

Q4

STATE OF

THE ASSOCIATE



Q4

**06 /
HOURLY WAGES**

▶ WHY WAGES ARE IMPORTANT

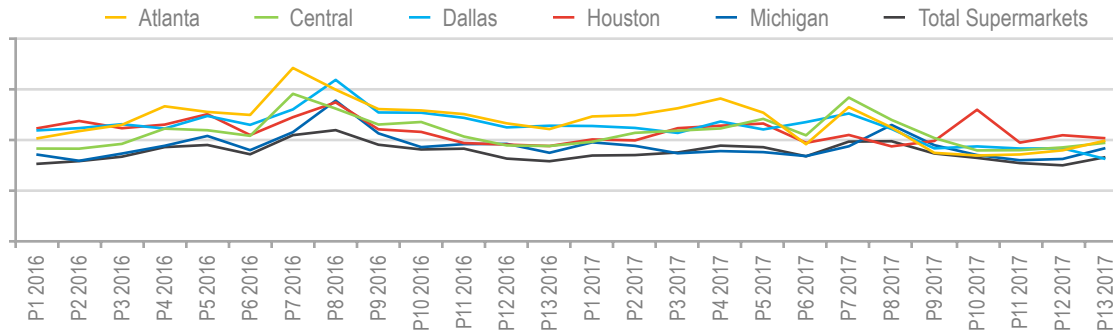
- Labor market is tight
- Divisions with competitive wages have better retention
- Gig Economy/ Free agent/ On-Demand workforce cares about wages and flexibility
- Associates are good customers
 - Associates represent **2.5%/\$1.7B** in annual sales
 - **49%** of associates are **Very Loyal shoppers**
- Working Two Jobs
 - The BLS reports **4.5%** of current workers are **multiple jobholders (7.5 M workers)**
 - Kroger exit data shows **pay and hours / not enough flexibility in scheduling** are the top reasons for **27%** of hourly supermarket associates leaving the company



“A pay increase that’s more than 25 cents a year, inflation is driving costs up and pay scale isn’t keeping up. People 10 years with the company on food stamps doesn’t seem right.”
Associate Insights Survey



DIVISIONS WITH SIGNIFICANT WAGE INVESTMENTS IN 2017 OUTPERFORMED THE COMPANY ON TURNOVER



Rebalancing wage and benefit investments:

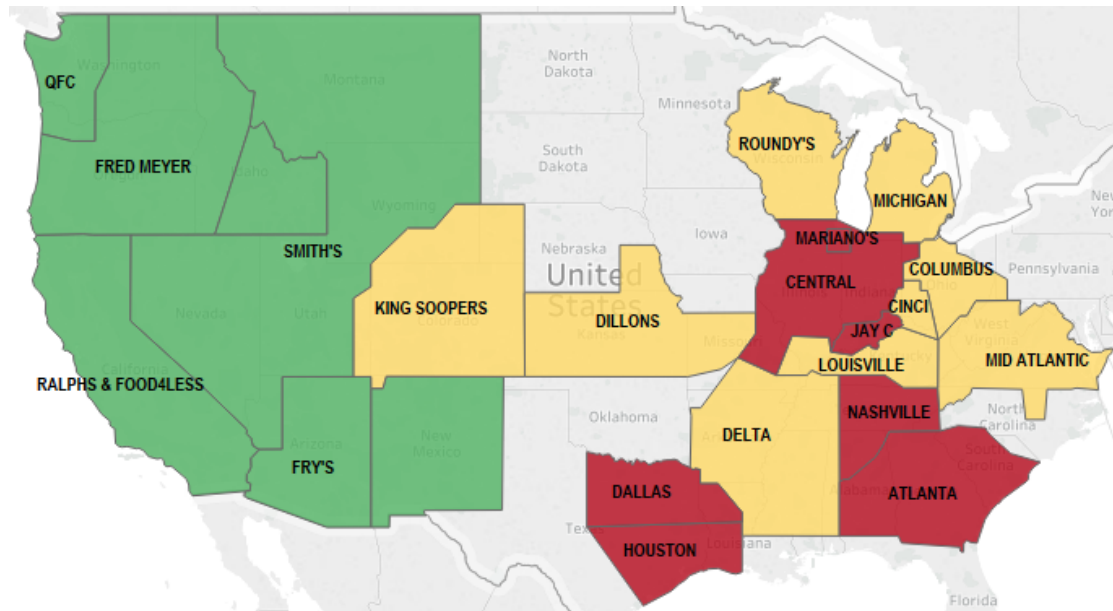
- \$500M wage investment over next 3 years (\$229M in 2018)
- Reduction of \$25M in pension and \$15M in healthcare

