

Supply chain in the era of COVID-19: How food producers, manufacturers, and retailers are adapting

This is a transcript of one of the sessions from the [UT Nutrition Institute](#)'s 2nd Annual Taste of Texas event that took place virtually on October 2nd, 2020 via a video conferencing software.

Session Description: Wondering why grocery shelves were empty back in April? Our panelists discuss the impact of supply chain disruptions on dairy, produce, and retailers.

[Panel Introductions]

Edwin Marty

Thank you so much, Marissa. I am really excited to have this conversation today about the supply chain in the era of COVID-19. We've got three amazing panelists that are going to be able to share some of their experiences and walk us through some of the challenges and opportunities that they're seeing in the industry, currently.

So, let me take a couple minutes and just introduce the panelists, and then I'll start out with a couple questions. We're going to explore sort of the pre-COVID world of the supply chain, the COVID world of the supply chain, and then take a couple minutes to look forward and imagine what things might be different in the post-COVID era, in terms of our supply chain.

So, let me jump in and introduce our first panelist, Elsa Underwood, who serves as the H-E-B global sourcing manager. We are delighted to have her and her amazing company on board today. Elsa has been involved in the food industry for over 25 years. She's worked on all sorts of different aspects of the food system, including manufacturing, brokering, food service, marketing, and now in the retail world with H-E-B. She is specifically in charge of helping H-E-B discover new companies, both here in Texas and globally, and gets to have lots of fun discovering, uncovering, and discovering new companies to bring on board for H-E-B.

Next, let me introduce Terry Sebastian with Pacific Investments. Terry is an operating partner at Lake Pacific Partners, a private equity investment firm located in the food sector. He leads investment in portfolio management efforts on the west coast. He serves as the chairman of innovative freeze-dried food in Ferndale, Washington, and recently led Cal Pacific Specialty Foods as their CEO.

In addition to his role with Lake Pacific Partners, he serves as an Independent Director of Alliance Bernstein Private Credit Investors, the private debt fund, based here in Austin, Texas.

Next, let me introduce John Adams with Grande Cheese. John is a Group Vice President for the Food Service Business unit at the Grande Cheese Company, the advocate of the independent and makers of "The finest Italian cheese money can buy!" Prior to joining Grande in early 2019, John was with Kimberly-Clark for 14 years, having most recently served as the business leader for the Professional Division's industry and Home Professional business. John is a native Texan, graduate of Vandy and the McCombs School here at the University of Texas, and now lives in Wisconsin.

So, with that said, let me jump into some quick questions. We'll just basically start out asking a question, and then I'll call out our panelists for their responses. And just again, thank you guys so much. Really appreciate your time and excited to hear your insights into our food sector.

[Supply chain innovations, challenges pre-pandemic]

Edwin

So, let me start with Elsa with H-E-B. Pre-COVID-19 pandemic, you guys were obviously well positioned in the food retail world, doing great stuff here in Texas. What were—in your, from your perspective—what were some exciting innovations and also some challenges for your work in the pre-pandemic world regarding H-E-B's food sourcing? Elsa?

Elsa Underwood

So, I think really pre-pandemic a lot of what we were focused on and, quite honestly, still remain focused on, you know, especially as we think about sourcing from other countries kind of around the world, is just kind of the geopolitical implications that come into... you know, it's like you think we're just a little food business. We're just running, you know, buying groceries, and it seems like it's pretty simple.

But all of a sudden, you know, there could be, you know, between trade wars and, you know, tariff implications and things like that... That made us really kind of start thinking about, you know, the importance of looking at the entire supply chain in terms of all of those implications, and then, does it make sense to start shifting some of the sourcing to either other countries, closer in, domestic North America, you know? And, in some cases, that becomes a challenge because there's either, you know, some... There's always really good reasons for sourcing in some certain countries. Sometimes it's costs, you know, that's just the reality. Sometimes it's, you know, you just—the best type of item comes from a particular country.

And so, what we realized is that we would, we were going to have to start really understanding our suppliers in a much, much deeper way. And start to try to figure out, are there some options that are actually closer in so we can mitigate some risk? You know, may potentially look at some cost savings, just from a transportation perspective, but those suppliers are going to have to be developed to become the premier supplier of that particular product. So maybe they don't make this particular item today, but I don't know... could they? So, we really have had some, you know, really good conversations with suppliers.

With, you know, more local type of suppliers, in terms of... let's start thinking about what this looks like in, you know, a year, two, three, five, ten years down the road, and start really thinking big picture of, you know, what might be necessary for them? In some cases, it could be, you know, really building a whole new facility. It could be looking at different equipment. But, you know, building those relationships, those really deep relationships with our suppliers, really is fundamental to mitigating some of the risk.

You know, obviously there's also things like, you know, it's fun to talk about things like drones, you know, as the, you know, kind of a new thing, you know, that innovative kind of thing—you know, drones have their own set of particular issues when it comes to food, specifically. You know, FDA has all kinds of rules around drones that really don't allow for that to happen in today's world; however, that could change as well. So, you know, so there's everything from, you know, those, kind of, technological innovations, but again, I think it's also just thinking about how we interact with suppliers in a different way, in a long-term strategic way, that I think actually also is innovative in a different way.

Edwin

Excellent. Well, I think we'll get to circle back to some of those things and sort of explore how those panned out during the pandemic and then hear your thoughts on sort of where some of that might go post-pandemic, so thank you, Elsa.

