

2016 West Retailer of the Year

Albertsons, Vons and Pavilions: Three Proud Histories Writing One New Chapter

Albertsons Cos.' Southern California division, known as Albertsons, Vons and Pavilions (AVP), was chosen as *The Shelby Report of the West's* Retailer of the Year in recognition of its most recent achievement—successfully merging two proud brands into one tough competitor in the Southern California grocery market—as well as the chains' longevity (the first Vons opened in 1906; Albertsons' origins go back to 1939).

Albertsons and Safeway, which owned Vons and Pavilions in Southern California, completed their merger on Jan. 30, 2015, creating what is now a company with more than 2,300 stores under 19 banners in 35 states. Their combined annual sales at the time of the merger were \$57 billion, making the company the second largest supermarket retailer in the U.S.

In Southern California, the two companies operated 343 stores after having to divest 83 locations to satisfy Federal Trade Commission requirements for the merger to go through. Haggen, a Pacific Northwest grocer, bought the Southern California stores (plus some in other areas), creating a new competitor in the market for Albertsons, Vons and Pavilions. Haggen's Pacific Southwest division only lasted a few months, however, before the company declared bankruptcy and its stores were distributed among several competitors. Albertsons, Vons and Pavilions picked up 14 stores it had formerly owned—13 of which have opened. The 14th is set to reopen in San Diego before the end of the year.

As of September 2016, the Southern California division—the largest of the chain's 14—operated 352 stores.

Lori Raya, former president of Vons who was named to lead the Southern California division, said of the Albertsons, Vons and Pavilions combination: "It's a new day in Southern California."

She noted the rationale for the merger: "We will be better positioned for long-term growth

and stronger in the marketplaces in which we operate."

Raya was speaking at a vendor meeting in Fullerton—where the combined company would be headquartered—in early March 2015.

"Our purpose is to be the favorite local supermarket," Raya said. "We're a national chain of local supermarkets, and we will leverage our size to provide the best offering to our customers, but the key is we will be making decisions locally, closest to the customer, to anticipate and respond quickly to the unique and evolving needs."

The way "to run really good stores," she said, is to have the best fresh departments; the most friendly employees; full (in-stock) conditions every day; sparkling clean stores; and connecting to our communities by supporting local causes.

"It does seem simple, but it's about connecting to the communities and having great employees in each and every store. To do this, we need to know, listen and delight our customers and provide the right products at a compelling value," Raya said. "And we want to make sure every time a customer visits our store it's better than the last time they visited it. That's the goal—to never disappoint a customer."

Making two into one

Of the 352 in the Southern California division, slightly more than a third are Albertsons; the rest are Vons and Pavilions, according to Andy Barker, SVP of operations for the division.

The division is spread over 500 miles and contains 18 districts. The district managers typically oversee a mix of the three banners, Barker said, which has made it imperative that the two cultures were blended as smoothly as possible.

"Quite frankly, that was the biggest opportunity—taking two proud cultures (Albertsons and Vons/Pavilions), people that had worked for two proud companies for decades. The leadership of the division—Lori, myself and others—checked our personalities at the door and really tried to understand what's worked well for the Albertsons stores, what's worked well for the Vons or Safeway portfolio, and really helping our front-line leaders understand the value of adopting those best practices.

"And we are doing that extraordinarily successfully," he added.

Wayne Denningham, COO of parent company Albertsons, agrees with that assessment.

"The SoCal team has successfully led one of the largest integration efforts in the industry, and through all of the changes, they successfully brought two great companies together. At the same time, they continued to improve the in-store experience for our customers," he said.

He credited Raya's "upbeat, positive, can-do attitude" for helping make that happen, as well as the entire team's recognition that "the people in Southern California—in the stores, the division office, the distribution centers—they are what makes Southern California. Lori has told me on many occasions that she's the happiest president I have...that just kind of paints who she is. She has a great team of associates down there, and I would tell you if you talk to her, she'd tell you it's not about her, it's about her people. She's got wonderful people with long tenure in Southern California, and they are very proud of what they've built there and they look forward to growing it bigger and stronger as they go forward."

