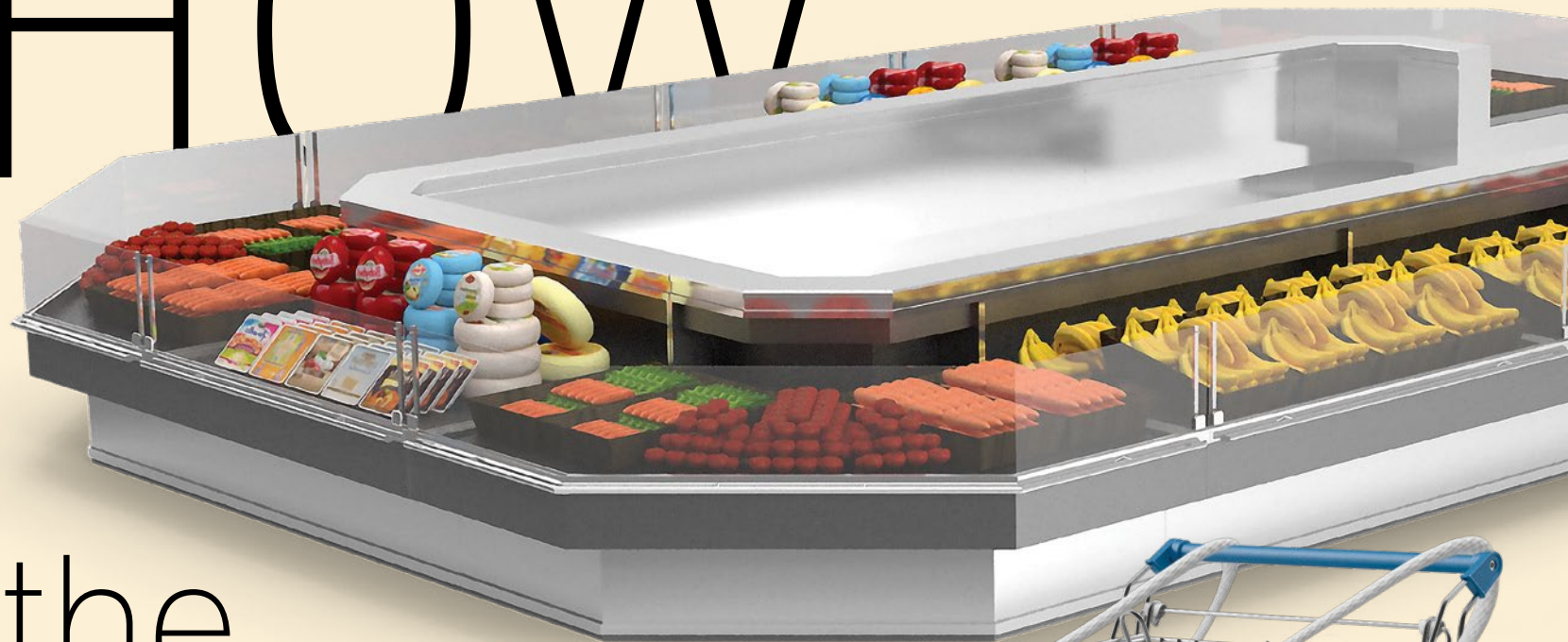


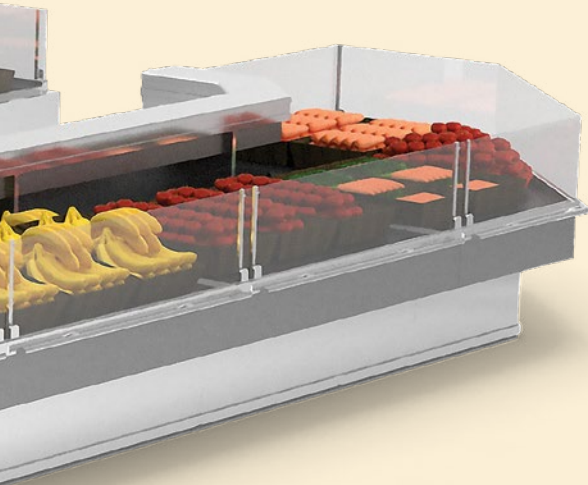
HOW



the **Retail** Grocery Sector

Dealt with the Pandemic





A conversation with Scott McClelland

ROSA PAULINA LÓPEZ PÉREZ

Scott McClelland has been the President of H-E-B Food/Drug Stores since July 2017. He started working at H-E-B in 1990 after a ten-year career at Pepsico's Frito Lay division, serving in several Marketing and Operations positions before being named President of all H-E-B stores.

H-E-B is a \$25B retailer that operates 425 stores in Texas and northern Mexico. Under Scott's leadership, H-E-B grew from 11% to a market-leading 27% share. Currently, H-E-B is among the best grocers in the U.S., ranking second only behind Amazon.

With Texas as its primary market, H-E-B had a long history of dealing with emergencies, especially due to hurricanes, but the challenges that came with COVID were largely unprecedented, requiring the company and its leaders to make a series of decisions for which there were no blueprints and no easy answers. We had a conversation with Scott about this experience from H-E-B's point of view, and this is what he told us.

CREATING AN ENVIRONMENT WHERE CUSTOMERS FELT SAFE

During the lockdown caused by COVID-19, the logistics and operations teams in companies faced different challenges. How did H-E-B maintain the quality of its customer service during this period?

In Texas, we have a number of natural disasters, most frequently hurricanes. And over time, we have developed a blueprint of how to deal with them. But when COVID came, there was no blueprint. There was no manual you could go pull off the shelf and go to Chapter 2 and look at what you were going to do. Every week we were dealing with a new crisis we had no plan for. Cities would say, «We want senior shopping hours, separate from when everyone else can shop.» But when you only have 200 packages of toilet paper, democratically, how do you decide who gets them if you let all the elderly in first? And then came the masks debate. Then came the supply chain issues.

We really decided to do two things from the beginning. One is deciding we had to create an environment where our customers and