	Wage Investment Timing	Retention		Open Needs		New Hire Onboarding		In-Stock		Friendly		Fresh		Engagement
		Turnover P13 2017 Annualized	% CHG vs. 2016	Open needs 2017 Avg	% CHG vs. 2016 Avg	New Hire Onboarding Wk 53 2017	% CHG vs. Wk13 2017	In-Stock FY 2017	% CHG vs. FY 2016	Friendly FY 2017	% CHG vs. FY 2016	Fresh FY 2017	% CHG vs. FY 2016	2017 Engagement
Atlanta	P6 2017	85%	-14%	704	-44%	85.1%	6%	56%	0.4%	69%	0.3%	58%	-0.4%	81%
Central	P9 2015	82%	-1%	657	7%	80.3%	-6%	55%	0.4%	70%	-0.1%	57%	0.4%	76%
Dallas	P9 2017	80%	-14%	405	-27%	79.2%	-11%	58%	-0.1%	70%	0.8%	61%	-0.4%	80%
Houston	P3 2016	82%	-7%	399	16%	75.6%	-9%	56%	-0.9%	69%	1.6%	59%	-0.4%	78%
Michigan	P4 2017	71%	-4%	624	-43%	95.6%	10%	56%	-0.5%	71%	-1.4%	59%	-1.2%	72%
Total Supermarkets	n/a	67%	-2%	11,012	-6%	85.8%	8%	57%	0.2%	71%	0.1%	60%	-0.4%	77%



DIVISIONS WHERE WE OFFER COMPETITIVE WAGES PERFORM BETTER ON RETENTION, REGARDLESS OF DIVISION UNEMPLOYMENT RATE

	P13 2017 Annualized Turnover	Ratio of Kroger Avg Part-Time Hourly Rate vs. Market Avg Part-Time Hourly Rate	% Unemployment
Ralphs	37%	1.05	6.4%
Food 4 Less	47%	0.97	7.8%
Smith's	52%	1.17	5.3%
QFC	52%	1.12	4.7%
Fred Meyer	52%	1.10	5.6%
Fry's	54%	1.05	5.1%
Louisville	62%	0.88	6.0%
Cincinnati	63%	0.87	5.1%
King Soopers	64%	1.05	4.5%
Columbus	66%	0.80	5.3%
Michigan	71%	0.83	6.2%
Dillon's	76%	0.95	4.6%
Delta	79%	0.82	6.3%
Mid-Atlantic	79%	0.87	5.2%
Dallas	80%	0.89	4.5%
Food 4 Less (MW)	82%	0.85	9.4%
Houston	82%	0.80	4.6%
Central	82%	0.84	6.2%
Atlanta	85%	0.87	6.1%
Nashville	87%	0.85	5.4%
Jay C	93%	0.94	6.8%



For example: Ralphs has 37% turnover, has an average part-time hourly rate 5% over the average part-time market rate, and operates in 6.4% unemployment.

2017 Retention (Annualized Turnover)
37%-54%
62%-79%
80%-93%



MANY KROGER ASSOCIATES LIVE UNDER THE POVERTY LINE

EMPLOYEE GOVERNMENT ASSISTANCE

INCREASING

Employees		Non-Employees	
Pre % HHs (date)	Post % HHs (date)	Pre % HHs (date)	Post % HHs (date)
19.3%	20.3% ▲	10.4%	10.2% ▼

The overall increase in the % of employee households receiving government assistance is led by increases in the following five divisions:

	Employees	Non-Employees
Dallas	▲	▼
Delta	▲	▼
Dillons	▲	▼
Fred Meyer	▲	▲
Houston	▲	▲

Source: 84.51 analysis

1 in 10 customers are on government assistance*
1 in 5 associates are on government assistance*
1 in 4 very loyal associates are on government assistance*

* SNAP or WIC. Ratios might be slightly underestimated due to some missing SNAP flags in Fred Meyer

Through P12, **24%** of our 2017 hires qualified for the **Work Opportunity Tax Credit**.

- Credit given for hiring individuals who:
 - Live in designated areas
 - Are members of certain groups deemed economically disadvantaged (e.g., receiving TANF, Food Stamps, SSI, etc.)

