



JIM PREVOR AND BRUCE PETERSON IN CONVERSATION

At the recent International Fresh-cut Produce Association convention in Baltimore, MD, PRODUCE BUSINESS editor-in-chief, Jim Prevor, and Wal-Mart's vice president of perishables, Bruce Peterson, took center stage for a candid conversation about Wal-Mart, the produce industry in general and fresh-cut produce in particular.

JIM PREVOR: Bruce, you've had a lot of very important meetings in your life. There is one meeting that must have been very difficult for you to handle, and I want to know how you handled it.

You were an undergrad at the University of Michigan and you had chosen an honorable career in engineering. Somehow in the course of your years at the University of Michigan, you decided that you would give up becoming an engineer and fall into the supermarket industry.

I want to know how you told your parents about that, and what they had to say about that decision.

BRUCE PETERSON: Now they think it was the smartest thing I ever did! I was convinced that I was either going to pursue engineering or I was going to become a rock-and-roll star — one or the other. But as I was going through my formal education, I was working in a supermarket in the produce department, and the individual I was working with was part of a family that had been in the produce industry for many generations. He was third generation, and now that family is fourth generation in the industry.

It was the people that I met in the business that really attracted me to it. So I'm having a conversation with my parents and saying, by the way, I'm not going to pursue a career in engineering — my father was in that business — but rather I'm going to work in a grocery store. From a young person's standpoint, that wasn't the conversation one usually had, because at the time, and even to a large degree today, working at a retail store is not considered particularly glamorous or something that you'd aspire to do. But they acknowledged that pretty well, and I was the oldest of seven kids, so that was particularly inter-

esting to have that conversation. But like I said, it has all worked out well, and they've always been supportive.

JIM PREVOR: In terms of important business meetings in your life, in addition to the discussion with your parents, there was another very important one — I understand you were the second-to-last person hired by Sam Walton?

BRUCE PETERSON: That's exactly right.

JIM PREVOR: In the Wal-Mart culture, to have been touched by Sam Walton and anointed is what matters. It means something. What was Sam Walton like? Would he be surprised to see Wal-Mart today?

BRUCE PETERSON: I'll answer both questions. Sam was one of the most interesting individuals I've ever met. I don't want to give you the impression that we spent an awful lot of time together. I think our interview was about an hour and a half, and I subsequently spend a little bit of time with him on various business issues. During that hour-and-a-half interview with Sam, here I was a relatively young guy just coming from a small supermarket chain in Nebraska — I was being recruited down there. The conversation that I had with Sam was such that he made me feel as if the answer to every question he asked hinged on the whole success of Wal-Mart, depending upon what I was going to say. He was a fascinating guy.

It's typical when you visit with people that they have other distractions on their mind. Sam had the ability to focus on an individual in a

way that I've not ever seen before, and he really made you feel important and special and his questions were very insightful. It was a fascinating interview. In fact, when I had the opportunity to interview at Wal-Mart, it really didn't make a difference to me if I got the job or not. I mean, just the opportunity to meet Sam Walton was worth it.

JIM PREVOR: *Did he anticipate you would have the success that you have today?*

BRUCE PETERSON: Well you know it was never Sam's intention to become the kind of company that we are — the largest retailer in the world and all the hype. Sam was one of those people who felt if you took care of customers one at a time and one store at a time, all the rest of that would take care of itself. It was never the company's ambition to become the organization, in terms of size and scope, that we are today. Although I will tell you that we were kind of talking about it when I interviewed with Sam.

JIM PREVOR: *Do you find that there is constant tension and pressure between what Sam's values and thoughts were and the difficulties running a company, in how many countries now, and how many stores?*

BRUCE PETERSON: We're in 15 countries with 6,500-plus stores.