Jim Beauvais, SVP of marketing and merchandising for Albertsons, Vons and Pavilions, spoke about some of the nuts-and-bolts ways the Albertsons/Safeway merger has played out in Southern California.

"Every sales manager, every person that ties into our vendors and our community, has two computers on their desk, two keyboards, two mouses," he said. "It's very intricate, very complex, but what Lori really has motivated our teams to do is take the best of our Vons, best of our Albertsons, best of our Pavilions and brought those strengths of all to one.

"So when we open a store or when we remodel a store, there are the best fixtures of all brands, the best merchandising techniques, the best pricing rationale, the best ad rationale," Beauvais said. "We've really brought the best of our companies together as one. And it's very difficult to do, especially with the different cultures and histories that both companies really have...but we have a fantastic culture here in the office that Lori has brought together."

Empowering the people

Barker said in an interview in September 2016 that the division recognizes that people are key to fulfilling the mission.

"At every leadership level in this division, we truly believe in our people, and we know our job is to help our people achieve the success that any business needs but also the success that our people deserve," he said.

Team members are empowered to think and act like owners—a sign of leadership's belief in its people.

The decentralized decision-

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At a vendor meeting about a month after the Albertsons and Safeway merger was completed at the end of January 2015. From left: Andy Barker, SVP of operations; Lori Raya, Southern California Division president; and Greg McNiff, SVP of merchandising and marketing (now president of the company's Portland, Oregon, division).

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making comes from the Albertsons culture, he added.

"I think one of the biggest benefits for the Vons brand is we gave our Vons store directors more autonomy to operate their stores from a merchandising standpoint and those types of things," Barker said. "Before, as a centralized company (Safeway), a lot of the decisions and a lot of the direction was given from corporate down to the stores. Now, in a decentralized environment, which our company is, the decisions are made at division level and there is a lot more autonomy for our store directors."

In the customer service arena, the company developed a hybrid of the programs of Albertsons and Vons, "the best of both," according to Barker, who explained, "the Albertsons store count was conducive to a certain program and it would work, but when you grow your store count by three (times), those programs don't work quite as well. So we've taken a blended approach and we've learned from both brands."

"And we're still working on it, by the way," he added. "We still work on a day-in, day-out, week-in, week-out basis to streamline those. It really makes it easy for the management team to help oversee the process when we're managing one way of doing things rather than a couple."

Barker said the division also was very pleased this year when it was able to hire back some of the employees from stores that had been divested to Haggen.

"We've sought out and hired back virtually every employee that did not have a job someplace else," Barker said.



Helping communities

As Raya said, one of the pillars of the Albertsons, Vons and Pavilions organization is serving the communities around the stores.

Barker said, "One of the first things we did when we blended the two teams is create our mission statement: We want to be the favorite local supermarket. What does that mean? It's not just about prices and what's in the ad. It's how do we serve the communities that our stores are in?"

Barker himself serves on the board of the Special Olympics of Southern California, and the first event the division undertook after the merger was the Special Olympics World Games in Southern California in the summer of 2015.



The Albertsons Companies Foundation and The Vons Foundation were the official sponsor of the games, which was the largest sporting event in the world last year, according to Barker—larger than the Super Bowl.

This year, the banners held their first joint checkstand fundraising event, during which customers were asked at the register if they wanted to support the cause.

"We did that at all of our stores here in SoCal and we raised \$1.4 million for Special Olympics Southern California," Barker said.

"There are certain things we have to do to sell cans of green beans and stuff like that, but when we really start digging deep and we let our people know not only do we care about them but we care about the communities and the things that are special to them, i.e., Special Olympics, I think it just helped the whole process of, once again, taking two very proud yet different cultures and blending them into one extraordinary team."

Being recently selected Official Grocery Partner of the Los Angeles Rams also will yield benefits for both Albertsons, Vons and Pavilions and communities. A new "Game On" contest has been launched, offering in-store prizes, and it is expected that the two organizations will partner on turkey donations during the holidays and other such events.

Barker said the Rams partnership is "just another example of how we really believe in the community and doing the right thing."

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Three Proud Histories

Albertsons

In 1939, Joe Albertson opened his first 10,000-s.f. store at the corner of 16th and State in Boise, Idaho. The first store employed about 30 people, with department managers on salary at \$40 per week. First year sales were more than \$170,000, with a net profit of nearly \$10,000.

