

AHEAD OF WHAT'S NEXT

PROGRESSIVE **GROCER**

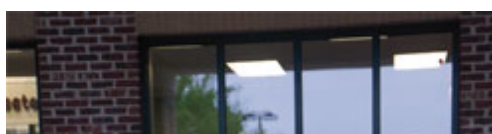
Retailer of the Year: Excellence to a 'T'
By Meg Major



If the barometer of success for a retailer can best be measured by the customer service it provides, then Harris Teeter – renowned for its legacy of food retailing excellence rooted in exceptional customer satisfaction and high-quality products – stands as a giant.

For this important reason, and countless others, *Progressive Grocer* is proud to honor the extended Harris Teeter family, including its pioneering corporate visionaries, dedicated support teams and thousands of outstanding store associates, as its 2012 Retailer of the Year – the benchmark by which the industry's most successful food retailers are measured – for their stellar abilities to carry on the exceptional customer-focused culture that has been at the forefront of the company's exemplary performance through the past 52 years.

Harris Teeter's dedication to shoppers dates back to 1960, when the company was formed through the merger of two regional grocery stores committed to customer service. Its first store opened in Kannapolis, N.C.; the new company became the largest independent grocery organization in the Carolinas and quickly scored a number of firsts in its marketplace – including serving as the first full self-service supermarket in Charlotte, the first air-conditioned grocery store and the first to stay open until 9 p.m. on Friday nights – thanks to the vision of its co-founding grocers, W.T. Harris and Willis Teeter.





Legacy of Excellence

Harris Teeter has remained steadfast in adhering to its founders' fundamental convictions, including a higher duty to be the best grocery retailer possible, by taking excellent care of customers, fellow associates, store conditions, products, and neighbors in need.

Top left: Harris Teeter's president, Fred Morganthall, joins Wolfgang Puck during the Chef's Best - Fresh off the Farm gala event this summer, benefiting Second Harvest Food Bank of Metrolina (SHFBM). The regional retailer's commitment to high-quality products, meanwhile, is evident throughout all of its 204 stores, especially in the fresh produce, meat and seafood departments, which adhere to specific standards for every item carried.

Photos courtesy of Harris Teeter

Following in the footsteps of its founders, the company has since gone on to become one of the most innovative and respected regional grocery chains in the nation as a result of its constant quest to redefine its approach by listening to its customers and adapting its strategy to comply with their ever-changing demands.

In an industry rife with a mounting slate of competitive challenges, Harris Teeter has also remained steadfast in adhering to its forefathers' foremost fundamental convictions, among them a higher duty to be the best grocery retailer possible, as measured by each and every customer, by taking excellent care of customers, fellow associates, store conditions, products and neighbors in need.

Ringed up \$4.3 billion in sales in 2011, Harris Teeter operates the bulk of its stores in North Carolina (136), as well as Virginia (36), South Carolina (13), Maryland (6), Tennessee (5), Delaware (3), the District of Columbia (3), Florida and Georgia (1 each). Harris Teeter operates 133 in-store pharmacies, while its retail supermarket operations are supported by two company-owned grocery, frozen food and perishable distribution centers in Greensboro and Indian Trail, N.C., as well as one company-owned dairy production facility in High Point, N.C.

The company's overall excellence as a merchant, capped by its long-admired reputation for strong perishables, prepared foods and extensive, high-quality store brands, has been crucial in helping the retailer secure strong shopper loyalty, as has its corporate leaders' attention to detail – be it service, selection, customized store plans predicated on local shopper preferences, and necessary time and financial resources toward associate training – which has handily paid off.

Indeed, if retail is detail, then Harris Teeter's got it going on, affirms industry observer and longtime Mid-Atlantic industry scribe Jeff Metzger. "In a world of great mediocrity, HT is the great differentiator," says Metzger, noting the retailer's well-deserved pride in its community-focused stores, major investments in training, astute marketing, superior merchandising and, of course, "the management team's great attention to detail. As a company, they're very good at what they do." Metzger also applauds the company's multitiered private label program: "If a retailer could gauge how close it can make the consumer perceive their house brands as equivalent to their national counterparts, then Harris Teeter certainly achieved that goal many times over." (See related details on page 44.)

Continuous Improvement

Beyond its abiding commitment to service and satisfaction, the company has further sought to distinguish itself in recent years by enhancing its value proposition with sharper execution and significant investments in pricing, promotions and new store growth, portions of which have been fueled by strategic decisions from its parent company to better support its core operations.

