

CONVERSATIONS WITH MIKE MILKEN



Rodney McMullen

Chairman and CEO, The Kroger Co.

April 28, 2020

Mike Milken: Rodney, thank you for joining us today.

Rodney McMullen: Delighted to, Mike. Looking forward to it.

A number of the companies which I financed over the decades are happy to be part of the Kroger family, but for those that don't shop in the store every day, what store brand names might listeners recognize? Where do you operate, and how many stores and employees are working for Kroger today?

We operate coast-to-coast and our purpose is to feed the human spirit, and that's the thing that really unifies the company across all our different brands. We go from Fred Meyer in the Northeast; to QFC; to Ralph's, Food 4 Less in Southern California. If you look at the East coast, it's Harris Teeter. Throughout the Midwest, it's Kroger, Fry's, King Soopers, and about 30 different brands altogether. Our values and purpose are the same across all brands and we try to serve our customers across the country.

How did you get involved with Kroger?

I started in high school. My parents didn't have enough money for me to go to college, so I realized I had to pay my own way for part of it. They had saved enough to send me to

one year of college. I started in Lexington, Kentucky as an hourly associate working on a stock crew and bagging groceries and being a cashier. It's one of those things, when I'm recruiting people to Kroger – we have thousands and thousands of people that come to Kroger for a job and make it a career – if you like people and you like food, there is no better place to be. If you look at the current environment, it's just one of those things where it's even more inspiring because you

see people across our whole company helping make the world a better place, and I have tons of customers coming up to me, thanking us and thanking our teams for being there in their time of need.

“We made the decision to share publicly all the work that we were doing internally in case it could be helpful. ... We're trying to pay it forward just like others paid it forward to us.”

I think one of the things people did not realize until this crisis is that ordinary workers have become frontline heroes. How have your associates responded to this assignment?

When I'm talking to our store teams, they love it. They said that they've never had so many people come up to them and thank them, tell them how much they appreciate what they're doing. And obviously together we're doing everything we can to keep our customers safe and our associates safe, but it's so much fun when our teams feel that and see it.

In fact, in Vancouver, Washington, the local fire department put together a great video thanking our store teams for being right there with them, with the first-responders. They did a parade through our parking lot with fire trucks and their sirens going. Our store teams were just off-the-chart excited and inspired by that. And there are thousands of those kinds of stories, where it really shows America coming together.

It's been a significant focus of the Milken Institute – food security in America, and bringing food to people. The question was, how are many of the workers – for instance, the person at the checkout stand – going to feel? Are they going to feel safe? Talk about some of the safety measures you've put in place.

That's a great question, and it's something that we were able to learn from retailers in China, Hong Kong, Singapore, and Italy. We were able to be on the forefront on putting together a lot of safety measures in terms of customer capacity limits in our stores; plexiglass partitions for cashiers, pharmacy, Starbucks locations. We've set aside special hours for senior citizens from seven o'clock to eight o'clock on Monday through Thursday and also higher risk customers. We put the decals on the floor in terms of

physical distancing. On our in-store radio network, every 15 minutes we remind customers and associates to maintain physical distance. Contactless payment. And it's just on and on and on – things that we've done.

We also early on put in our emergency leave guidelines for people. We tell our associates, if you don't feel good, don't come into work. We tell our customers, if you don't feel good, please don't come and shop with our stores. With the emergency leave guidelines that we put in place, if somebody is concerned they may have COVID, have a fever or don't feel well, they're able to stay at home and check with their medical provider. We also provide for 14 days of pay so they can either quarantine or get more elaborate.

It's all of those things together. But every day you learn about something else that's going to be helpful on keeping your associates safe and your customers safe and that's something forefront on everything we do. Just store cleanliness, sanitizing bascart, sanitizing work surfaces, all those things you're constantly doing. We have over 10,000 people in our stores now that that's their responsibility – sanitizing and keeping a store clean.

Rodney, you're one of the three or four largest employers in America today and you're one of the three largest private companies that are hiring new associates, 60,000 new hires. How do you train them?

Obviously it's not easy and if you look in the past it training and onboarding somebody would have been a three- or four-day process. Today it's down to where your focused most on making sure they understand safe practices and how to actually run the

"I'm glad Kroger is in a position to be able to hire so many people. ... A lot of those [60,000] people that we're hiring are people that come out of the food-service industry, come out of working in small medical professions, or for veterinarians. It's people that had jobs that where values are important, customer service is important."

equipment or machine they're running. We have already started, but we're starting to follow up now with some of the training that we do from a customer-service standpoint and those aspects.

About a third of the people we've hired are focused on pickup and delivery. We've just had an explosion in the number of customers that are asking for and wanting to engage with us in our pickup and delivery business, and a high percentage of those hires are focused on that. The number one thing is to make sure they understand our safe practices and make sure that we continue to execute against those, and then how to

actually do their job. We felt like from a customer-service standpoint, that was something we could follow back up and do later.