In 1966, Joe and his wife, Kathryn, established the J.A. and Kathryn Albertson Foundation as a way to administer their own charitable giving. The foundation focused its giving primarily on education, which was important to Joe and Kathryn because neither was able to finish college during the Great Depression. Since its early beginnings, the foundation has given more than \$240 million to Idaho's communities and education systems. The foundation continues to give to charities, primarily in areas where Joe and Kathryn lived or worked in Idaho.

Fast-forward to 2006, when Albertson's Inc. accepted an offer from Supervalu for 1,110 stores and from CVS for 700-plus standalone drugstores. Bob Miller formed Albertson's LLC for the remaining 661 stores, backed by Cerberus Capital Management.

In 2007, Albertson's LLC sold the Northern California division to Save Mart and began the pattern of making strategic sales and acquisitions with the purchase of 10 Raley's stores in New Mexico.

In 2012, Albertsons began making money and continued to seek deals to strengthen the company. In 2013, Albertsons announced its acquisition of Supervalu, which put all the original Albertsons stores back under one company. The company also purchased United Supermarkets, a 51-store chain based in Lubbock, Texas.

In 2014, Albertsons and Safeway announced a definitive merger agreement that would create what is now a company with more than 2,300 stores under 19 banners in 35 states. Their combined annual sales at the time of the merger were \$57 billion, making the company the second-largest supermarket retailer in the U.S.



Joe Albertson



Albertson's first store.

Vons

Los Angeles was a small town when Charles Von der Ahe opened his 20-foot-wide Groceteria on the corner of 7th and Figueroa in 1906 with \$1,200 in savings. It was a neighborhood store that catered to the needs of local families, where Von der Ahe pioneered "cash and carry" as an alternative to "charge and delivery." His formula proved so successful that by 1928 Vons had expanded to 87 stores. Von der Ahe sold his chain the following year, but four years later, despite the Depression, two of his sons, Ted and Will, restarted Vons. The next 70 years were marked by growth and innovation. In 1948, the brothers opened their most ambitious store at the corner of Santa Barbara and Crenshaw. Thanks to the introduction of

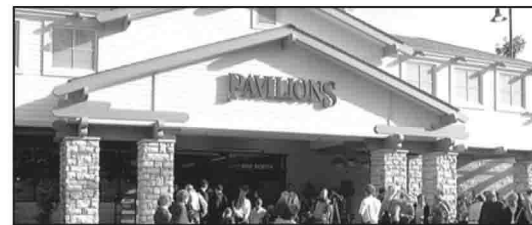


pre-packaged perishables, they were able to offer some of the first self-service produce, meat and deli departments, much like today's stores.

The most explosive growth occurred during the 1970s, when Vons reached 159 stores with 16,000 employees, cementing its spot as the No. 1 grocery retailer in Southern California. In 1996, Safeway Inc. acquired a 35 percent stake in Vons, and the two companies fully merged in 1997. Vons stretches from San Diego to Fresno, from Clark County, Nevada, to the Pacific.

Pavilions

A sister concept to Vons, Pavilions was created in the mid-1980s as "a new attitude towards food and shopping was stirring in the U.S., beginning as these trends often do, in California," according to the chain's



website. "Families were paying more attention to what they were eating, to freshness and nutrition, looking for more diverse shopping choices."

In October 1985, the first Pavilions in Garden Grove, California, opened.

"Pavilions was not just a reinvention of shopping. It was a reinvention of how supermarkets operate," the company says. "Pavilions brings its customers the new, the unusual, the best of everything—the richest peach salsa from a Texas family recipe, a gold medal beer from San Diego, heavenly sweet berries from Oregon. It was an idea whose time had come. Shoppers welcomed it enthusiastically."

There currently are 26 Pavilions now operating in Southern California.

The Combined Company: Albertsons, Vons and Pavilions

- Parent company: The Albertsons Cos., Boise, Idaho
- One of 14 divisions of Albertsons
- Division office in Fullerton, California
- 352 stores in a 500-mile area
- 18 districts
- More than 36,000 employees
- 219 pharmacies