During the last year, the board of directors of its parent company moved to sell its thread-making American & Efid Inc. subsidiary while changing its name from Ruddick Corp. to the more relevant and recognizable Harris Teeter Supermarkets Inc., which better describes the core business and long-term strategic focus of the publicly traded company, which now trades on the New York Stock Exchange as HTSI.

With its stores separated into three regions and 15 districts, Harris Teeter's most recently added Northern Region, based in Fairfax, Va., encompasses all stores in Virginia, Maryland, Delaware and the northern coastal area of North Carolina. Its Raleigh, N.C.-based Central Region encompasses stores from Greensboro/High Point to Wilmington and Albemarle, while its Southern Region, based in Charlotte, oversees stores in southwestern North Carolina (including Charlotte and Winston-Salem), Tennessee, South Carolina, Georgia and Florida.

Energizing the Base

The company's aggressive stance on expanding its geographic footprint into new marketing territories, which is certainly no easy feat in the present retailing climate, is manifested by a growing base of innovative, attractive, functional stores. Harris Teeter is also in the midst of multimillion-dollar renovations of some of its flagship stores. In this realm, Harris Teeter and Winston-Salem, N.C.-based Lowes Foods Stores Inc. earlier this year swapped 16 stores with each other in a move that signaled Lowes' exit from Charlotte and a major consolidation of Harris Teeter's strategic plans to shed its rural store locations in favor of focusing on urban-concept stores, where higher densities of its target demographic groups reside.

Over the first nine months of fiscal 2012, the company opened six new stores, one of which was a replacement location, and closed eight stores, including six stores sold to Lowes, along with another store slated to be replaced in fiscal 2013.

The regional grocer's fiscal 2012 capital expenditures purse is pegged at roughly \$215 million, a figure that's poised

to swell to \$255 million for fiscal 2013. During the present-year Q4, the chain will open seven new stores – six of which were acquired from Lowes – one additional store and nine major remodels, five of which will be expanded. The company will also ramp up its new store growth, with ongoing expansion in its existing eight-state footprint, including additional stores in the Baltimore-Washington metro market.

Doing Its Homework

Veteran supermarket industry analyst Bob Gorland, VP at Matthew P. Casey & Associates in Clark, N.J., says the company "gets right all of the basics in the right-sized box in the right location. Their stores aren't the biggest, nor are they the smallest, but at an average 50,000 square feet; the floor plan is space-efficient and serves it well, by allowing it enough space to put most of the amenities many of today's shoppers are looking for under one manageable, compact roof."

The configuration, adds Gorland, further engenders "strong overall execution, which enables the company's store teams to concentrate on all of the areas that it excels at," namely service, execution, operations and training. Gorland says "they do their homework very well," which he considers to be the mark of a wise and prudent retailer, particularly in the present era of rampant overstoreing in many markets.

Party On, HT

The latest in the company's ongoing evolution is its press time plans to convert two North Carolina stores into a new 201Central concept banner that will focus on parties and entertaining, with crowd-friendly staples like wine, beer, cigars, cheese, olives and related foods, as a hub housing everything needed to make celebrations sing – including party rentals, event coordination and catering.





Renowned for its trendsetting merchandising, Harris Teeter offers outstanding wine departments that carry an excellent selection of wines across all price ranges and regions around the globe.



Inspirationally branded in reference to one of its original stores – Store 201 on Central Avenue in Charlotte – the new concept is envisioned as the next iteration of how the company will redefine its approach by offering more than 3,100 varieties of wine and 680-plus varieties of beer from around the world, including approximately 35 brands of keg beer and local beers, as well as home brewing and wine-making systems and products. The new stores will measure roughly 30,000 square feet and honor all advertised specials and promotions that are active in its conventional stores, as well as its Very Important Customer (VIC) loyalty card.

Introduced in 1997, the company's VIC was one of the industry's first loyalty card programs. The first-ever VIC special was Hostess Canned Ham. Today, the program has evolved to include more than 9,000 weekly VIC specials that can be redeemed via the traditional card-based method or the increasingly popular "ht mobile" version, which is continuously improved with new features for a growing base of smartphone shoppers and which directly informs customers when products they frequently purchase are on special.