Terry, we'll turn to you. So, the same question: pre-pandemic—if you can remember back to January 2020, which seems like two lifetimes ago—what was sort of on tap for you in terms of the supply chain for your company? What were you thinking about? What were the issues that you were facing? Any potential huge challenges that you were working on?

Terry Sebastian

I mean at Innovative Freeze-Dried, which I'll use as my reference point for that question, you know, we were really just looking at continuing to grow the business. This is a company that freeze dries primarily fruits and vegetables, but some dairy products as well, up in Washington for industrial and retail markets, and so we were looking at continuing to expand our capacity and grow.

We also serve as an aggregator, in some cases, of freeze-dried materials that we would then bag and accumulated and sell as a mixed product. And some of those raw materials are imported some from china, and so we were looking toward utilizing that global supply chain of fruits and vegetables from Asia and South America, so those plans obviously were upended greatly only a few months later. But our primary focus was continued growth, and, as so many people have had to, we've dealt with the disruption since then.

Edwin

All right, yeah. I think plenty to circle back to on that as well. John, let me focus on you and with your work with Grande Cheese. Pre-pandemic, what were the primary issues that you were concerned about in the supply chain, and anything popped out in terms of things that you were really concerned about at that time?

John Adams

Yeah. Thanks for the question, Edwin. And some of which I'll piggyback on my co-panelists' comments, and I'll give the perspective of being a food processor, a dairy processor, and kind of going both ways, if you will, on the supply chain. So, from an intake standpoint, what I'd tell you—and then just kind of a shipment standpoint—the two big themes that I can think of that were prevalent, and will continue I'm sure, are just the notions of scale and technology.

From a scale standpoint, in our case—dairy, working with dairy farmers—it has been a long-term trend, and I think will continue to be a long-term trend of consolidation. And, you know, bigger is better because bigger can afford investments in technology, investments in land, investments in fixed assets.

I mean, we've certainly seen that in Wisconsin, throughout the country, as well, Texas included, on the dairy side of the business. But from a technology standpoint, you know, given the sensitivity that we have towards the care and condition of our cheeses—our milk, first of all, and then our cheeses—in the supply chain, a lot of investment and consideration for how that product is working its way through the supply chain, ultimately to a restaurant, ultimately to consumption by a patron. So, time and temperature type readings, humidity type readings, all of the types of probes and readings that would be pref—or relevant—for us to ensure that our cheese is maintained at a high quality throughout the process. Those were the type of work that was transpiring.

And then, I'll build on what Elsa said in terms of, kind of, the go-to-market piece of it and how we work with distributors on the sales side. And I would just emphasize scale around partnership. She talked about partnership, and I definitely was seeing a lot of that enhancement or increased emphasis—distributors wanting to get bigger with us, us wanting to get bigger with them. You know, you kind of, again, get economies of scale working with

bigger distributors and having to manage fewer relationships and fewer pieces of nuance or business plans across different distributors. So, consolidation on that end as well was something that was quite prevalent, something that I think will continue.

Edwin

Excellent. Interesting stuff. So, definitely recognize that the three of you, as so many were in the pre-pandemic world, you know, focused on the movement of food—essentially, a lot of food being moved around the country and around the world. Ensuring quality was obviously the primary concern for all of you. Ensuring safety was #1, but building relationships and partnerships, not just around the country, but around the world.

So, fast forward to February, March 2020. The pandemic hit, and, obviously, all of those relationships, all of those partnerships that have... became in question.

The food, both around the country and then, even more importantly, around the world was really thrown into question. You know, we're just starting to really sort of have the ability to look backwards and understand how so much got impacted so quickly, but all of you, it sounds like, we're radically impacted on a range of levels around, you know, not just the economics, but the actual logistics of moving food.

So, let me shift gears and just sort of jump into that March, April timeline. What were sort of the first things that you all... each one of you jumped into sort of, "Okay, pandemic is happening. How is this going to affect the work that I do in the supply chain?" Maybe just a couple of examples of sort of what you're... where you were sort of mentally in terms of steadying yourself, recognizing—I think everybody knew by the beginning of March that this was going to be significant and it was going to be an event that was lasting over time. And so, it wasn't just, "let's get through the next couple weeks," it was, "let's get to the next couple weeks, and be prepared for this to unfold over the coming months."

So, where were you sort of emotionally and in your ability to think about those things, and then what were some examples of things that you all started to work on immediately to shift gears, recognizing that the sort of status quo of your work and all the important things that you had sort of thought you were going to be working on in 2020 were significantly shifted? So, I'll throw it over to you, Elsa. Any thoughts on that?

Elsa

Yeah, so at H-E-B we really—I mean it was actually in January that we—this thing kind of hit our radar screen. I mean, did we know what it was going to end up being at that point? I mean, of course we didn't, you know, have a have a specific picture, but we really keep in

touch with other, you know, retailers—again, back to those relationships. We have suppliers in other countries that we've worked with for, you know, 20, 30 years, in some instances.

And so, we started reaching out immediately to our, you know, partners around the world to start and trying to understand what is this thing that we keep—that we're starting to hear a little bit about? And what we immediately realized was.... this is a thing. It's a thing, and we need to start preparing for it. The good thing is that because we are a company that, you know, we have lots of stores within the gulf coast area, so we're very adept at dealing with disasters—being hurricanes, that's the big one, right.