One of the things we've talked about over the years is your culture: what you stand for, what you expect of your associates, what your customers expect from you. How do you get that culture when you're hiring as many people as you are into these new associates?

I love the question, and one of the things that's humbling and I'm glad Kroger is in a position to be able to hire so many people. The people that we're hiring are incredibly talented, and a lot of those people that we're hiring are people that come out of the food-service industry, come out of working in small medical professions, or for veterinarians. It's people that had jobs that where values are important, customer service is important. So it has been one of the benefits of the talent that we've hired is it's people that are naturally inclined to serve others. So that's one of the things that's really helped us maintain our values and be consistent with what we've done in the past.

America is looking to reopen, but reopen responsibly when our leadership feels comfortable. You have had the challenge of staying open so that we can provide food-security in America. Tell us about the [Blueprint to Help American Businesses](#).

We've been keeping track of the things that we've done to try to make sure that our associates stay safe and our customers stay safe. We were looking at our internal documentation, and I was talking to some small local businesses, and they were like, well how did you learn all that? What did you do right and what did you do wrong? We made the decision to share publicly all the work that we were doing internally in case it could be helpful. We were up-front to say, we don't have all the answers. We'll share what worked well, what didn't work well for us, so hopefully others won't make the same mistakes we did and be able to get back faster.

“The local fire department put together a great video thanking our store teams for being right there with them, with the first-responders. They did a parade through our parking lot. ... Our store teams were just off-the-chart excited and inspired by that.”

We fundamentally believe there are a lot of basic practices that we all can do because we believe that we're going to have to, for a period of time, just learn to live with the concern of COVID- 19. There are a lot of things that we can all do to make sure that our employees stay safe and our customers say stay safe and we're sharing that because we're trying to pay it forward just like others paid it forward to us.

Could you give us just a few of those lessons? Are there two or three other things that you would advise the millions of companies in America, particularly small businesses that hope to reopen over the next few months?

I really believe the emergency leave is something that's really important because you don't want somebody to come to work sick. And reminding everybody of the six-foot distancing. We're also providing masks to all of our associates as well. And I'm not a medical person, but I've talked to an awful lot of medical people, and if you look at masks, as a general rule, countries that have a tendency to wear a mask, fewer people get sick. So it's really taking that on faith and asking our associates to wear a mask and asking customers to do so as well.

One of the things you've launched is this Helping Hands Foundation. Can you talk a little bit about that?

When our associates get in a time of need, we try to be there for them. And in the past it typically would be for somebody that had an unexpected death in the family, help them make a rent payment or a car payment or a house payment so they didn't lose their house when they had an unusual financial burden that wasn't expected. We recently added an incremental \$5 million to our Helping Hands fund because one of the things that we discovered just because we have been able to continue to operate because of being an essential service, a lot of our associates have spouses or significant others that lost their jobs. So just because one person in the family is employed, it doesn't mean they don't have an unexpected financial situation. So it's trying to be there for our associates in time of need.

“[Regarding] the produce department being the pharmacy department of the 21st century, we totally believe that. ... Right now I think customers are more focused on survival. I think when we come through this and out of this, customers will be even more focused on eating healthy.”

The testing challenge - obviously one of the keys to reopening is confidence that tests are available and accurate. What are your current and future plans as it relates to testing?

We have testing sites in Kentucky and Tennessee, and both of the governors in both of those states have been incredible partners. In working together, we provide people to help do the tests. It's totally voluntary, and the states are able to get access to supplies. Microsoft has worked with us to create a website for somebody to decide whether they're eligible for a test.

We're also in the middle of expanding now to Ohio, Michigan and Colorado. In addition to that, in hotspots for our own associates, we're doing testing as well. The stumbling part is always finding enough of the tests. Now, every day it gets a little bit more available and a little bit easier, but that's definitely the constraint. I know we certainly have more talent in terms of nurse practitioners and pharmacists and tele-health that can administrate the tests, but it is finding the tests.

What is your experience with different types of tests? And being today in I think 35 different states, have you seen a difference in the *approach* to testing?

We have definitely seen a difference in approach in testing across the different states. We have a chief medical officer who's a doctor, and he's worked very closely with the CDC and other doctors to make sure that the tests that we use have a great track record, obviously. But there is pretty wide variance across the states we operate in. A lot of that is driven by the, I call it "hotspots," but places where they would have more COVID-19 cases. Obviously the testing is more aggressive there than in other parts where fortunately for the states, the number of cases they have are significantly lower.

One of the other areas we've been very focused on with food security is the ability to grow food. As you've seen, some milk has been poured down the drain, some produce has been plowed over, whereas large parts of our community are concerned about access to food. How has Kroger responded?

