



Cover Story: **H-E-B**

Living large in

TEXAS

Our Retailer of the Year, H-E-B, resonates with residents of the Lone Star State because the retailer understands who they are, what they want and how they want to be treated.

By Michal Christine Escobar

In June 2014, BuzzFeed.com staff member Summer Anne Burton wrote a post titled, “38 Reasons Why H-E-B is the Best Dang Grocery Store in the World.” She began by saying: “Welcome to Texas, where everything is bigger and better, especially the state’s favorite grocery store: H-E-B.”

She went on to talk about all of the things that make shopping at H-E-B uniquely Texas and, therefore, “the best” — including the fact that the retailer knows Texas chili doesn’t have beans and air fresheners should make a room smell like Texas (“Texas Wildflowers” and “South Padre Breeze,” to be specific). She also praised its namesake private brand for coming up with “truly groundbreaking ideas, like bacon in oatmeal” or bread that has already had the crust removed, “cause momma H-E-B is lookin’ out for ya.”

“H-E-B embraces Texas and all that entails, which means it’s basically paradise,” she concludes in the blog.

Of course, San Antonio-headquartered H-E-B wasn’t always the beloved Texan grocery chain it is today. It had humble beginnings: Florence Butt opened the C.C. Butt Grocery Store in Kerrville, Texas, in 1905 with a \$60 investment. By 1920, her youngest son, Howard Edward Butt, had taken over

the business and changed the name to H.E. Butt Grocery Co. to reflect his initials.

As the decades flew by, the retailer — today known as simply H-E-B (with the tagline of “Here everything’s better”) — began to expand with more stores and more products. And in the 1990s, it introduced H-E-B brand products for the first time. Today, H-E-B says it offers more than 17,700 own-brand products and has grown its store base to more than 370 stores in Texas and Mexico with annual sales in excess of \$23 billion.

Proud to be Texan

H-E-B’s success is due, in large part, to its celebration of Texas and Texans. At every opportunity, the company reminds its customers and its employees that it is proud to be in Texas and to serve Texans.

The retailer has done a great job of creating an emotional connection with Texans by using language and symbols that resonate with Texans’ sense of pride toward their state, says Dr. Charlene Davis, professor of marketing and chair, department of business administration, Trinity University, San Antonio.

In celebration of its 115th anniversary in 2015, H-E-B added to its website: “You’ll find the spirit of Texas in everything we do.” Here, H-E-B gives



Opening image by Kylie Tyler, Kylie Kristine Photography



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some examples of how it imbues Texas into all of its operations.

One, it works first and foremost with local growers of fruits and vegetables. Second, the retailer never builds the same H-E-B store twice. Instead, each store is tailored to the unique Texas community it serves. Third, it uses Texas suppliers to make its store brand products whenever possible. For example, its H-E-B Corn Chips are manufactured in San Antonio using corn grown in Hondo and neighboring family farms.

“We’re passionate about where we’re from,” the retailer adds. “After all, home is where the heart is. And for us, that will always be Texas.”

H-E-B also makes it a priority to get involved with the community by participating in everything from local events to local charitable donations and disaster relief efforts. Every year the retailer says it awards more than \$800,000 to local teachers, principals, school districts, school boards and early childhood facilities through its H-E-B Excellence in Education Awards, and it gives back more than \$8 million annually to Texas education programs.

members work for H-E-B with more than 200 years of collective experience at the retailer.

“It feels good to work for a Texas company like H-E-B,” Larry Thieme says in the post.

His wife agrees.

“It feels like home,” Karen Thieme adds. “No store does more than my H-E-B.”

And compared to many other retailers, H-E-B really does seem to treat its employees (86,000 in Texas and 9,000 in Mexico) as family.

In November 2015, the retailer made headlines when it announced that 55,000 employees, also known as partners, would be eligible to receive a portion of stock in the company under a new employee ownership plan. The company made the decision because it said it wanted to reward hard work, dedication and loyalty while also enhancing the long-term financial security of its employees.

Such actions demonstrate that H-E-B works hard to foster loyalty among its employees and that it genuinely cares about them, says Jim Wisner, president and founder of Wisner Marketing Group, Libertyville, Ill. In return, employees are proud to work for H-E-B and willingly become brand ambassadors for the retailer, extolling the benefits of the company as a whole, as well as those of its private brands.

“I have a lot of respect for H-E-B as an organization; they have a great set of values and a great internal culture,” says Graeme McVie, vice president of business development for Precima, a division of LoyaltyOne, Toronto. “When you look after your employees, they will look after your customers. Giving your employees the right values, motivations and incentives will ensure that they always want to do the best they can.”

And H-E-B works hard to ensure there is a strong connection between corporate management and each individual store. For instance, the retailer will send people from corporate headquarters to help out in stores, allowing corporate employees to receive direct feedback from store associates, McVie says. H-E-B also encourages its store associates to learn about new products, including private brand offerings, to sample them and to freely give their opinion about them.