And so, because we have been dealing with hurricanes for, you know, such a long time, we actually have an entire group of people in the company that are... it's like they are our disaster relief people. And so, they kind of think about that all the time. They prep the company. We basically have started... we had started kind of building those muscles for the last, you know, I would say for sure for the last you know 10, 15 years of really understanding, so when a disaster hits, take a breath. Everybody, calm down. We know what we're doing. Let's pull out our book. And, you know, it's not a literal book, but it's close to it. And we just kind of start, you know, going down ticking through the things that need to happen.

Again, you know, I'm not gonna pretend that this was similar to a hurricane, but in some instances, there were definitely some things that we were able to look back on all of those years of preparation of worst-case scenario. Let's think about what is the worst-case scenario, and what would we do *if*? And we did a lot of that prep work. So, when this thing hit, we literally—again, it started in January—a group of people got together and said, "Okay, if this thing ends up being what we think it could be, what would that look like and what would we need to do? Let's just start listing that out." And we literally just kind of sat down and started figuring that out. And again, kind of reaching out to our partners from, you know, around the world.

And so, by February we really knew... okay this is obviously going to be way bigger than anything that we've ever experienced, so let's start leaning on, okay, our core values. Like, what are we? Who are we? What are we about? Let's lean into that, and really, we're all about our partners. So, the safety of our partners became kind of paramount, because we realized... we have to keep our stores open, and we have to try to create some sort of normalcy, and our partners are going to do that. So, the safety of our partners was huge. The safety, physical and mental, of our customers was also of paramount importance, and then our communities. And that's really who H-E-B is. We leaned into that.

I will tell you that, you know, throughout this entire time, any meeting that I've been in, any phone calls that I've been in, those three things are always the first thing as we start talking

about anything to do with this pandemic, anything to do with coronavirus. It's all about our partners, our customers, and our community. And honestly, things like sales and profits and things like that, they came way, way down the road. And again, I think it's just kind of going back to, what are your core values? Stick with those, planning and prepping... and then building on your relationships that you've developed over the years.

So, really that's kind of—and, you know, and again: yes, take a deep breath. Be patient with each other. We all had to be patient with each other because none of us really knew what we were doing. You know, I think nobody in the world really understood exactly what to do. So, we were just, you know, being creative and being patient with each other and leaning on our core values.

Edwin

Yeah, that's fantastic, and just as a resident of Austin who shops at H-E-B frequently, I sure do appreciate that sense of calmness that your corporation brought to our community. It certainly had a huge impact.

I think everybody in Austin, probably everybody that shops at H-E-B around Texas, appreciates those core values. And it was pretty obvious in y'all's response that, you know, the world might be going to hell, but you could still go to H-E-B and get your groceries. And that was a pretty big deal because, for many of us, there wasn't much that was still normal after the first couple weeks of the pandemic.

So, really interesting to kind of explore what happens when you build the foundation of a really good company. You have the capacity to learn from natural disasters that do happen every single year, and H-E-B is obviously on the front line of those disasters every single year. So, pretty cool to see that translation into something that was, in some ways, utterly unprecedented—certainly in the modern era.

So, turning it over to Terry, a similar question again. So, January, February... pandemic's pretty obvious. You might have had a little bit of more insight as a partner, were partnering with so many companies in the Asian market. Just curious, kind of, when did you first sort of understand the scope of the pandemic and the complexity of it? And then, you know, how do you start negotiating... instead of where does your supply chain go when the entire country of China is locked down, you know, sometime in late February? It must have been a terrifying time, in some ways.

Terry

So, for us we certainly knew that China was going to be impacted. That's only a small portion of our business currently, and actually provides an opportunity for us. We're an alternative to

Chinese supply, albeit at higher cost for some commodities. So, in our case, we knew that some of the products that we source would be limited in supply, but we were hopeful that—it turned out to be true—that it would be offset by demand from customers seeking a domestic supply. And so, in many cases, throughout Innovative there were some challenges, but they turned out to be offsetting opportunities as well, which has certainly been to our benefit.

You also asked a little bit about how, emotionally, I also addressed it as well. I've done some turnarounds previously of other companies. I've worked at Cal Pacific, running Cal Pacific, we process agricultural commodities on a daily basis, which, you know, had wide fluctuations. So, at least emotionally and mentally, I think myself and the team were well prepared to say, "Okay, there's been a change. How do we now deal with it?" And, for us, it really flowed throughout our entire operations. Once again, as Elsa mentioned, I mean, we... just as a checkout line at H-E-B wasn't designed—didn't normally operate for social distancing, neither is a production line in a food processing facility.

And so, people—quite frankly, you know, space comes at a premium, as it does at retail—productivity and efficiency while still maintaining quality and safety. All those things are designed in and operated at a very high level of efficiency. And, one of the most challenging things that we faced was ensuring the workplace safety and making certain that people had distancing in the equipment and how might the equipment impact their productivity.

And so, really a very, very short notice going through our processes, you know, from coming into the building through to staging and production and packaging and saying, "How do we do this to maintain our ongoing levels of food safety and quality, but then also now take things beyond what you normally do from a workplace safety standpoint but to a COVID safety standpoint?"

I think one of the unique challenges of that as well was we all dealt with inconsistent information in terms of what we needed to do to ensure that level of safety. We took the step to be as conservative as possible. Part of that, I believe, was just, philosophically, wanting to do the best thing we could for our team. But also, too, for our purposes, keeping having folks come back and being able to stay up and producing was very important to us, because we did foresee increased demand. We felt that given our shelf-stable snacking use of our products that we were going to see some increased demand.