Kroger receives \$20M in tax credits annually. Each individual that qualifies is expected to earn on average \$1,200

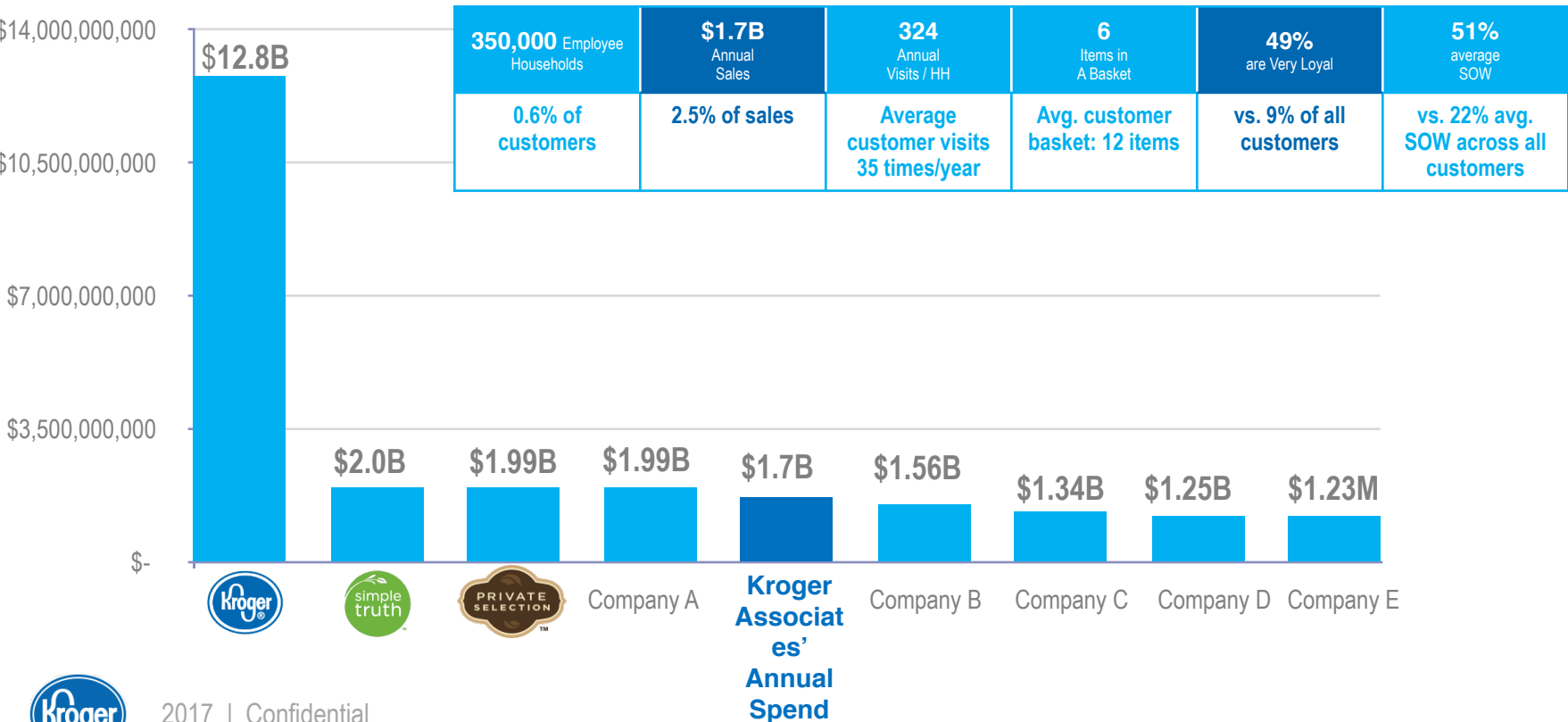


In Ohio, Kroger has the **third-highest number of employees receiving SNAP benefits** (behind Walmart & McDonald's)

Source: Policy Matters Ohio



AROUND HALF OF ASSOCIATES ARE VERY LOYAL SHOPPERS, EARNINGS FLOW BACK TO KROGER THROUGH SALES



▶ TURNING OUR INSIGHTS INTO A LEADERSHIP CALL TO ACTION

Senior Leadership: Strategic Focus Areas

- Champion recruiting, developing and retaining diverse leaders
- Advocate for continued rebalancing wages vs. benefits
- Push for strategy for task-driven “gigs” e.g., picking orders, delivery, executing recalls
- Support roadmap for Machine Learning & Advanced Analytics (e.g. predicting open needs). Continue to develop automation, leveraging technology at store level
- Promote progressive training & development platforms

Division Leadership: Key Focus Areas

- Consistently recruit, develop and retain diverse associates
- Deliberately focus on Store leaders and ASM’s continuity in role and location
- Cultivate the associate experience – meet people where they are and engage the way they want to be engaged
 - Create and execute consistent onboarding
 - Leverage the 6 Steps to Retention
 - Develop leaders as coaches (Dept. Leaders, DMs, Store Manager, ASMs, etc.)