“A couple of people have said to me that they view their job as helping to nourish Texans and give them a positive shopping experience,” McVie says. “To them, H-E-B stands for something larger than just putting groceries on the shelf. H-E-B employees love working for the company.”

It makes sense, then, that consumers love H-E-B and employees love working for H-E-B.

“When you talk to ex-H-E-B employees, they usually say: ‘H-E-B always does it so much better than everybody else,’” Wisner says. “That’s one



“They really have woven themselves into the fabric of their community,” says Denise Lee Yohn, author of *What Great Brands Do and Extraordinary Experiences*. “What’s notable about H-E-B is not only the extent of their generosity, but also how long they’ve been doing it.”

“They’re not doing it because it’s fashionable or on-trend,” she continues. “They’ve been doing it since the 1930s. They believe in supporting the community and it makes a strong statement about their values as a company.”

And the retailer often goes one step further. It’s not enough for it to just be Texan; it also wants to be a part of the family. Also in celebration of its 115th anniversary, H-E-B added to its website: “We do more than sell groceries; we enrich the lives of fellow Texans. After all, we’re family.” It then profiled the Thieme family. Currently, 29 Thieme family



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thing that you will sense in the industry. They're not consciously thinking to make the statement. They just feel that way."

A store brand leader

Among the top 10 retailers of store brands, H-E-B is

one of the best at converting U.S. store brand buyers to purchase in their stores, says New York-based Nielsen in its March 2014 article titled "How 10 Retailers are Pushing Private Label's Potential." In fact, H-E-B is No. 1 at converting buyers in seven of the 10 departments examined.

As mentioned earlier, H-E-B also incorporates a Texas touch into many of its store brand products. Some store brand products feature local Texas ingredients — for example, peanuts from Floresville, the peanut capital of Texas, are included in H-E-B Creamy Creations Texas Seasons Floresville Tin Roof Sundae Premium Ice Cream; and Shiner Bock, a Texan beer that's been around since 1913, is included in H-E-B Borracho Beans made with Shiner Bock.

"Customers don't look at H-E-B's products as just a way to save money," McVie says, adding that they view them as differentiated products that are "uniquely H-E-B and uniquely Texas."

Not only does H-E-B work hard to feature local ingredients, but it also works hard to appeal to local tastes.

"It's not just that it is a salsa from Texas," Lee Yohn says. "But that the actual formulation of the product is designed to appeal to a much more local subgroup



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of Texans that live around their stores, whether that's Caucasians, Latinos or another ethnic group.”

H-E-B is even able to take a commodity such as eggs and give it a Texas and a premium spin, Wisner says. Every H-E-B store offers two sets of store brand eggs: regular and premium. The premium eggs are Double A grade, date stamped and have the H-E-B logo — including an outline of

the state of Texas — stamped on each egg. They're also sold in a “gorgeous” package.

“They look like they're worth the extra fifty cents,” Wisner says. “Plus, they get the consumer to trade up and spend more on a commodity. It's a smart retailer.”

But private brand products are not always about Texas. Recently, the retailer partnered with the Italian Trade Agency to stock Italian-made pastas, olive oils, cheese, preserves and more under both branded and store brand labels.

“For years, H-E-B has had a buyer in Europe scouting out products both for H-E-B and Central Market [stores],” Wisner says. “The partnership they've just developed with the Italian Trade Agency ... is pretty impressive. There are about four or five chains that have jumped onto this trend, but I don't know of any that have done so to the extent of H-E-B.”

H-E-B has also invested in its own manufacturing facilities for some products. Doing so allows the company complete visibility and control over quality, cost, sustainability and more, says Carol Spieckerman, president of the newmarketbuilders retail consultancy. Plus, having so much control over its private brand programs, from manufacturing



TWO GREAT



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to distribution, affords the retailer a tremendous amount of creativity and spontaneity.

According to a June 15, 2014, HoustonChronicle.com article, H-E-B operates 13 manufacturing facilities across Texas, including bakery, pastry bakery, ice cream, meat processing and deli plants. Companywide, about 2,000 employees work for its manufacturing division.

But perhaps the best indicator of H-E-B's store

brand success is the praise of H-E-B's customers. And H-E-B willingly promotes its fans. In every issue of the retailer's *My H-E-B Texas Life* magazine, it features Instagram reprints of customers declaring their love for the retailer and often photographing private brand products in use. For instance, in the December 2015 issue is a photo of a dachshund licking an empty H-E-B Made in Texas peanut butter jar with a caption: "No @heb peanut butter ever goes to waste in this house. And no other peanut butter will do. #HEBLove."

Texas bloggers also seem to love H-E-B store brand products, willingly promoting them on their websites. MommyMoxie.com, one such blog, reviewed H-E-B's baby diapers in May 2014. In her blog post, "Nicole" writes that her family has "tried it all" — from cloth diapers to name brand diapers to store brand diapers. And after trying H-E-B's diapers, she made the switch to H-E-B's brand because they offer 12 hours of leak protection, as advertised, "smell amazing," have a hypoallergenic liner infused with natural botanicals, aren't bulky, and are just generally "awesome diapers!!"

