

Food Business News[®]



SPECIAL REPORT: **The non-G.M.O. challenge**

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RETAIL

Competition over proliferating, Kroger continues to evolve

NEW YORK — With a plethora of competition in the marketplace, retailers such as The Kroger Co. must stay on the lookout for new ways to go to market, said J. Michael Schlotman, chief financial officer and executive vice-president

of the Cincinnati-based company.

In a May 9 presentation at the Goldman Sachs Staples Forum in New York, Mr. Schlotman summed up the situation like this: "Seems like everybody buys food, so they believe they can sell food."

He pointed to Staples, primarily known as a marketer of office supplies, as a retailer that now features food products in its advertisements. To combat the growing competition, Kroger continues to evolve by looking for ways to go to market.

"We have different size stores," Mr. Schlotman explained. "We have a multitude of formats, from convenience stores all the way up to multi-department

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Competition over proliferating, Kroger continues to evolve

Kroger recently introduced a meal kit concept in Cincinnati-area stores.



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stores that are 225,000 square feet. So we try to dissect the market and try to put the right store in the right part of the city that's going to resonate with the customer. We do have a small test in Columbus (Ohio) called Fresh Eats. That's a different kind of a convenience store. We have one Main & Vine store out in Seattle, actually, outside of Tacoma, in Gig Harbor. And then we also made an investment a little over a year ago in Lucky's markets. ... It's a natural and organic chain that the tagline is, 'Natural and organics for the 99%.'"

While Mr. Schlotman said he's unsure if a retailer is ever going to double as a packaged goods company or be capable of supplanting some of the large packaged food companies, he does believe Kroger's mixture of its own manufacturing plants and third-party supply deals set it up well to be in control of the entire supply chain in certain categories. He mentioned dairy as an example of a category where Kroger can stand out through its ability to supply milk, yogurt, ice cream and cottage cheese, as well as cheese for the deli case.

"I don't think in every category we would double as a C.P.G. company unless you roll everything ... up to the Kroger brand," he said. "I mean, if you just step back and think about our Simple Truth launch a little over three years ago, and now it's a \$1.6 billion brand. Quite frankly, it's something we're very, very proud

of. And I think we have every reason to be proud of developing what's become a national brand out of a sleepy little Midwest grocery company. Why didn't some of the big food players step back and say, 'Gee, there's not really a natural

there's a void and figuring how to fill it."

Mr. Schlotman praised Kroger's corporate brands team for its creativity in bringing products to market. He said the team is responsible for both Kroger-manufactured products (K.M.P.) and Kroger-labeled products (K.L.P.).

K.M.P. are the products Kroger is making in its plants, and the team is constantly looking for trends that are resonating with consumers to determine what products to make, he said.

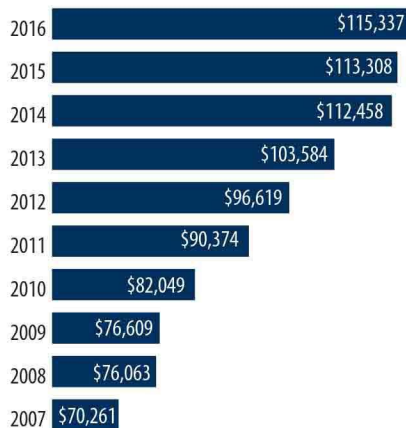
"If you look at our commercial bakery plants, there's a little bit less of a typical long loaf of white bread, sandwich bread that's sold," Mr. Schlotman said. "And what's more popular today is some of the shorter, wider pan breads. And they've kept up with that trend and have that technology inside the plants now."

In the case of K.L.P., Kroger is looking for brands that may fill a specific niche in certain categories, he said.

"A few years ago we launched a very exclusive brand, it's only in a handful of categories, and it's intended to be that way," he said. "And it's under the name HemisFares. And these folks really scour the world, primarily focused on Italy first because we did a big Taste of Italy promotion, and we sourced a lot of those products, whether it's the gelatos or some of the HemisFares small jar, high-quality spaghetti sauces and pastas that we brought in, just phenomenal product. It's a little bit of a foodie

Kroger's total U.S. sales

in millions



Source: Kroger Co.

brand for organics?' And why is it that a grocery company wound up being the one to develop that category, and it's only available at Kroger? So I think there is the opportunity to be a little bit of a disruptor in some of those categories where

hunt inside of our stores because each one of these products is numbered, and there's a story behind each number of the product. And the idea is to get people to try every number in succession. And it's been equally successful. It was never intended to be a brand as big as Simple Truth."

Another area where Kroger is looking to compete is meal kits. The retailer recently launched prepared meal kits — under the name Prep+Pared — in the Cincinnati area. The kits include fresh ingredients and carry a cooking time of 20 minutes or less. Each kit feeds two adults and ranges in price from \$14 to \$18.

Kroger is starting with five seasonal recipes: Japanese-inspired beef bowl, chimichurri steak, Moroccan-inspired spring vegetables, creamy chicken and bacon alfredo, and chicken enchiladas rojas.

"Why is it that we can't compete in that space given we have all of that food inside of our stores?" Mr. Schlotman said. "Most of our stores have a chef in them that prepare some of the product that we have offered, and trying to crack that code is something that we think could be another leg of growth. We've also partnered in stores with local purveyors of great products. There's a



J. Michael Schlotman, Kroger Co.

barbecue spot in Cincinnati called Eli's that is phenomenally successful. And we have a couple of Eli's kiosks, if you will, inside of our stores, where Eli and his team do all the work. They manage the business, it's their inventory, it's their space. And we essentially get a fee we share as a per cent of their revenue for it. Trying to — and making that — product available to our customers more conveniently and easier than half of the travel to his restaurant can wind up to be a win-win for both of us. And you'll continue to see us do offerings like that." **FBN**