In addition to traditional customer outreach methods, HT's marketing teams helped spread the word about the e-VIC loyalty program via mobile event vehicles, which promote the company's special programs and signature brands. The first program launched was the Together in Education Bus, which visited local schools and stores, promoting the program's benefits and Harris Teeter's loyalty to giving back to schools in its communities. The mobile teams also hit the road to roll out sampling programs for such products as HT Rancher Beef and HT Ice Cream.





HT's overall excellence as merchant is capped by its long-admired reputation for strong perishables, including an extensive chef-developed prepared food lineup.

Vocalizing the Mission

The company is also renowned for valuing the voice of its customers and welcoming their opinions on food issues via conventional methods, as well as through an active social media network and numerous contests, local events and community-based programs.

In addition to its extraordinary success and leadership, not only in the industry, but also in the local communities, the company has continued to build steadily on its achievements in social responsibility and sustainability, which got underway in earnest in 2007, when it rolled out its "My Earth" initiative.

Harris Teeter is committed to furthering its commitment in any way feasible to help ensure a sustainable future for associates and shoppers, both present and future, and has put its money where its mouth is by engaging and educating its meat, poultry and dairy suppliers about its preference to source from suppliers that follow sustainable practices ensuring humane treatment and living conditions for animals.

Although Harris Teeter does not own or operate any animal-processing facilities, it conducts careful supplier assessments each year and uses the information to continually seek improvements in animal welfare for the products sold in its stores. Harris Teeter also prioritizes transparency around animal welfare issues and in turn, enlists consumer input as an invaluable part of the conversation. (For more on animal welfare, see the sidebar on page 44.)

The Promised Brands

Starting in the 2000s, Harris Teeter ramped up its competitive differentiation by taking its exceptional customer service mission to the next level with branded store departments, beginning with meat, which in June 2002 began offering signature Harris Teeter Rancher beef, followed next by the introductions of the Farmers' Market produce (October 2003), the Fisherman's Market (seafood department, April 2004) and the Fresh Foods Market (deli/bakery, January 2005) brands. Gourmet imported items are sold under the H.T. Traders brand.

Harris Teeter is committed to working closely with the Food Marketing Institute (FMI) and the National Council of Chain Restaurants (NCCR) to develop an industry-wide program that will strengthen food quality and safety, in view of its commitment to animal welfare for its shoppers and associates.

Poultry, Chicken and Turkey

In its meat department, Harris Teeter focuses heavily on sourcing from producers



that employ the highest on-farm welfare practices, preferably from suppliers that are Certified Humane or Global Animal Partnership-certified, which are approved by Dr. Temple Grandin, the world-renowned animal welfare specialist.



Eggs

Its humane husbandry beliefs extend to egg sourcing. On this issue, Harris Teeter is a leader among conventional grocery chains, in light of its previously stated goal of ensuring that 12 percent of its egg volume was represented by cage-free eggs in 2012, which was surpassed a year early in 2011. The company currently offers two cage-free Harris Teeter Naturals eggs options and gives buying preference to cage-free eggs. Currently, 17 percent of its eggs are sourced from cage-free hens; the company plans to increase this percentage over time until Harris Teeter exclusively sells cage-free eggs.

Pork

An early adopter of stall-free gestation crates for pigs, which have since been embraced by many retailers around the country, Harris Teeter has formed an alliance with Niman Ranch pork, which has higher animal welfare on-farm practices as a perpetual crate-free, Global Animal Partnership-certified producer. It is Harris Teeter's goal to have a gestation crate-free pork supply, and the company is committed to working with its suppliers to accomplish that goal within the most feasibly rapid timeframe.

Beef

Harris Teeter's Rancher beef and Reserve Angus beef are supplied by producers using a third-party monitoring system throughout the production process, which ensures compliance with the American Meat Institute's (AMI) animal welfare audit system, written by Grandin. The AMI system prioritizes animal welfare during handling to produce quality products and maintain respect for animal well-being.

Some Harris Teeter stores also offer products from family-owned and -operated DK Natural Meats, which are raised without the use of steroids, antibiotics or growth hormones, such as its certified organic grass-fed line. In some stores, the company also carries DK's home-raised Carolina Bison.

Nourishing the Community

The company's vibrant, far-reaching commitment to nourishing the communities it serves affirms its goal to be a reliable and conscientious neighbor on both a local and corporate level.



Harris Teeter's talented corporate chefs played a prominent role at the charitable Chef's Best - Fresh off the Farm community event benefiting Second Harvest Food Bank of Metrolina (SHFBM).