JIM PREVOR: *You have what, 130-something million people shopping Wal-Mart stores every week?*

BRUCE PETERSON: Every week, 130 million people. I think the thing that would surprise Sam just a little bit is the kinds of press and the kinds of comments that are made. Because if you remember back during Sam's time, we were kind of this quirky little organization out of Arkansas and here is an old guy who drives a pickup truck, and now we're being accused of everything. You know, the moon being out of phase and people born with two heads or what have you. It was our fault for some odd reason. So we've actually had to spend a fair amount of time as an organization addressing those types of things. I think at the end of the day it clearly makes you a better company but it is definitely a distraction. I think that would really surprise him.

JIM PREVOR: *We're here at the Fresh-Cut Convention, and fresh-cut is a special product. One of the reasons it's a challenge for fresh-cut people is if the potato people came to Wal-Mart and were persuasive that it needed a lot more space and so forth, it's relatively easier to move those things around. But fresh-cuts are sort of constrained by how large the casing is and things like that. How are those decisions made? How much space to allocate and is that growing? What's going to happen in those areas?*

BRUCE PETERSON: It really is a challenge for us or for any retailer because it really becomes not so much of an issue of what are you doing today, but where you think the customer is taking you. I think one of the great things about Wal-Mart is the focus on taking care of the customers' interest. So that we — and it's fairly well known — we have quite a sophisticated means of monitoring point-of-sale information. So we have a sense of where the customer is taking you to.

The challenge with that is because when we open 275 or so supercenters a year, you've got to be out a fair amount of time with respect to planning equipment and how you're going to plumb the thing and orchestrate that in the stores. So to change on a dime and say, well all of a sudden I've got to expand my refrigerator capacity by 40% is not an easy thing to do. Plus then you have to go back and retrofit stores.

So we really try to anticipate trends as best that we can. Really our suppliers play a huge role in that because collectively we're trying to understand where the customer is going and how we're going to be best suited to position ourselves to take care of those needs going forward. So you really have to be out front of the business.

JIM PREVOR: *When Bruce says certain things fast, they may not seem very important like opening 275 stores this year. It's worth noting the volume*

of those 275 stores would probably be the fourth largest supermarket chain in the United States, and they do it every year. It's such an enormous task logistically to supply these stores. To employ enough people to man these stores. What kind of stresses and strains does that put on the produce operation?

BRUCE PETERSON: Oh, tremendous because really as I start thinking through merchandising schemes and those types of things, I'm really not asking myself what is it that I want to do but what is it that I can execute in scale consistently. So oftentimes Wal-Mart gets criticized sometimes in the trade press and by others about a fairly basic merchandising scheme. Well, there's a good reason for that because the more elaborate and complex your schemes become, the more labor-intensive it becomes, the more training and education you have to provide people to execute those schemes. So we've really given an awful lot of thought to do this.

You take the fresh-cut business and the refrigerator requirements there. You have to be very thoughtful about the entire supply chain. You have to be very thoughtful about how much product you're having on the shelf at any one given time. How often you're going to replenish that product on the shelf. There's a lot that goes into that because what you ultimately want, and again from the supplier's standpoint, you ultimately want the consumer that takes a package of whatever to be satisfied with that purchase, and you do everything that you can to try to insure that you're going to have a positive experience.

JIM PREVOR: *You started out in produce at Wal-Mart but your portfolio has expanded and now you are head of the whole perishables arena. Fresh-cuts is one of these areas that really does cross over a lot into the deli, both in terms of foodservice applications and also in terms of certain products that there's questions about where they should be marketed in the store. How are those kinds of decisions made?*

BRUCE PETERSON: That is true, and I think all retailers are really thinking about where a customer expects to find produce. Really the whole thought process of consumers is really changing. I've been in this business 36 years, and watching the evolution of how consumers think about products. Just the whole definition of fresh is changing. There was a time, as you know, that if you're going to have a fresh salad, you get the Ginsu knife out and slice and dice. Now you open up a bag and put some dressing on it, and you've got a fresh salad. At least in Arkansas that's how you think about it.

So the orientation of that customer is really important. We have, for example, bags of fresh-cut salad in the produce department, but I also sell single serves of a protein-enhanced salad in our deli department. The customer doesn't seem to have a lack of orientation one place or the other. That's where they expect to find it. So I have salads near sandwiches and salads near the rest of the fresh-cut offerings. So that is really evolving on how people think about it.