We've always had a deep partnership with Feeding America, and we were one of the original founding members of Feeding America. Our stores continue to support, with partnerships with consumer product goods companies, to give donations. We have relationships with over 300 local food banks. We are also providing financial support and partnering with our customers to provide financial support as well. We've committed \$3 million to Feeding America and No Kid Hungry.

We've also committed to partnering with our customers to facilitate raising \$10 million in local, state and national commitments through our foundation to help raise money – where a customer can round up to the next dollar or the next \$5 or next \$10 when they're checking out at one of our stores. Then we have manufacturing plants, and in our dairies we're working with dairy farmers to take the surplus milk, process that and give that milk – partnered with local dairy cooperatives – to food banks so they can in turn help their clients.

When we analyze those who have lost their life to this virus or those who have gone on ventilators, we continue to see that there's more risk – and maybe the greatest risk – if you have hypertension, high blood pressure, diabetes, heart conditions, and others.

Rodney, I know over the years we have spent a lot of time talking about how do we get people healthier, eating right, and the fact that maybe the produce section at a Kroger store is also the pharmacy of the future. What has happened during this period of time with this relationship between a person's health and their ability to fight off this virus?

Food is medicine. And the example that you gave about the produce department being the pharmacy department of the 21st century, we totally believe that. We have hundreds of dieticians where customers can actually sign up to where we will help them eat healthier. We also will try to help them eat healthier on foods they like. I always say that we can't get you to go from from ice cream to broccoli, but we can help you find an ice cream that's healthier for

you. And we have a something called Opt Up that's an internal app that customers can score on what they buy. So to me it just really even highlights more the importance of food, the importance of eating right. You know, right now I think customers are more focused on survival. I think when we come through this and out of this, customers will be even more focused on eating healthy.

“One of the things that are increasingly happening is families cooking as families ... and then they share the meal together. ... I think that's going to be something that's going to stay with us for a long time.”

One of the things we've seen is spontaneous response from individuals who are doing things that somewhat underline the social capital of this country. I know you had some inspiring events. You talked about the fire department in Oregon, but I heard a great deal about Tyler Perry in Atlanta. What happened in Atlanta?

I appreciate you asking, and it's so cool. As I mentioned, we have seniors hour between seven and eight, and Tyler Perry took many of our inner city stores and paid for all the customer groceries from seven to eight o'clock. So it's the seniors and those people with some type of risk. He paid for everything. It was so inspiring to see the looks on people's faces. Some people were crying, other people were saying, you gotta be kidding me. But sometimes they were even using words a little more aggressive than kidding.

And in LA the same thing has happened. Somebody bought \$15 gift certificates and we just gave it to customers that were seniors. So it's one of those things where it's really whatever level that somebody wants to support, we can help facilitate that.

Is there a person at Kroger that, if someone listening to this podcast, Rodney, would like to participate that they should contact?

Yes, the person that could be a huge help would be Kristal Howard and it's just Kristal.Howard@kroger.com and we would be delighted to help in any way we can.

Well, with almost 3,000 locations in America, and 11 million customers coming per day, there's a lot of opportunity for surprise here. Let's take a look at the future. Innovations born of necessity to respond to challenges often lead to long-term benefits in how we live and change the way we operate. As you think about the changes and the innovations that you've had to put in place during this crisis, will they result in many cases in long-term improvements or the way you do business or the way you interact with your customers or the way your associates interact with one another?

I definitely think from what we would call seamless – where a customer can pick up or get delivery or shop in the store – I believe our digital business will be significantly higher than before. I've had customer after customer tell me that even when everything goes back to normal, I'm going to still use the pickup business or the delivery more than I did before, but I still can't wait till I feel comfortable going back in this store. I think there is no doubt that customers will figure out a way to use Kroger to solve more of their needs.

One of the things that are increasingly happening is families cooking as families, and the number of comments that I've had from talking to people where they're finding it's a way to connect with their kids ... where they're equals versus a kid being a kid, and then they share the meal together, and the stories that they share. Columbia University did a research several years ago: when families eat as families, the kids get into less trouble. I think that's going to be something that's going to stay with us for a long time. The other thing that comes out of that is you save money because when you cook together that meal is significantly more affordable and it's exactly what you want.

I think the family, and the relationship between members of the family, is one of the most important parts of our social fabric in our country. Rodney, thank you for talking about bringing the family back together. Lori and I have 10 grandchildren, and we're not able to eat with them, but listening to your suggestion, we're going to start Zoom or online dinners with our grandchildren. So at the moment we will eat with them digitally at least and look forward to eating with them in person in the future. I want to thank you for joining us today, Rodney. And I want to thank you and your half a million teammates here for providing food and opportunities and your pharmacies to the citizens of this country during this coronavirus. So thank you and thank you for joining us today.

Thank you. And Mike, the work that you've done over the last several years has just been so inspiring and appreciated by everyone in the United States. So thank you.