%	173.2%
Gross Profit Margin	22.4%	22.6%	22.7%	22.9%	21.8%

Source: [Hoover's Inc.](#) and SUPERVALU annual reports

Figure 4
Yammer Usage Statistics at SUPERVALU



Source: SUPERVALU

Figure 5
Portion of Store Director Assessment

Foundational Skills	
WE WILL <u>REACH OUR GOALS</u> THROUGH STORE DIRECTORS WHO:	
1.	Trust and Empower. They create a culture where associates are trusted and empowered to make decisions. They create a learning environment where missteps are viewed as powerful opportunities to grow competency and effectiveness
2.	Create Cohesion. They create an environment of teamwork and collaboration.
3.	Develop People. They constantly coach and develop the people in their store. They spend the majority of their time on the floor coaching and developing associates, and understand that their store cannot be successful without informed, diverse, supported, and equipped talent.
4.	Build Relationships. They are “people” people. They genuinely enjoy getting to know others and build meaningful working relationships with associates and customers. Associates feel appreciated, cared for, and known.
5.	Communicate and Align. They clearly and efficiently communicate necessary information to the associates who need to receive it. All associates are working toward the same overarching store objectives, and know how their role contributes to the overall success of the store. Associates have the information they need to do their jobs and to support others to do their jobs.
6.	Demonstrate Character. They practice what they preach and are the ultimate role model for hard work, investment in people, a positive attitude, commitment, passion, and determination to meet and exceed goals. While they convey a leadership presence, they are also approachable, down-to-earth, and genuine.
7.	Focus on Customers. They care about customer needs. They greet, help, and thank customers on a regular basis. They engage their store in the community and understand who their customers are.
8.	Are Resourceful and Knowledgeable. They understand the industry and their market/customer base. They use their knowledge and judgment effectively to creatively use the resources they have or to get additional resources to ensure that goals are met.
9.	Influence Others. They rely little on their position or status within the organization to effectively lead their associates. They understand that they are always being watched by their associates and work to exemplify the behavior that they expect of others. They get the buy-in of associates through sharing reasoning, fostering ownership, leading by example, and showing investment in them.
10.	Organize and Plan. They have plans and systems that they communicate, and work as a team. They are attentive to detail and help associates prioritize their work, given the plan. They anticipate future resource needs.

Success Habits

WE WILL ACHIEVE EXCELLENCE THROUGH STORE DIRECTORS WHO:

1. **Drive for Results:**

- They create a competitive atmosphere where there is a desire to beat or exceed expectations. They are determined to meet objectives no matter the stretch or obstacles they encounter. They model and instill a passion to win and ownership of results.
- They challenge associates to continually improve, push associates beyond their comfort zone, and create a hunger in associates for more responsibility through successes and new opportunities. They reward drive and initiative, promote and expect a 'can-do attitude,' and create enthusiasm for new initiatives.
- They measure results, provide regular updates on progress (sales, earnings, margins, shrink, labor, safety, and expenses), diligently follow up on accountabilities, and learn from hits and misses.

2. **Strategically Develop Talent.** They think long-term and broadly about talent. They conduct yearly succession planning; develop associates toward specific roles and goals, and work to fill the talent pipeline for the organization.

3. **Show Exceptional Customer Focus.** They engage customers beyond a greeting; they build relationships with customers, hire associates that represent the community, and consistently meet and exceed customer satisfaction goals.

4. **Show Business Acumen and Vision.** They not only know the grocery business, but they understand how business works overall. They bring a broader business perspective to their store to maximize sales. They understand and use a scorecard to measure results (P&L, sales, purchase, labor, and cost reporting). They understand how decisions in one area impact other areas.

5. **Efficiently Manage Work.** They digest and share information quite efficiently so they can spend the vast majority of their time with associates and customers where sales happen.

Source: SUPERVALU