Harris Teeter's top charitable priority is eliminating hunger, followed by supporting school from grades K-12 through its "Together in Education" program and promoting health and wellness. Harris Teeter donated more than \$7.4 million to various nonprofit organizations in its marketing areas as well as 3.4 million pounds of food to its Feeding America partner agencies during 2011.

Harris Teeter's ongoing commitment to education dates back to its co-founder W.T. Harris, who, in the 1960s, advocated for kindergarten to be a part of North Carolina's public school system. When Harris retired, the company continued to support excellence in education, and, in 1998, Harris Teeter leadership formalized a plan to fund school programs in its marketing areas. What resulted was Harris Teeter Together in Education (TIE), which embodies the grocer's promise to the community to donate money back to schools when customers purchase Harris Teeter brands or fill prescriptions at a Harris Teeter pharmacy. TIE donated nearly \$635,000 to participating schools during the third and final TIE distribution of the 2011-12 school year. This most recent donation raises the total donation for the 2011-12 school year to just over \$1.65 million and the program total to more than \$17.8 million since 1998.

The retailer also supports countless nonprofit organizations, including recreational youth sports groups, schools and the United Way. The 2011 giving totals represent monies donated through a combination of company contributions, vendor-sponsored programs, donation card campaigns and disaster relief efforts. Highlights of Harris Teeter's 2011 giving program include more than \$1.5 million to schools through Together in Education; more than \$250,000 to Muscular Dystrophy Association; \$645,000 to food bank partner agencies, through a combination of events, donation card campaigns and corporate contributions; more than \$2 million to nonprofit organizations through the Community Cares Associate Giving Campaign; and roughly \$615,000 raised by the Salvation Army during its annual Kettle Campaign in front of Harris Teeter stores.



The self-distributing HT's supermarket operations are supported by its own grocery, frozen food and perishables distribution centers in Greensboro and Indian Trail, N.C., as well as a company-owned dairy production facility in High Point, N.C.

On the Prowl

The company's community-focused roots also extend to an aggressive integrated professional sports marketing playbook throughout its geographic footprint that's proving to be increasingly valuable in the realm of building loyalty, deepening engagement and strengthening its overall brand.

As part of the various partnerships the regional grocer has put into place with professional athletes and sports organizations, Harris Teeter is the official grocery store of both the Carolina Panthers and the Washington Redskins, with both of which it runs a number of crowd-pleasing local promotions throughout the year featuring player-themed signature sandwiches.

Fred Morganthall: Leading With Drive

Beyond anything else, the top-ranked most valuable trait required of today's most successful corporate leader is drive, according to the insightful business management book "Leading & Collaborating in a Competitive World, 10th Edition" (Bateman & Snell, 2009), which defines a ultimate leader's drive as an exact blend of "high need for achievement, constant striving for improvement, ambition, energy, tenacity (persistence in the face of obstacles) and initiative."



As obvious as it sounds, however, few business leaders possess the total package, save a select few, one of whom, according to those who know and who've worked closely with him, is Harris Teeter's president and COO, Fred Morganthall.

Having roamed the halls as a hands-on leader at Harris Teeter since 1986, Morganthall has employed his drive to guide the company to its present place. A seasoned industry veteran, Morganthall assumed his role as HT's president in 1997, before which he served as EVP, SVP of operations, VP of sales and distribution, and VP of merchandising.

Having previously worked as manager of grocery, frozen and dairy purchasing for Spartan Stores; a buyer for Viking Foods; and a sales representative for Procter & Gamble, Morganthall has also lent his time and talents to other organizations, including his posts as past president of both the North Carolina Food Dealers Association and Carolinas Food Industry Council, as well as his present duties as board member of Spartan Stores and YMCA of Greater Charlotte, and present chairman of the Food Marketing Institute (FMI).

"I could not concur more wholeheartedly with *Progressive Grocer's* choice," Leslie Sarasin, president/CEO of FMI, says of Harris Teeter's selection as 2012 Retailer of the Year. Calling herself "fortunate enough to be the recipient of just a fraction of Fred's leadership skills and committed service to the food retail industry," Sarasin says one of Morganthall's single greatest leadership strengths is "his tenacity for improvement. He has applied this resolute attention to the food industry's need for closer collaborations," which she says he approaches "in the spirit of increasing efficiency, as in, 'Let's eliminate duplicate efforts and cut down the number of meetings.'"