Also, one of the sectors that you may not immediately think of as a freeze-dried market is the emergency food sector. So, you know, meals freeze-dried, freeze-dried meals, you probably may see them in camping, but a lot of times in emergency situations it's freeze-dried food products. And we did see a big uptick in orders from that, so immediately that was our biggest focus.

And then just going back to the initial shock of supply being reduced from China... we just—there was nothing we could do about that, and fortunately our customers understood that as well. And so, we began to work with them on managing, allocating out raw materials over a projected period of time, which of course was a guess, and then looking at alternative products that we could slot in so that they wouldn't have empty shelves and they could manage their mix as best as they could. So, those were the primary two challenges that we addressed in the early days.

Edwin

Interesting stuff, and I want to dive just for a minute down into the processing question because, I mean, I think—

Terry

Sure.

Edwin

I haven't heard a lot about this just in the national media.

So, you've got two challenges. You're seeing a potential significant increase in the demand for your product, which is great from a business perspective, obviously, and yet you've got the safety and concern of your workers first and foremost. Any thoughts on sort of how significantly was your production capacity decreased as a result of the safety protocols? Obviously, there's probably some things you can't share, but I'd just be curious to hear anything you can share on that front.

Terry

Yeah, I mean we—I'll throw a number at it and say 10%. You know, maybe just in terms of distancing and additional steps. I mean and it impacted everything. It takes a few minutes more for people to get into the building end of the day and don the appropriate equipment. There are a few more hand washing and sanitation steps throughout the day, moving between room to room.

We were able to accommodate on production lines and throughput the distancing. That was the biggest concern just because you can't expand the size of your plant, so how are you somehow going to be able to get that done? We were able to accommodate that, so it was really more of the additional steps of, you know, hand sanitizing or putting on protective gear and doing that in multiple places in the building. And being disciplined about doing it on and off of breaks and things like that.

So, I would estimate that, you know, that may have reduced productive time by about 10%, which we've made up with overtime and increasing shifts and things such as that. But it did require a very detailed approach, and all of our, you know, all of the team to really take a different perspective and change some of their daily habits in an environment that's fast-paced and metric-driven. I mean, you look at the end of every day and you go, "Okay, how many cases did we get out the door? What was the yield on the dryers?" And you have to ask people to suspend that for a while so that you can find the safe new normal.

Edwin

Got you.

Well, I think the really interesting thing that we'll circle back to in a minute—so be thinking about this—is what are you going to take forward post-pandemic? Are there things that you've figured out in terms of that increase safety while also maintaining efficiency?

So, I'll be really curious to hear more about that in a second, but let me turn to John real quick and just ask the same question. So, February, March comes. Pandemic is upon you. The demand for milk is... whew, wow, what a complicated question. You know, skyrocketing demand... plummeting demand... I mean, wow.

So, just curious to hear some of your thoughts on how did you negotiate—so what that incredibly volatile equation looked like, and then what were some things that you did immediately to ensure safety?

John

Yeah, that's great. And yeah, it's one of those times I remember quite vividly, and we'll never forget it.

What's important, contextually, is to understand how the cheese supply chain works, at least for a dairy processor. Your audience may have some fun with this, but it's an important realization I had when I came to Grande Cheese, and that is: it is a continuous supply chain. Said simply, the cows never stop milking. So very, more or less, mid-March, I distinctly remember meeting with my sales leaders—they got a hold of me pretty immediately to inform me that several of our distributors were not going to pick up their shipments. And they weren't going to pick up their shipments because they were seeing the slowdown happen in all the restaurants, and some of the, you know, markets were starting to get shut down.

Well, what's interesting about our business is so much of it goes to pizza, which has proven exceptionally resilient in this marketplace. And so, we were having debates and discussions about how to work with these distributors who didn't want to pick up product. We were

having a hard time—our sales leaders were having a hard time saying, really forcing them, "No, you got to pick it up." And the reason they got to pick it up is because if they don't pick it up, we got boxes piling up in the warehouse because, again, it's a continuous flow happening in the dairy business. Like I said, the cows don't stop milking.

So, we were able to work through that and essentially, in good faith, mandate that our distributors took the product and gave them all sorts of statistics and insights as to how resilient pizza is and how demand in recessions and during crises—like hurricanes and that sort of thing—how demand for pizza holds up really well. Several of them trusted us on that and wound up selling through that product essentially on pace to what they had planned to.

So, that was a pretty visceral experience, negotiating with distributors to essentially force them to take the product that they wanted to walk away from. And the other thing I tell you, it got so wacky that we had a distributor—I won't name them, but they are nationally prominent—who said they weren't going to pick up the product. Refused. Then, four hours later, picked up the product. Then another—the next day, returned the product. And then, two days later, invoiced us for the product. So, it was... they couldn't even keep track of what was going on in their own supply chain and their own inventory management.

And to that end—and this is kind of a, I think, a very important point, and I'm sure this happened with a lot of businesses—manufacturers in particular; Essentially, you have meters and you have systems that are reading point-of-sale data, POS data, that are driving demand all the way through the supply chain. Well, when you have government shutdowns, the systems don't know how to read that, and so it completely throws the supply chain from having to be in kind of automatic mode and, sort of, "Okay, here we are, steady as she goes. This is what demand is going to be for each particular product week-in, week-out." And you can manage it pretty well, pretty tightly.

