

Economic and Retail Industry Challenges Lead to a Shift in Strategy for Hy-Vee

As the U.S. economy continues to heavily impact the retail food industry, Hy-Vee leaders are making a series of strategic decisions to head off what a growing number of financial experts predict will be a severe economic downturn as early as next year.

“As a trusted retailer that millions of people depend on every day, we need to make adjustments to better serve our customers and our more than 93,000 employees,” said Randy Edeker, Hy-Vee chairman and CEO.

In preparation for the uncertain times ahead, Hy-Vee has begun taking strategic steps to analyze spending and reduce operational costs in an effort to deliver better deals and more savings to its customers, without sacrificing the superior customer service and quality products that have been the pillars of the company since its inception more than 90 years ago.

Economic Challenges

Today, Hy-Vee and other retailers across the nation are currently facing a number of obstacles, from rising inflation and increasing fuel costs, to supply chain disruptions and more. But that may just be the beginning.

Several of the world’s leading financial service providers recently predicted a steep economic downturn as soon as next year. Investment banking giant Goldman Sachs sets the odds at 35% for a recession within the next 24 months. And a recent survey by Bloomberg showed that half of investors expect a recession by mid to late 2023.

Industry Challenges

Today’s economic challenges are putting more financial strains on the grocery industry, a sector that already traditionally struggles with small profit margins compared with other industries.

According to Morgan Stanley, companies will be forced to absorb higher costs or lay off employees due to higher wages. Many retail companies are baking those figures into their projections.

For retailers that offer pharmacy services, another pain point comes in the form of Direct and Indirect Remuneration (DIR) fees, which are charged to pharmacies after a drug is dispensed. These fees take away billions of dollars in profit from local pharmacies nationwide – for Hy-Vee, the number is more than \$100 million this year alone. When coupled with high inflation and slow-to-increase reimbursement rates, pharmacies — especially those in small towns — find themselves in jeopardy. Retail and pharmacy leaders have met with members of Congress and the U.S. Department of Health and Human Services (HHS) about these fees and the harm they are causing pharmacies across the U.S.

Rampant inflation — running at an estimated 11% in the nation’s food sector — is also taking its toll on the grocery industry. That’s in addition to a severe shortage of retail workers, increased pressure from labor costs, supply disruptions and changes in consumer behavior.

“Many consumer trend reports are noting that more than 70 percent of consumers are spending less due to recent inflation,” said Donna Tweeten, executive vice president, chief merchandising officer and chief of staff for Hy-Vee. “They are cutting back on indulgence items and impulse buys — both of which were on the rise during the pandemic but are now coming to an abrupt halt.”

To best protect its customers from a multitude of factors, Hy-Vee is working diligently to deliver more value through deeper discounts through digital daily deals on the company’s webpage and social media sites.

“The majority of consumers are now being forced to focus on necessities and make their dollars stretch — just so they can afford the most basic of staple items, whether that be milk, butter and grains, as well as proteins like eggs, poultry, pork and beef. We need to do everything in our power to keep prices down and provide the very best value, especially when it comes to the rising costs on those most basic essentials,” said Tweeten.

Which is exactly why the grocer says it’s doing everything possible to minimize additional costs from being passed on to the customer.

Cost-Saving Measures

The retailer has already implemented a series of cost-saving measures over the past few years. From reducing its store hours from 24-hour service, to restructuring its retail leadership with the addition of district store director and store manager positions. Most recently, the company has shifted its Hy-Vee Aisles Online operations to select locations where demand is highest in order to maximize its efforts.

As construction costs hit record highs, the company is pausing several projects — such as the new warehouse in Cumming, Iowa — to be resumed at a later date, and is evaluating its existing land parcels to determine whether the spaces still align with its growth plans for the future.

But according to company leaders, those measures alone are not enough for what they predict lies ahead.

“As prices rise across the country, our top priority has to be centered on fighting to get the best deals possible for our customers,” said Jeremy Gosch, Hy-Vee’s president and chief retail officer. “In order to do that, we must find other ways to cut expenses so we can do what we do best — which is serving the customer.”

Supporting Retail

According to the Bureau of Labor Statistics, Iowa’s unemployment rate in March 2022 was 3.3%, which ranked within the 25 lowest states in the nation.

According to Hy-Vee’s Vice Chairman and President of Subsidiaries and Supply Chain Aaron Wiese, attracting and retaining top talent at its retail stores has become an even bigger challenge.

“With unemployment at a record low in almost every state we do business, our No. 1 priority is helping our stores find the staffing we need,” Wiese said.

Hy-Vee currently employs more than 93,000 individuals across eight states, with 94% of its workforce at the retail level.

“As a retail company, it’s critical that we have the best leaders in place running our stores and serving our customers,” Edeker said.

According to company leaders, there are hundreds of retail management positions open across the company, waiting to be filled. Many of Hy-Vee’s corporate employees started their career at a retail store and have the experience required to fill these positions.

While more than 100 corporate office employees were asked in March to make a move to retail, this week the company will be asking



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Every day, donations will be collected at checkout to help feed a local family in need.

Every Friday, check out Hy-Vee’s social media pages to see how your donation is helping.




ONE STEP.

up to 500 additional employees to make similar moves. The company will provide incentives and moving bonuses to entice more office employees to relocate to its retail stores to help fill the open positions and will work one-on-one with employees on their placement. As the company looks closer at the retail landscape, it’s making moves to be as lean as possible and moving many of its leaders into stores to serve its customers.

Increasing Value for Its Customer

According to Edeker, “Retail has always been a sprint to get to where customers want us to be before they get there. And Hy-Vee’s next step is doing what’s best for the customer, specifically regarding price and value.”

The retailer recently launched several ways to give customers the best deals possible, including Daily Deals that are featured on TV, text messages and social media, weekly ads available online and in stores, and additional opportunities for customers to earn Hy-Vee Fuel Saver + Perks rewards to help them save more at the gas pump. Since January 2022, Hy-Vee Fuel Saver + Perks members have saved \$21.8 million on fuel purchases.

Fighting for Its Communities

Despite these announcements, Hy-Vee continues to assist those

who are food insecure, stating donation efforts are needed now more than ever before. Since its start, Hy-Vee has always donated to local nonprofits, food banks, churches and other organizations in the communities it serves. Last year alone, the retailer donated more than \$54.6 million — much of that going to hunger relief organizations in communities across its eight-state region.

Ahead of the predicted economic downturn, Hy-Vee has launched a campaign called Food Bank Fridays to help support those most in need through donations to food banks. SNAP benefits have been reduced by 42%, a drop of more than \$29 million a month in Iowa alone. According to the Food Bank of Iowa, this benefit decrease is already causing a surge in need and the number of visits to food pantries, which are requesting double and triple the size of deliveries from their parent food banks. In just a few short weeks, Hy-Vee’s Food Bank Fridays campaign has already raised hundreds of thousands of dollars to support local food banks.

“Our mission has always been, and will always be, to make our customers’ lives easier, healthier and happier, and we are committed to doing whatever is necessary to uphold that promise,” Edeker said.