If you can tap into the collective intelligence of all the people who work for you, it makes it a lot easier and takes the pressure off a few because everyone can then contribute.

our employees felt safe. We invested heavily in sanitation and safety. And second, if we didn't have anything to sell, we had no business. So we were very resourceful in finding products to get on the shelf. And every week, it was different: toilet paper, no toilet paper; poultry, no poultry. And, even today, two years later, we are still struggling to get fully back in stock.

EXPANDING ONLINE CAPACITY AND CREATING AN EXCITING IN-STORE ENVIRONMENT

During this period, several companies had to adapt to mobility issues, work with fewer staff members, and exponentially increase their e-commerce services. What did H-E-B learn about these challenges?

Administratively, we had to deal with not bringing our workforce into our headquarters. In our stores, you couldn't have people work remotely. You can't have a checker at home trying to check out groceries, right?

What about e-commerce? Two things happened. We knew that Amazon – which is 70 times larger than H-E-B – was going to get into the grocery business. That made us very nervous. So we made a huge investment to build our e-commerce business starting back in 2016. And, as COVID came, we invested even further to expand our capacity because we knew people wouldn't want to go to the store.

Now, when you shop inside a grocery store, you are free labor for me. But, when you order your groceries online, I am now free labor for you. Because of market forces, I can't charge you to pick up the groceries. So, the way in which we are able to make money has to change because, all of a sudden, you have to cover about an hour's worth of labor to get those groceries picked.

There has been a growing fear within retail, as we look at the retail book industry that Amazon evaporated – because bookstores really don't exist anymore – and the fear was: «Will they do this to grocery?» But I can proudly say that the answer is no. Today, we do about 15% of our business online. Our challenge is to create an exciting in-store environment and also have a very efficient and effective online presence. And I think we'll do both. We are going to need to do two things at once going forward.