This, particularly with the shutdown, completely threw that out of whack. And the firms, in our view, that, essentially, turned off their systems the fastest and got to a manual perspective on how to manage their inventories were the ones that didn't wind up with massive disconnects in their supply chain and inventory management. In that context, what we did was we just went and got as much local market knowledge as we could. We're fortunate to have a direct sales force spaced throughout the country, and we were looking for, I mean, the feet on the street situation. Reports in from our sales associates, you know, New York, Chicago, Miami, Dallas, all over the country. What's happening in your market? They were inputting—we got, you know, manual about how they inputted a perspective on demand into our forecasting and planning team. And, to some extent, that continues to this day with

that kind of ground level insight as to how we should be making and, you know, shipping product. Hopefully, we'll be able to turn our systems back on, you know, fairly soon.

The other point I just want to call out, similar to Elsa's, is—and perhaps this is easier as a private company—but your ability to... we found incredible confidence in leaning on our core values. And, for us, that was just the beacon for us. And, for us, it became very simple. The health of our associates—we use associates for employees—the health of our associates. The health of our dairy farmers. The health of our customer base. And when you had that as really your guiding principles, that every decision you were making about was about the sanctity of those three stakeholder groups, it got really clear for you, much clearer, what your choices would be and what your priorities were. And, essentially, shifting a lot of long-term project work into day-to-day management of the business.

Edwin

That's fantastic, John. And it seems unfortunate that has to be such a pronounced thing, that you would think first and foremost about the health and well-being of your associates and your suppliers, the farmers, and the animals, and then your customers.

But it does sound like when you have those lined up, the decision-making tree gets very simple, and that's probably what so many companies really struggled with in the early days is not having a very clear decision-making tree of, sort of, "If this happens, then what do we do, and how do we—what's the most important thing that drives these next decisions?" So, it's great to hear.

I do want to, I think—one thing you've said the perspective on demand, I think, is really interesting. And I had a good conversation with Elsa previously about, you know, just the absolutely insane sort of demand and over demand and, you know, from a grocery perspective, of why people were coming in and clearing the shelves off of things that were, indeed, not problematic in terms of the supply chain. And so, I think there's a—that perspective on demand is something really interesting, and maybe I'll take that to sort of leverage into this—or to bridge into the—next conversation.

[Pandemic lessons for a post-pandemic world]

Edwin

So, you all have survived the first, we'll call it, the first phase of this pandemic. We don't really know where this is going to go. This fall could be interesting as colder temperatures set in and traditional flu complements the pandemic. We, you know, I don't think anybody can really say for sure how this is going to play out, but it sounds like you all have done some great work in

the first phase of the pandemic, from a business perspective, and are well positioned to move forward.

So, lessons learned. So, I think, one thing I want to spend the last part of our panel discussion sort of talking about... What are the lessons learned that you're going to be able to translate into whatever the next phase of the pandemic is?

But maybe, more importantly, looking past the pandemic, are there things that you've specifically picked up on that you feel confident that you're going to be able to adjust your business model, look at how to work through the supply chain, and come out on the other side of this in a better position? I think understanding the perspective on demand is really, really interesting, and if you all can take a couple minutes to maybe just share any thoughts on that.

I think we all have a better understanding of sort of how humans, in general, respond to pandemics. I don't think very many of us can say for certain that we're excited to understand how humans, in general, respond to pandemics. We know that toilet paper is a very important part of our response to pandemic. Whether perceived or real, it is a thing. And what do we do with that? I'm not really sure.

But just all jokes aside, thoughts on sort of what you've figured out so far in the pandemic to keep your business moving in the right direction, and are those things translatable into a post-pandemic world?

And then preparation for, you know, obviously, Elsa, you know there's another hurricane right now in the gulf. I can't remember its name because I think they've stopped naming them, but they're coming. So, and, you know, this will not be the last significant, you know, disruption to our supply chain. I don't think anybody would disagree with that. So, just thoughts on that. Turning over you to, Elsa. So, what'd you learn during the pandemic that you think might be translatable in the post-pandemic world?

Elsa

So, at H-E-B we have—so we have a saying that really started with our owner, Charles, but—and it, you know, kind of is very prevalent throughout the organization—and we call it "restless dissatisfaction."

And it's this underlying part of our company culture that we, no matter how good things went—and, you know, and yes, we got such great press. It was lovely to, you know, see the, you know, the Texas Monthly articles about our, you know, preparedness and, you know, Instagram postings about, you know, Texas—or H-E-B should run for governor. H-E-B should

run for president. H-E-B should run FEMA. I mean all of that was great, but we—because we have this innate restless dissatisfaction—we are immediately pivoted to: how do we do it better? And, of course, it was the, you know, fixing the airplane motor while you're flying it, right, kind of thing. So, we were, you know, trying to get through the, you know, the crazy, the madness about toilet paper and things like that. But then, immediately also pivoting to: but how do we systematically change some things? So that either if this thing happens again or, you know, we have another disaster—but even just bigger than that, like, there probably are some things that every company can be working on to improve. No matter if—even if there isn't another pandemic or another disaster, there's still some things that you can work on.

I think you know one of the one of the big things that we are, you know, really focused on is, again, kind of, you know... yes, we have those core relationships with, you know, suppliers, with distributors, with, you know, logistics companies, with, you know, regulatory folks, with importers; however, I think there's also an opportunity always to... do we have backup? Do we have backup options for, you know, if something were to happen? And what we, you know, what obviously we realized was, you know, just from a manufacturing perspective, you know, as Terry and John were talking about, I mean, you know, the manufacturers almost immediately had to also, like, we have to change some things.