JIM PREVOR: *Before they had their supercenter concept, Wal-Mart had a very heavy emphasis actually on brand marketing.*

BRUCE PETERSON: Yes.

JIM PREVOR: *In terms of pricing, Wal-Mart liked the fact that they could say, "You can buy Tide here or pay a lot less at Wal-Mart". How important is branding when you're looking at things like produce and fresh-cut products?*

BRUCE PETERSON: When you think about the whole branding issue, particularly from our perspective, we really believe that that is where the customers get their price impression from. Because if I have Bruce's laundry detergent versus Company A's laundry detergent, the customer has those two products, and asks, "What is the relative value proposition?" Tide is Tide, and so there is a direct correlation. The customer sees that immediately.

The challenge inside of produce, aside from a very, very few incidents, is that brand is something that doesn't exist in produce. When I think about brand, I think of it in a totally different thought process

than a shipper label or whatnot because all that a brand does really is give the consumer a predisposition to trial. So that if they — if Jim's salad is a brand they know — they get it and are comfortable with it, you can extend lines and do certain things within that because it's had positive success in that area before.

In produce, what you generally tend to find is that its relation to the store consistently becomes important. So if I've got salad manufacturer A in the store and they see that all the time, they begin to get an association with the particular product in that particular store. Yet at the end of the day, if they have a bad experience with that salad, they're not going to blame the manufacturer. They'll hold Wal-Mart responsible for that purchase. I'm going to go buy my salad someplace else.

There is a move inside the retail industry toward more private label, and we think about that a lot as well. We say to ourselves, Wal-Mart in and of itself is a brand much the same as McDonald's or Coca-Cola or whatnot. In fact, it has a very global presence to it. So we're really thinking about what are those types of applications inside of our perishable offering.

Where I have thought about that over the years is the fact that if I'm going to have this bottle of water and privately brand that — Wal-Mart water — I can manufacture as many of these as I want in a given time and have resources identical to this, and I can virtually guarantee the consumer experience when they take it regardless of what they do to it. Not so in the produce. So you really want to be cautious as you think that through as to what is the ultimate experience that the consumer is going to have if you're got your name plastered all over it. So you have to think that through.

JIM PREVOR: *You mean you can destroy the Wal-Mart brand equity with some rotten lettuce?*

BRUCE PETERSON: That's exactly right.

JIM PREVOR: *Wal-Mart positions itself as a buying agent for the con-*

sumer. What does that actually mean? How does Wal-Mart know what consumers want?

BRUCE PETERSON: Well the implication is that our entire thought process is built internally and, working with our suppliers, says how can we benefit the consumer experience? How can we make their life better? In fact, inside the company, from almost a mission statement standpoint, we like to think that we improve the lives of people all over the world. It's particularly true in families that have a limited income and maybe struggling week-to-week to get buys that we can make a lot of things affordable to those families.

So from that standpoint, it is very, very important. In today's economy we wish the people were thinking about that in terms of gasoline prices. So that everything we do is based on a notation of how does the consumer benefit?

Whereas a lot of suppliers may look at their receivers as being their customer, we like to think that we and our suppliers have the same customer and that's the consumer shopping in the store.

As far as how do you know what that is? I think there are a couple of different ways you get that done. We monitor point-of-sale information very intently. In fact, if we're selling that bottle of water I can tell you how many bottles of water we sell by hour, per store, if I wanted to get down to that level of detail.

So the first way that the customer speaks to you is by their purchases. Secondly, we do a fair amount of consumer marketing and surveys, and we try to gain information in that way and compare that against what we're seeing empirically out in the stores. The third way is by working with suppliers. From my standpoint, the information that a supplier knows, with respect to their customers they're trying to reach, is more important to me than the products that they sell because you can get products from virtually anybody, but the understanding of consumer insights is the most important thing that I spend time talking to suppliers about. So it really becomes much more of a collaborative effort in how we think about pursuing the customer.

