

A Wall Street Guy Who Worries About Groceries

In 2004, **The Kroger Company** reported a \$104 million loss and faced withering competition from retail super-centers. **Wal-Mart** and **Target** — whose stores purvey general merchandise as well as perishable food — threatened to depose Kroger as the nation's largest grocery chain.

Kroger's senior managers and board decided not to refashion their stores as super-centers but to differentiate the brand via other strategic moves. For instance, Kroger continued to invest in a joint venture that tracked customer shopping habits in

each locale. That data helped Kroger satisfy consumer tastes and build loyalty closer to where customers lived than the super-centers. The results have been dramatic. Last year, Kroger reported earnings of \$1.2 billion, a 15% yearly increase.

Robert Beyer was selected as an Outstanding Director for his focus on financial issues in the Kroger boardroom. Beyer, who joined the Kroger board in 1999, recently spoke with **Agenda** about how being CEO of mutual fund complex **TCW Group** informs his role as a board member.

Q What was the biggest competitive challenge that Kroger faced when you arrived?

A The No. 1 challenge was competition from superstores such as Wal-Mart and Target that were deciding that selling food was a natural extension of their business.

[But] over the years, [Kroger's] management strategies were extremely effective in maintaining or even increasing our market share in areas where Wal-Mart was building 20 times the stores that we were. The creation of that [joint venture that tracked customer shopping habits] was a board action item. But it didn't originate with the board. Boards don't manage the companies, they manage the managers.

Q What financial methods did you introduce that had been missing at Kroger?

A I don't know that anything was missing. Kroger is a high-volume, low-margin business. It's difficult to move the profitability needle through increased sales because the margin is so low. So tactics [to increase] profitability have a certain risk because they apply to such huge sales volume. I probably get more involved in the business reasons behind the financial decisions, and then use my background as an investor to determine how much risk we're taking and the potential upside for earnings and stockholder value. I am wired [to look] not only at the risk and [upside] of a decision, [but also at] how

much capital a company is spending and what kind of return it is going to generate relative to other companies or industries [where] an investor could put their dollar.

Q You worked directly with Michael Milken when you were an investment banker at Drexel Burnham Lambert. Any lessons?

A Oh, absolutely. [Do] not fear leverage. It's people who make it happen. To be a best-in-class competitor, you've got to have a little bit more energy, a bit of an edge and be willing to take some risk.

Q Can you instill in management and boards that edge and willingness to take a risk?

A I'm on two public company boards, Kroger and Allstate. Both are companies that are not known for excessive amounts of risk. [They're] much different from the environment that I grew up in on Wall Street.

As a fiduciary [I] continually challenge both the board[s] and management to take incremental risks to push the edge of what they can accomplish.

Q Can you give an example?

A At Kroger and at Allstate, we are both U.S.-only operators. While I don't foresee anything [for Kroger and Allstate] on the near-term horizon outside the U.S., examination of higher-growth economies



Robert Beyer
Director: Kroger, Allstate; CEO, TCW Group

is a conversation I'm often a part of. Ultimately, [I] think [it] will be actionable, even if not today.

Q Finally, it looks as if the U.S. either is in a recession or headed for one. How should board members talk to managers about operating during a recession?

A The greatest advice that a board can give a management team going into a difficult economic environment is: Be prudent on the expense side and be cautious with your capital. Difficult economic times offer the greatest upside investment opportunities for market-leading companies. Make sure you're ready to act when that opportunity arises. ■

Editor's Note: This is the second of 11 discussions with this year's Outstanding Directors. The Outstanding Directors program, a sister program to Agenda, recognizes a select group of directors annually for making valuable contributions to their boardrooms. Nominations come from fellow board members with final selections made by the Outstanding Directors Editorial Board.