And so, you know, we still today we have some of the, I would say large CPG companies, like the large national brand companies that, you know, maybe their portfolio to H-E-B included 220 different items. Well, you know what, they're doing about 100 now. Because they're really trying to focus on, you know, you don't have the luxury of doing shorter runs. You just don't have that luxury as a manufacturer, and so, in some cases, people just stopped making certain things. They just physically couldn't.

And so having some backup—and I think for manufacturers probably as well, like, all of a sudden, I think everybody realized that you have to have some backup for every part of that chain. And, you know, even for us, you know, partners in the stores... well, you know what, when you have an entire population of people who are gonna... either are getting sick or just feel uncomfortable showing up to work, you gotta have some backup. So, I think it's just that constant, you know, making sure you have a plan for if something goes wrong. I think that was one of the really big ones.

Edwin

That's great. And maybe just one more thing to point out, again, just as a local Austinite pretty tuned in to sort of the way people think about H-E-B—I'm a Reddit user, and just giggle all the time about how often H-E-B is the center of so many memes on Reddit. Almost always just about how do you get to H-E-B in different conditions.

But all jokes aside, the fact that you all instituted, across the board, raises for your employees during the pandemic—and from what I understand those are going to be institutionalized—it's a gigantic signal to the community. It was a gigantic signal that the employees that are in the grocery stores that you're going to, they're showing up every single day, they're supplying or providing you with the opportunity to get the food that you need for your family. And the company that employs them recognizes that they're doing everything they can to be part of a good community.

The fact that you all institutionalized pretty significant raises... I can't remember a time where I saw a similar scale of raises being provided across the board. Any thoughts on sort of, you know, what was the driver on that? Obviously, you wanted to keep your employees, but, you know, frankly the unemployment level was skyrocketing.

So, to see skyrocketing unemployment and yet to have a corporation make a very bold statement to increase the salary for, across the board—from what I understand across the board—employees from checkout people to, you know, the people sweeping the floors.

Any thoughts on, sort of, that sort of dynamic?

Elsa

Yeah, I mean, I think again that goes back to, you know, our kind of our core values. And, you know, I think a big piece of what makes H-E-B so successful is that focus on our own partners. You know, I think it's a, you know, as much as we, you know, we also focus on our customers, clearly. I mean, they're—we're here by the grace of the people that go into our stores. However, they can't get into our stores if we don't have the healthy population of our partners who are, you know, in our warehouses picking the product, receiving the product, loading the product. Our drivers who are, you know, taking this product all over the state. And, of course, our store partners, which, you know, the store partners are obviously kind of the face of—but, you know, you kind of see the drivers occasionally. You can see the trucks. But all of, you know, the folks in the warehouses... you know, you just don't see them, but they're obviously... they're critical. They're, you know, a very critical part of the company. And then, you know, H-E-B we also have many manufacturing facilities—our own manufacturing facilities. So, again, the people who are in our manufacturing plants, you know, making the product that eventually ends up on our store shelf.

And so, you know, I think it was... that was probably one of the easiest conversations. Somebody floated it out there, and it was basically just, "Absolutely, this is the right thing to do." It really just wasn't even much of a conversation. It was just something that we felt like, you know, was the right thing to do to take care of our partners. And the interesting perspective, I think, that you actually pointed out to me was what that did to the broader

community. That it did sort of mentally make everybody realize, like, H-E-B is not going anywhere. We're here.

And, I mean. I'm not going to say that we were perfect. We ran out of toilet paper at one point, as well. And, you know, some meat items and some other of those crazy, you know, items or categories. However, for the most part, you know, it was a pretty calm place. I know I actually spent many Saturdays at the beginning of this craziness just going into one of my local stores, and I just would walk in and say, "How do I help?" And they'd say, "go to line #12 and start bagging." Okay, so I just started bagging. And the, you know, the only reason that I bring that up is because I—that was not an uncommon thing. There were many people within our corporate area that just said, "How do we help? Do we need to feed these people? Do we—how do we help them?" So, and that was obviously one way, from a corporate standpoint, that we were able to, you know, to show the love, I suppose.

Edwin

It's just so cool to hear that when you have your core values in line the decision-making tree, again, is pretty straightforward. You don't have to do anything radical. You just simply say, what are we here to do and let's—

John

Absolutely.

Elsa

Do the right thing.

Edwin

All right, well, shifting over to Terry. So, things you figured out during the pandemic that you might be able to translate to post-pandemic? Imagine on the scale of what you are doing in terms of processing... must be some interesting things you all are chewing on. Any thoughts on that?

Terry

Sure, I mean, there are some straightforward things that we didn't have previously. I mean, for example, we will now have a supply of masks in our facility that we would not have had previously. You know, just supplies of PPE things like that that we wouldn't have had previously, given precautions that, you know, will or won't relax somewhere down the road. Certainly, within the supply chain working capital inventory, that's something that we have adjusted due to disrupted supply chains and increase in demand, and we'll need to work closely with our customers to navigate that as we come out of this pandemic.

But then, that leads to, for... at least for us, the biggest question right now which is: what is the future? What are the future habits of the consumer? And, for us, that is the biggest piece of guesswork. I mean, we have seen massive shifts in consumer behavior, obviously. They're going to go on, they have gone on. It will continue for a prolonged period of time to where people will naturally change habits, and then now those habits will be informed by future expectations that future pandemics might come, whenever that might be. And, I would say, that's the most vibrant set of questions that we're trying to address right now, is the guessing around consumer behavior coming out of this over the next 6 to 12 months.