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JIM PREVOR: *How do suppliers need to change their thought process? They're used to working with retailers that are high/low, and their answer to how do we boost sales is "Well, let's have a sale." If you're dealing with an everyday-low-price concept or if you're dealing with a Wal-Mart-type concept, what does it mean to effectively promote the product? How do they help?*

BRUCE PETERSON: I think there are a couple of things particularly when you're talking in commodities. The notion that you're going to have a single price throughout the year becomes a little bit problematic particularly on the more commodity side, but this is not so much involved on the fresh-cut side.

Promotions can take place in a couple of different ways, principally location and allocation. So if I have two facings of item A and I carry that in a secondary location in terms of the traffic pattern, I can go back and say, "I'm going to put five rows of this in an earlier place in the traffic pattern and have the customer see it in terms of that." We do some demo-ing inside of the stores. We're starting to get into a little more institutional advertisement in terms of food, whereas we'll talk about some solutions for a particular meal occasion or what have you, but those are the ways we generally think about promotions.

JIM PREVOR: *What initiatives or what have you noticed regarding the issue of fresh-cut fruit which, of course, is projected to be a big area of growth?*

BRUCE PETERSON: Well, I think fresh-cut fruit becomes problematic in a couple of different ways. The first thing is that when you think about the contents in a cup of fruit and what it's worth vis-à-vis the packaging costs, logistics cost, and preparation cost in order to get that product to the consumer, the relative value of that cup of fruit is not a good thing from a consumer's standpoint. Consumers aren't stupid. That in and of itself is beginning to limit some of the growth right now, and until there is — and I believe there will be quite frankly — a breakthrough in technology, that remains the first challenge.

I think the second thing that runs into issues on the fresh-cut side — in fact, we're trying to do some things about this — is along the lines of the flavor profile that a customer gets. In fact, you wrote an article about this once and kind of challenged us about this. If melons, for example, happen to be in season, then the contents of that are very good. If they're out of season — you're buying that raw material offshore, for example — you may get into an experience where the product is not so good.

In fact, the produce industry in general is virtually the only industry where the product is at its worst when it is most expensive. So that proposition to the consumer becomes challenged all the time. So I think providing a consistent experience for the customer in fruit has been a little bit more difficult. Even at the store level, if they're compromising the cold chain in any way, shape or form, fruit is much more susceptible to those kinds of abuses than perhaps a bag of salad. So those things are the challenges that are really starting to limit the fruit offering.

JIM PREVOR: *When it comes to suppliers, Wal-Mart can be a very intimidating thought. Like co-manage replenishment and you hear demands for RFID and technology. Is it an option? Can people sell you? What do they do? How does this work?*

BRUCE PETERSON: We'll take produce, for example. We've got over 1,100 suppliers just in the fresh produce side of the house, and they range everywhere from large multiple national corporations down to very small growers of a product that sells to two or three supercenters. The real thought process with regard to some of the technologies that you talk about, when you think about an organization like ours or really any organization, we like to think we're pretty good negotiators but when you stop and think about it.

Take for example, bananas. We're buying over a vessel of bananas every week and we don't run an ad. Now I can't pick up the phone today and call up one banana supplier and say how much are you doing for a shipment of bananas versus another banana supplier. You're a quarter cheaper, so I'll buy from you. So securing the quantity becomes enormously important to us.

So oftentimes, we're in a situation where we're actually paying more for something to ensure that we get it. Now with that being said, you might ask how do you afford the price structure that you do at retail? That's through the logistics end of the business. So everything that we do with our suppliers is designed to take cost out of the supply chain, because if it was all just a matter of muscling suppliers, ultimately we wouldn't have any suppliers because these are for-profit businesses. We want these organizations to grow and continue to reinvest into their business. Whether it is on the technology side of it or in the distribution side of it, what have you. So it has to be a very viable and profitable organization.

As a consequence, there comes a point where people can't afford to have their price down too low. So we have to think about how do you take cost of the supply chain, and I would tell you, virtually universally, that when you talk to the people that do business with us, they will inevitably tell you that we've made them better companies because we have to find ways to continue to take costs out of the supply chain and better serve the customer.

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