TAPPING INTO THE COLLECTIVE INTELLIGENCE OF ALL THE PEOPLE WHO WORK FOR YOU

Do you think the operation areas of service companies are now better prepared to respond to their clients in crisis environments?

During a pandemic, I think that what we understand now is how to communicate, how to collaborate, and how to put together an emergency center that allows us to get to the best possible answer. What we found was that you don't delegate that to a couple of people, but you take groups of people, and you allow flows of communication coming up from the stores and from customers that we then break down and take issues – such as masks, or supply chain, or senior shopping hours – and come up with the best possible solution as a team. If you can tap

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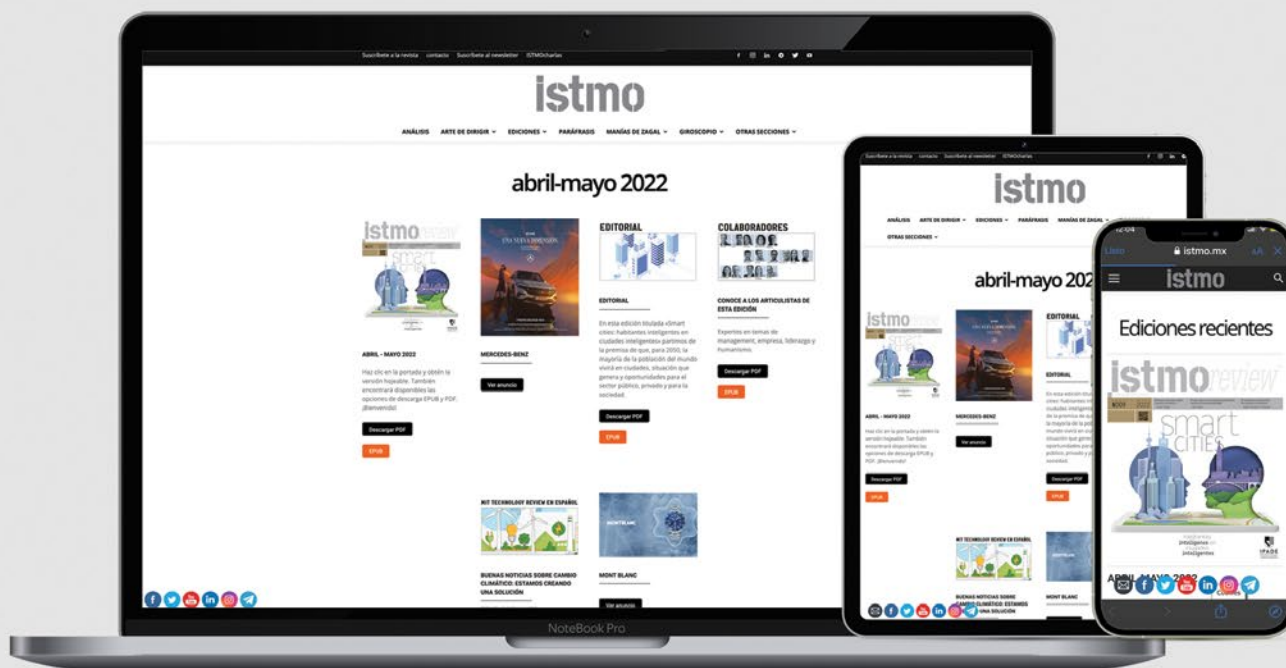
Oftentimes, the people who are closest to the work are the ones who have the best ideas. You just have to be willing to listen to what they say. God gave us two ears for a reason, and that is to listen. And what you find is that when you allow your frontline workers to be part of the solution, they tend not to look at what they do as a job, but now they feel that they are part of the effort, and they really work for a cause. That is what helps build loyalty, and I really think it also helps to build a strong culture. </>



The interviewer is a professor at the Managerial Information and Control Department.

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