By the same token, Sarasin says, "Fred also encourages collaboration, because he recognizes the effectiveness of having a diversity of perspectives offered when setting a directional course."

She continues: "We all know the truth expressed in the statement 'The hard part is keeping the No. 1 priority the No. 1 priority.' Well, keeping 'No. 1' No. 1 is where Fred Morganthall excels. During his term as board chairman

NO. 1 PRIORITY. WELL, KEEPING NO. 1 NO. 1 IS WHAT FRED MORGANTHALL CARES. During his term as board chairman, Fred has worked diligently to keep food safety before the industry as the critical concern, to which we must give constant disciplined attention, because, as he is fond of pointing out, 'If one of us fails in this area, we all feel the ripple.'"

Sarasin further describes Morgenthall "as an amazingly effective advocate for the industry in the halls of government the past few years. And I think this surprised even him, because lobbying is not, by his own admission, something he enjoys doing. But he is good at it because his passion for the industry comes through in his conversations with lawmakers and regulators." The presence of Harris Teeter stores in the metro Washington, D.C., market, she adds, "gives some extra clout to his voice."

Perhaps most importantly, notes Sarasin, is Morgenthall's newly found recognition of the need for advocacy by retailers, which she says "makes him a terrific champion for the cause. He was quite good at encouraging his peers and colleagues to get involved in this critical activity."

Timeline

1936 In 1936, W. T. Harris borrows \$500 to open his first grocery store in Charlotte, N.C.

1939 Willis L. Teeter and his brother, Paul, borrow \$1,700 to open their first Teeter's Food Mart in Mooresville, N.C.

1949 W.T. Harris, a pioneer in the grocery business, opens the first supermarket to feature air conditioning and remain open until 9 p.m. on Friday nights

1958 The two young, prospering companies first combine efforts when they pool their buying efforts and storage facilities.

1960 On Feb. 1, Harris Super Markets and Teeter's Food Marts officially merge to form Harris Teeter Super Markets Inc. There are already 15 stores in operation. The first "Harris Teeter" store to open under the new banner is in Kannapolis, N.C.

1963 Within three years after the merger, 25 stores are in operation. A new, larger warehouse with office facilities opens. Harris Teeter further expands its marketing area by purchasing five supermarkets from Tilman's Grocery of Shelby, N.C., and two independent grocery stores, one in Charlotte and one in Gastonia, N.C.

1969 Harris Teeter is purchased by the Ruddick Corp. of Charlotte, a holding company traded on the New York Stock Exchange.

1980 Hunter Farms, started in 1917 by Harvey B. Hunter, becomes an integral part of Harris Teeter. The operation has grown from delivering milk from a single dairy herd to one that procures milk from hundreds of dairy farmers across a five-state area. Hunter Farms operates around the clock, producing millions of dollars in dairy product sales each year.

Hunter Farms supplies dairy products such as ice cream, milk, sour cream and yogurt to Harris Teeter, primarily under the Harris Teeter label. Other brand labels include Hunter Farms, Highland Crest and Harris Teeter Naturals Organic in milk. In Ice Cream, Harris Teeter, H.T. Traders and Harris Teeter Naturals Organic brands are used. Hunter Farms also supplies dairy products to major corporations such as Wendy's, US Foodservice and Hardee's.

Perishable products are now handled at a 300,000-square-foot distribution facility 12 miles east of Charlotte, in Indian Trail, N.C.

1984 Ruddick purchases Food World, a supermarket chain headquartered in Greensboro, N.C. Food World's market covers much of central North Carolina and parts of Virginia. The merger increases Harris Teeter's coverage to four states and 7,000 associates, making it the second-largest food chain in the Carolinas. The purchase of Food World adds 52 stores, a distribution center and nearly 3,000 associates to Harris Teeter.

1988 Harris Teeter purchases 52 supermarkets operating under the Big Star name and a warehouse from the Grand Union Co.

1990 Harris Teeter acquires the Borden Dairy plant, which, in conjunction with Harris Teeter's Hunter Dairy, greatly increases dairy product production.

1991 A 550,000-square-foot nonperishable distribution and transportation facility is built in Greensboro, N.C., along with a 139,000-square-foot freezer operation.