Shopping made fun

Customers not only love to purchase H-E-B's private brands, but also love to shop the H-E-B stores.

"H-E-B's in-store experience is really phenomenal," Lee Yohn says. "It is extremely entertaining and fun and interactive."

H-E-B does a lot of sampling of both food and wine, she says, and even offers cooking demonstrations. The retailer also manages to make signage fun and informative. Plus, "the way they display their products is beautiful, engaging and enticing. Shopping at H-E-B is a delight!" she adds.

Spieckerman is also impressed by H-E-B's in-store demonstrations.

"H-E-B's generous in-store food and wine demos are a powerful lure to shoppers and yet another example of a program that the retailer has taken pains to own rather than farm out to third parties," she says. "By running its own demo kitchens, H-E-B can change promotions on a dime and accelerate sales for various items as needed. Its demo program is also an effective way to introduce new items and generate instant awareness."

It really comes down to making shoppers happy, McVie says. When shoppers walk the perimeter of the store and get to try new products, talk to store associates, learn new cooking techniques, shopping becomes fun. Having fun makes customers happy, and happy customers tend to buy more.

H-E-B also offers clean, aesthetically pleasing stores with freshly prepared foods that are often



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of restaurant quality, Davis says. The retailer consistently delivers on the concepts that are most important to its customers: fresh and convenient.

H-E-B's Central Market banner, in particular, delivers on the in-store shopping experience, Wisner says. He calls shopping there a "special experience" and "upscale from Wegmans." Each Central Market store not only carries a variety of produce and products not found in typical grocery stores, but also offers shoppers access to full-time sommeliers and professional cheese mongers.

"It's flat out a fun place to go," Wisner adds.

And it's easier for consumers to have fun when

they're not worried about how much their shopping bill might be.

Interestingly, although H-E-B is on a price index below Walmart in every single market, Wisner says, the retailer takes the price discussion off the table by not actively promoting its low prices. Customers quickly realize that it doesn't cost more to shop at H-E-B, and they get so much more ambiance and entertainment than they would at most other retail banners.

Marketing muscle

H-E-B might not tout its low prices, but it does use its marketing muscle to connect with shoppers on an emotional level. For instance, the retailer partners with the San Antonio Spurs in television commercials. Often the commercials use humor to promote store brand products.

Many people have a strong emotional connection to a sports team, McVie says. H-E-B knows that and uses it to its advantage. Its commercials with the Spurs tells Texans that the retailer has a strong connection to the local team, which creates a shared bond. Once that bond is "in place," shoppers at H-E-B become brand advocates, magnifying the marketing effect.

And H-E-B has even found a way to create that emotional connection with future generations of Texan shoppers: children. How? With the H-E-Buddy mascot, a character based on a paper bag full of groceries, who appears at Spurs half-time shows and other events.

"H-E-Buddy is bigger in Texas than Tony the Tiger," Wisner says.

And to please both parents and children, H-E-B even offers H-E-Buddy brand food products. The products contain no empty calories, trans fats, high-fructose corn syrup or partially hydrogenated oils. They also have strict sodium limits and strict limits on how many calories are from fat, saturated fats and added sugars, the retailer says.

Always Learning

Another way H-E-B stands out from other retailers is its willingness to try new things.

Unlike some other grocery chains that "live in their own world and only do what they know," H-E-B is willing to send senior executives anywhere in the world to look at a new concept, learn about something intriguing, or talk with a person who really understands the dynamics of the retail grocery industry, Wisner says.

"They will spare no expense to make sure they're as fully informed as they can be about what is working successfully anywhere in the world," he adds.

H-E-B also focuses on continual improvement and isn't afraid to try new formats.

"Rather than expecting its namesake store to do all of the heavy lifting, H-E-B has created multiple formats



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that address specific markets and allow it to fend off a wide range of competitors,” Spieckerman says.

Besides its H-E-B banner, the retailer offers the Mi Tienda stores to target Hispanics, Joe V’s Smart Shops to compete against dollar stores and other hard discounters, Central Markets to appeal to foodies and higher-income shoppers who might otherwise flock to Whole Foods, and H-E-B Plus!

stores to compete effectively against Best Buy and Bed Bath & Beyond, Spieckerman says.

“These different store formats are important and demonstrate that they’re specifically designing their stores for the community in which they reside,” Lee Yohn says.

And the retailer offers differentiated private brand programs for each of its various banners rather than attempting to take a one-size-fits-all approach, Spieckerman says.

In November 2015, H-E-B opened up yet another shopping avenue to Texans and the United States as a whole: its online store. The online store offers shoppers more than 50,000 shelf-stable foods, drugstore and general merchandise products for purchase. And its store brands, including H-E-B, Central Market, Café Ole Taste of Texas and others, are very much a part of that store.

“There are a lot of transplanted Texans, so the new H-E-B online store is a fabulous idea,” Wisner says. “This will allow consumers to bring a little bit of Texas to wherever they are and share their experience with their friends. You take pride in where you come from and H-E-B leverages that as well or better than [anyone] else.” **SB**



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