And then, longer-term, the shift between food service and retail. Our different channels as well as the different product categories, and working with our, you know, working with our customers. Not the end consumer, in this case—the customer. Maybe the retailer or the food service operator—with them to try to make those guesses. That's where we're really spending a lot of time because it influences investments in working capital, investments in equipment. I mean, we've been asked to increase capacity in certain areas to meet renewed demand, but the payback on those investments is maybe two to three years. And so, you're having to ask yourself: will this demand persist for that period of time as well? So, it's, I think, it's really tricky and demanding, but also fascinating. I would say, it's been one of the more interesting times in my career around everybody trying to speculate about what will be some of the biggest shifts, rapidly, in consumer behavior that I've ever seen? So, it's... I do find it, you know, really fascinating right now to try to guess—work through that with our customers.

Edwin

Yeah, I appreciate deeply that you can find it fascinating and not terrifying to imagine, how do you steer the ship 10 years ahead? So, I imagine that's why you're well suited to be in your role. I guess interesting just to reflect on—I was brought up in part by grandparents who survived the Great Depression and World War II, and never forgot. You know, they went on to be very successful business people and very financially comfortable, but, you know, even in the 80s, 50 years afterwards, their purchasing patterns were directly impacted by their early childhood experiences of the Great Depression and World War II.

It will be very interesting to see, does this pandemic have a similar sort of sticking power in terms of shifting the way people think about things? I imagine a lot of people have a lot of bags of rice and beans on their shelves that they would have never dreamed of having pre-pandemic, but especially in the freeze-dries industry, you know. Our freezers will probably not look quite the same for some time, so best of luck trying to forecast that.

So, John, let me turn it over to you in the cheese world. Sort of things you've learned. You've already touched on a couple things, I think, you picked up on. And sort of where does this go

post-pandemic? What are you thinking in terms of... is the pizza industry going to continue to grow post-pandemic? Can it grow anymore? Can I eat any more pizza? I don't think so. My kids can, I think. But lessons learned in terms of what's going to drive you and sort of where you're thinking this might lead you in the foreseeable future?

John

Yeah, I'll pick up where Terry left off, and just give this point of view. You know, for who we are—we're in business to serve independent pizzeria and Italian restaurant operators. So, we—our operators, as we call them, compete against Domino's, Papa John's, Pizza Hut. All the major chains. So, we are invigorated with the challenge of supporting our operators in ways be—as we say—beyond cheese. So, how can we help them run their business better? And we're kind of racking our brains right now, again, similar to what Terry said, in terms of curbside, takeout, and delivery. We expect that to stick around and be predominant going forward. It's just become too easy and too convenient for many Americans. And so, what's the next phase in evolution for being differentiated in curbside, takeout, and delivery? How do you try to create a great restaurant experience through those channels as opposed to dine in? Those are some questions we're thinking about with our operators and trying to innovate with them. Could our product form, for example, change? Could we be innovative in a way that makes our cheeses more adaptable and more acceptable in those formats as opposed to dine in? Those are the kinds of things we're thinking about because we think those things are going to continue to be here.

And yes, to answer your question, we think your kids can eat more pizza. [panel chuckles] And we think they will. We're pretty bullish on pizza, longer-term, in that people have found, particularly for a high-quality operator using high-quality ingredients, that they see a nutritious product that goes a long way on the dollar in terms of feeding family members. So, we think there's going to be a nice continued uptick in pizza interest.

The other things I just emphasize in terms of going forward what we've learned—we have found opportunities in our production area, some automation things that we really hadn't thought through that we were now forced to, given social distancing in our plants, for example. Those have been nice revelations for our business in terms of productivity and quality, as well as in safety. Our facilities now—even without the pandemic, you set that aside—the practices that we have in place now at our plants versus nine months ago, we're a much more safe and clean environment than we were before.

And then, the last idea I'd tell you. I think this builds off Elsa's comment is, and we're still seeing it, we're still help restaurant operators work through it: SKU rationalization. There's a lot of SKU rationalization going on. And that makes you really think about innovation a lot

differently because if you're coming out with something, you need to know with a lot of confidence it's going to have the right level of scale to become not only interesting, but sustainable. And won't get rationalized soon enough. So, you know, she gave the reference of 200 or so SKUs down to 100 for any, you know, for a major CPG. We're seeing that kind of thing working with pizzeria operators, and we're encouraging it. So... just because it'll help them manage their business better.

Edwin

Interesting. Good stuff.

[Concern about small business closures]

Edwin

Let me circle back to just a quick question. I mean, you're in a particularly interesting position in terms of serving independent restaurants, and we are seeing some really disturbing trends across the country in terms of independent restaurant owners closing their shops. We look at, sort of, who's coming out of this pandemic... it will likely be chain restaurants, best that I can tell, surviving at a higher rate than the independent restaurants. Any thoughts on—? I mean, it sounds like you're doing everything you can as, sort of, the back end to help those independent restaurant owners understand how to survive and how to structure themselves, but is that a deep concern for you all? And, I mean, it sounds like you're already thinking through it, but any other reflections on, sort of, where that might end up post-pandemic?

John

Yeah, we are—I mean that we are thinking through it. Our data kind of indicates any on the national level those businesses are kind of we're going to lose 5-10% percent of them, is, kind of, our rough understanding of the analysis we've done. You know, our analysis with our own operator base is that... so far, so good. We're gonna lose a lot fewer than that. And again, that speaks to the resiliency of pizza. That speaks to, we'll argue, the quality of our products and how they sustain and, you know, create market share advantage for our operators, versus if they're using someone else's cheese.

