

National Association of Corporate Directors Texas TriCities Chapter
In Conversation with Craig Boyan, President and COO, HEB

San Antonio, TX | September 24, 2015

Program Moderator

- **Joe McKinney:** Vice Chairman, Broadway National Bank; Director, Luby's, Inc., USAA RealCo, US Global Investors Funds, Broadway National Bank

Program Speaker

- **Craig Boyan:** President and COO, HEB; Director, HEB; Trustee, HEB Investment Retirement Plan

Program Summary:

Craig Boyan joined HEB in 2005 after serving as an advisor to the company. In addition to having a good working relationship with Charles Butt and liking Texas, he said the company's culture was a driving factor in his decision to join the team. Throughout the conversation, Joe McKinney asked Craig about a variety of topics relating to his life, experience with HEB, the community, and the industry. To open, McKinney asked Boyan to elaborate on the culture that makes HEB special.

Boyan first observed that nothing is more important at HEB than having a great Store Leader. They hire, train and develop great people who are inspired to work there. He said they strive to create an environment of "a place where you feel like you want to be." To some extent, it's special because HEB competes against retail grocers that handle HR very differently. He said that HEB is trying to beat the competition with better people. First, they pay well – they try to pay people to keep them *in a store*, rather than promote out, he said. They also try to honor their employees at every level of the organization. For example, Boyan noted that HEB has a hall-of-fame for truck drivers who reach 1 million miles with no incident. "The annual awards ceremony we put on for truckers, a job not necessarily considered glamorous, is indicative of the type of culture we want to create in our organization," Boyan said.

McKinney agreed that HEB has a strong reputation in the communities they operate within. But, he noted, things don't go right all the time. He asked Boyan to talk about when things go wrong – how does he handle complaints? Boyan first noted that the company gets a lot of complaints; he joked that "People get mad as hell if we move the cheese!" Regardless of the nature of complaint, though, Boyan said they try to have a team member respond to every one. When it comes to products, they forward complaints to the buyer, for example. If there is a problem with canned beans, he said, they forward the complaint to the bean buyer and they fix the problem. **"The key to success is not how you look today, it's how you're going to look tomorrow,"** Boyan said.

As a follow-up, McKinney noted how important reputation is to a brand. He observed that the public can lose trust in a brand almost overnight; he noted some recent high-profile examples such as VW, Peanut Butter Corp. of America, and Blue Bell. McKinney then asked Boyan his thoughts on Blue Bell: "How do they recover outside of Texas?" Boyan agreed that **"every company is a heartbeat away from disaster."** He also acknowledged that food safety is particularly scrutinized, and that companies have to monitor their supply

chain at every step of the process. He touted HEB's quick response to the Blue Bell situation: the company proactively pulled Blue Bell from the shelves even when the FDA was reluctant to order a recall. Boyan noted that while most companies bemoan "too much regulation," food safety is one area that the government can and should play an important role. He emphasized that responsiveness is crucial to brand management. **"Problems are going to happen," he said, "it's how you deal with them that defines your company."**

McKinney then turned the conversation to economics. He asked Boyan to touch on how the global economy affects decision-making at HEB. Boyan first observed that food retail is a big proxy for the macro-economy in the United States, and that HEB studies the macro-economy very closely. Boyan noted that between 1945 to 1975 median household income growth in America was high, and that retail grocery sales went up, too. From 1975 to 2010, though, the U.S. experienced almost zero median household income growth. However, we were able to increase our standard of living through household debt. He asked: "What do we do in the next 35 years?" He noted that the demand curve is in a real tricky spot. "We believe that companies should assume that the economy will be declining, possibly for a couple of decades," Boyan said. In Texas we have population growth, which is propping us up, he observed. But as a result, retailers are flooding into the state. Walmart has doubled its store-count in San Antonio in the past two years, for example. He observed that retailers are chasing population growth because they can't chase income growth and they can't chase debt spending. What does this mean for HEB? "We're going to be in a hyper-competitive environment," said Boyan.

Q&A:

Question: "Discuss HEB's commitment to education reform in Texas."

Answer: Boyan first noted that the company's policy is closely aligned with the beliefs of Charles Butt. He said that at HEB they feel like everyone has a duty to do something to improve our education system. He remarked that Texas is not exactly impoverished – we have a strong economy and a lot of money flowing through this state. We need to be doing more. We are evolving to a knowledge-based economy. He said he views education as an investment, not a cost. One way the company supports education is through its Excellence in Public Education Awards. Just like recognizing the truck drivers, the company wants to recognize excellent teachers. Boyan said they want to honor teachers and help build pride and esteem in the profession. "That is the single best day at HEB," he said.

Question: "Do your stores compete against each other? And are Store Leaders compensated as such?"

Answer: Yes. Boyan said they try to be friendly about it, but they give managers the tools to do it. And they empower their managers to make changes. Boyan said that they are always trying to adapt. That's why the focus at HEB remains on the employees. "Any business expert will tell you that the role of the corporation is to maximize value. We think that's incredibly insufficient," Boyan said. He said that HEB wants to be the best retailer *so that* they can make having a family in Texas the best thing in the world. This, he noted, is the best thing about Texas businesses: such as Southwest, Broadway Bank, USAA, and others. They're focused on their employees, knowing that the best employees will drive value. "You have to trust your troops," said Boyan.

-XXX-

Program Summary By: Preston Heckathorn, NACD Texas TriCities Intern

© 2015 NACD Texas TriCities Chapter