1997 A new 338,000-square-foot grocery warehouse is added to the Indian Trail distribution center.

2008 Harris Teeter opens its first store in the District of Columbia on April 23. The 37,000-square-foot store is located at 1632 Kalorama Road NW and brings new life to the historic "Citadel" building.

2009 Harris Teeter opens its first LEED-certified store in April 2009. The store is located just outside of Charlottesville, Va., in the town of Crozet.

2010 Harris Teeter celebrates its 50th anniversary on Feb. 1 and opens its 200th store on Oct. 6. The store is located in Manassas, Va.

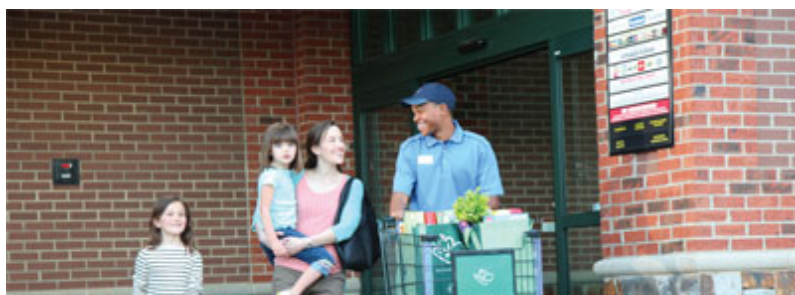
2011 Ruddick, Harris Teeter's parent company, is ranked No. 498 on the 2011 Fortune 500, a list of America's largest companies.

2012 Ruddick announces its name change to Harris Teeter Supermarkets Inc. (NYSE: HTSI).

HTSI announces a purchase and sale agreement between Harris Teeter and Lowes Foods – Harris Teeter acquires 10 Lowes Foods store locations in the central Carolinas region, and Lowes Foods acquires six Harris Teeter store locations in western North Carolina.

They've Got the Beat

By focusing intently on knowing what its customers want most and what it's always done best, the Matthews, N.C.-based regional retailer's 24,500 teammates provide the main ingredient in the distinctive formula the company has striven to deliver with a neighborhood-specific shopping experience that's long been admired from both within and well beyond its intensely competitive marketing turf. It's the same formula that's been at the heart of the company's familiar friendly jingle, originally released in fall 2005 and written to reflect employees' dedication to customers, and the ownership shoppers take with "their" Harris Teeter: *It's the little things by far ... It's the people that make us who we are ... It's a part of you and a part of me ... And there's no place I'd rather be ... My Harris Teeter.*





In its seventh year with the recognizable refrain, the company has cleverly, and quite effectively, devised a way to not only keep it fresh, but also highly personal with its customers, via cash prize contests for individuals, groups and schools to enter and create their own unique spin on the tune while also encouraging them to get more closely involved by downloading the ditty as a ringtone on their mobile phones.

Green With LEED

Three of Harris Teeter's recent stores – in Olney and Baltimore, Md., and its Rivertowne Place location in Mount Pleasant, S.C. – are officially recognized as LEED-certified projects by the U.S. Green Building Council (USGBC) and verified by the Green Building Certification Institute (GBCI).

Each of the projects achieved LEED certification for energy use, lighting, water and material use, as well as incorporating a variety of other sustainable strategies. By using less energy and water, LEED-certified buildings save money for families, businesses and taxpayers; reduce greenhouse gas emissions; and contribute to a healthier environment for residents, workers and the larger community.



LEED certification of these projects was based on a number of green design and construction features that positively impact the project itself and the broader community, including:

- Reducing water usage by using reduced-flow faucets
- Building from recycled materials
- Using building materials manufactured regionally
- Recycling waste generated during construction
- Installing environmentally friendly lighting in refrigerated cases
- Cleaning with environmentally preferred products

Harris Teeter continues to introduce more sustainable features and energy-efficient designs into its facilities as a part of routine maintenance and new design projects.

House Rules

Securing trust and loyalty through quality and selection is at the heart of Harris Teeter's 13 categories of private brands, including Harris Teeter, H.T. Traders, Harris Teeter Naturals, Hunter Farms, Fresh Foods Market,

Fisherman's Market, Farmers' Market, Harris Teeter Rancher and USDA Choice Harris Teeter Reserve Angus Beef. Developed to offer quality-focused alternatives to national brands across the store, the Harris Teeter private label program also includes other brands like Yourtot, Yourbaby, Yourpet and Yourhome home products.

© 2012 Stagnito Media. All rights reserved.