But this—what you, kind of—in addition to the environment not being as problematic for us as it may be for many others, we have a vested interest in propping up this independent operator community. And so, what we're giving thought to now is, how do we create more alliances and outreach with other suppliers that hit this, you know, hit the independent pizzeria community, specifically? And how can we, say, raise the voice of the community and really inspire new entrepreneurs as well as make existing owner operators that much more

healthy? And I expect you to see more of that kind of banding together to try to support that induced community.

Edwin

That's great. Well, let's cross our fingers and hope that happens. I know here in Austin, specifically the University of Texas, to start wrapping this up, that's a primary hope for a lot of people. Including the folks—some of the folks—on this call. The University of Texas has a whole lot of folks thinking about how do we create better mechanisms to support innovation and ban those groups together for lots of lessons learned? And to sort of bolster their efforts and to provide that scale that wouldn't be achievable without that collaboration, so.

John

Yeah.

[Closing thoughts]

Edwin

I think this conversation, you know, I feel like we're just scratching the surface at some level on this, but, unfortunately, we're getting to the end of our time on this panel, so let me just take the last minute or two and just say... any closing thoughts on sort of the supply chain and the pandemic?

I think you've all been incredibly articulate and incredibly generous in terms of your time and providing really interesting insights. I guess, you know, one phrase that I carry around with me all the time is that, "The one thing I know is that the good times won't last and nor will the bad times." As long as I can remember that, I can kind of keep things in perspective. But any closing thoughts on sort of where the supply chain and the pandemic might end up? We'll start with you, Elsa.

Elsa

You know, I guess I would really... like kind of for me, the two words that keep resonating, you know—specific to supply chain, but really just kind of in general, you know—resilience and creativity. You know, the resilience part is, to your point, you know, we will get through it. We will.

It'll look different than what we thought, and all of our... you know, I think everybody, specifically in the food industry, you know, all of our budgets and our five-year plans sure changed. Really quickly. We had to throw those away and start over. And so, you know, just with this idea of resilience and, you know, sort of, also you know to your point, back to the, you know, that generation that lived through the Depression and World War II, and, you know

what, they were pretty dang resilient. You know, you just figure out a different way and what the new future holds for you and, you know, work it that way.

And then, when you add in creativity, I think that's the other piece is that it definitely opened our eyes to... this is not business as usual. And so, nothing was off the table. And, again, because H-E-B happens to be a company that values creativity, it was great because we were able to throw out some wild ideas—some just crazy things—and everybody was like you know what, let's try it. And I think that part will also stick for, you know, the foreseeable future. At least, you know, for the rest of my career at H-E-B. This idea of, it doesn't matter how wild it is, let's talk through it because it could be a great solution. So, I think, you know, resilience and creativity.

Edwin

Love it. It sounds like a motto for a good company. So, Terry, same question. Any just real quick closing thoughts on—?

Terry

Sure, I think it was brought up both by John and Elsa here, is this movement towards simplification and moving away from endless variety and proliferation of SKUs. And will that stick? And coming out of this can we focus on valuable innovation that the consumer, you know, the consumer does value as opposed to what we've seen over the years—just an endless proliferation in categories?

And, to me, I'm very interested in seeing how that plays out because I think there are huge benefits from an efficiency standpoint as you look toward things, as John said, curbside pickup and things such as that. And even getting to a retail store efficiently. So, that's one topic that came up today that I think is going to play out very important.

Edwin

Interesting. We will see. John, final words on this?

John

Yeah, I'll maybe try to end, you know, on a note that is encouraging or uplifting. And that is to say that through much of what all of us have talked about, I think that many businesses just got a really hard education on very specific, discrete steps in their supply chain from sourcing all the way to consumption. And things that may have been taken for granted, in terms of demand and brand power and innovation just naturally finding a home somewhere, I think that the challenges of the pandemic forced organizations to reassess and re-understand the granularity by which their customer, partners, and their supplier partners make decisions. And

they really had to think about that and walk in those people's shoes to understand what decisions they were going to make in a very chaotic situation.

So, I'm hopeful that with that education process—re-education process, if you will—that really bearing down into the grit of the business, that many organizations, like ours and my colleagues' examples they gave, are finding opportunities to run their business better, but also to serve their communities better. Because they're seeing the kind of impact they can take or and make on their customers, on their associates or employees, and their suppliers. And those will be a lasting impact from, really, the innovation coming out of the crisis they had to get very close to.

Edwin

Yeah, that's great, and I appreciate the sort of the optimism of ending this. We are out of time, but I'll just take that—resilience, creativity, creating bigger—I mean better—businesses, reducing redundancy in terms of the number of products. Hopefully our businesses are all going to come out on the front end of this, and just end up by saying: thank you all, again.

This has been a great conversation, and really appreciate all of y'all's businesses and what you do and what you bring to our world. So, I'll turn it back over to you, Marissa. Thank you.

Marissa Duswalt Epstein

Thanks, Edwin.

Terry

Thank you.

Elsa

Thanks, everyone.

John

Thanks, Edwin.

Marissa

Thank you all. John, Elsa, Terry, I think Edwin captured it best when we were really just... hitting the tip of the iceberg there on what we could learn from you today. So, so appreciate your time. Edwin, thank you for moderating. Appreciate all of you supporting the Longhorn community by being part of Taste of Texas this year.

John

Thank you.

Terry

Thanks for the opportunity.

Elsa

Thank you very much.

Marissa

Have a great Friday, everyone.