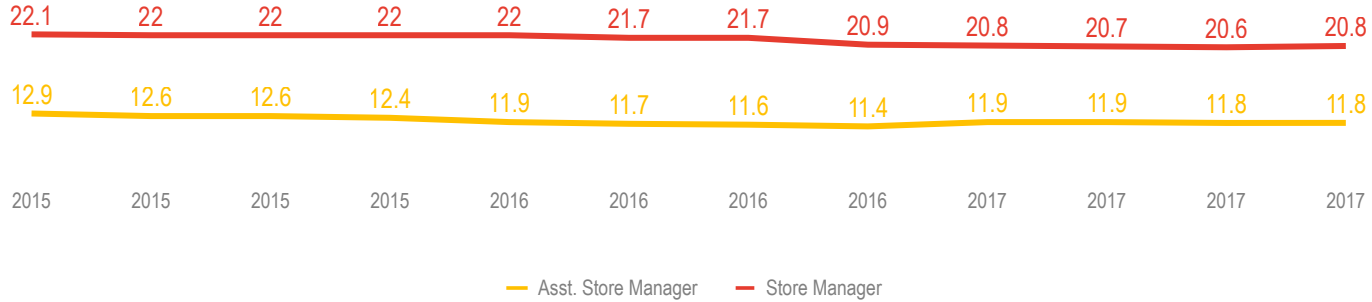


▶ APPENDIX



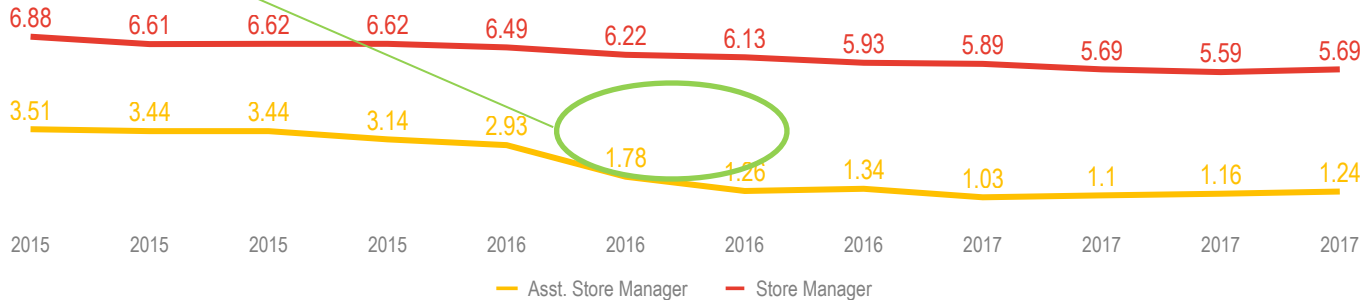
STORE LEADERSHIP TEAMS HAVE DECLINING LEVELS OF EXPERIENCE

AVG YEARS OF SERVICE WITH COMPANY



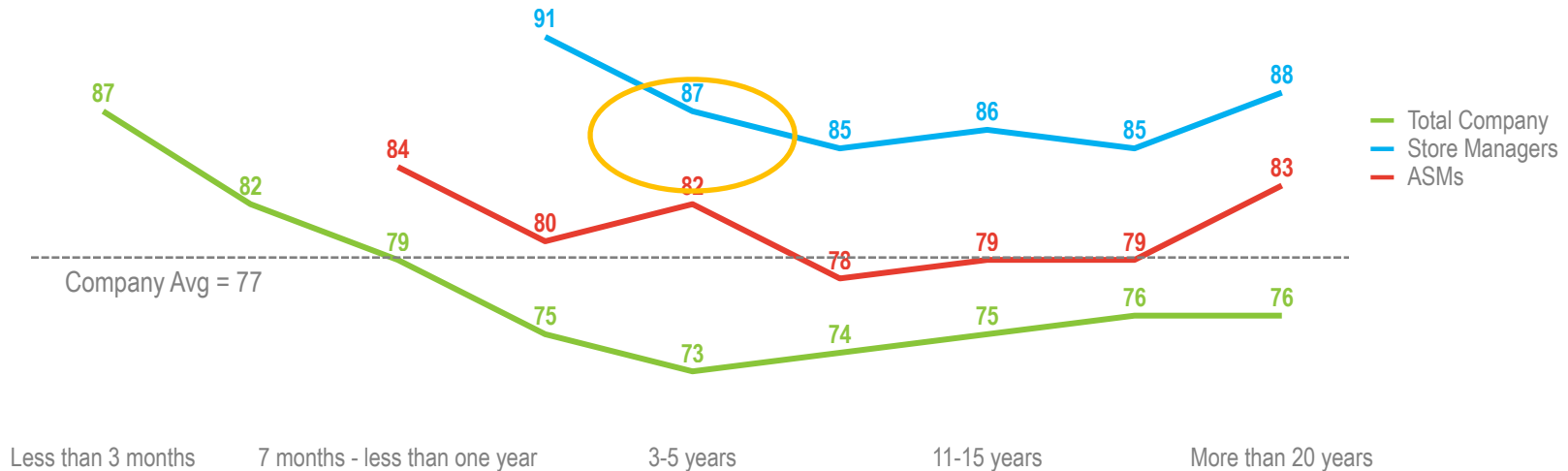
R&R reset job descriptions

AVG YEARS IN ROLE

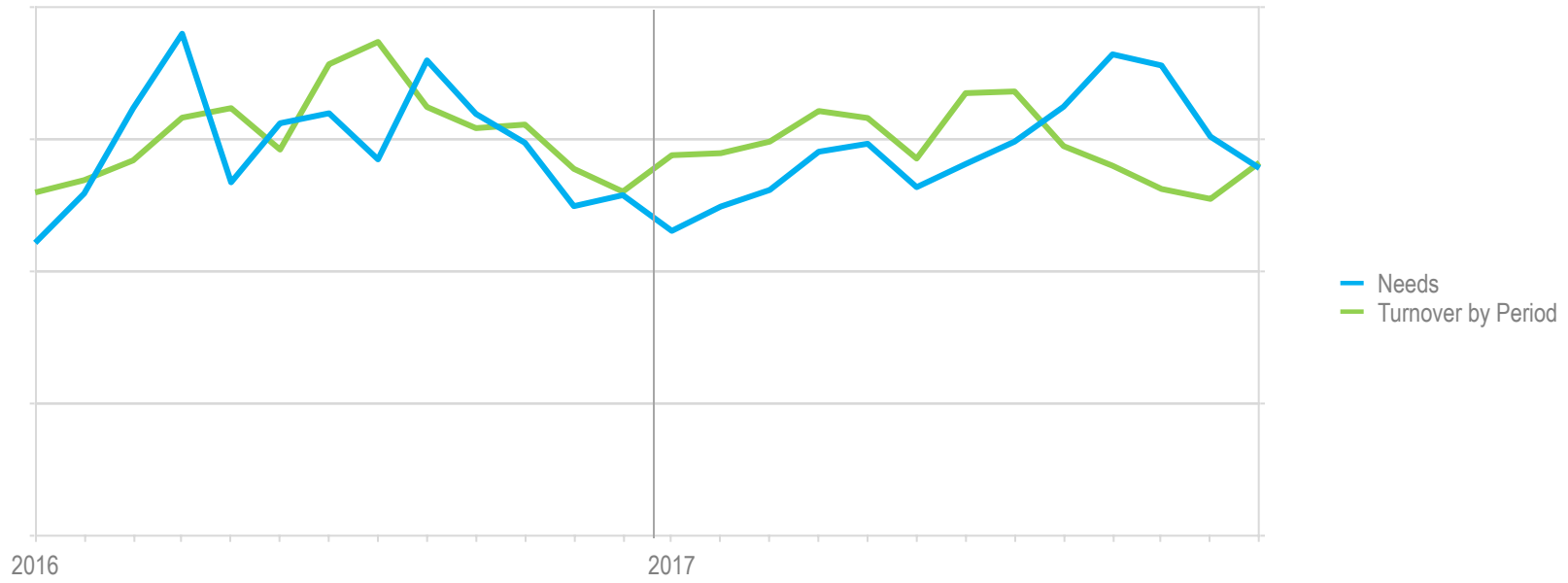


ENGAGEMENT LIFECYCLE WITH STORE LEADERS MIRRORS OVERALL COMPANY TREND

Averaging across all company associates, engagement hits its lowest point between 3-5 years. ASMs and Store Managers have lowest engagement at 6-10 years, and recover sharply after 20 years. There is a noteworthy peak in ASM engagement in the 3-5 year range.



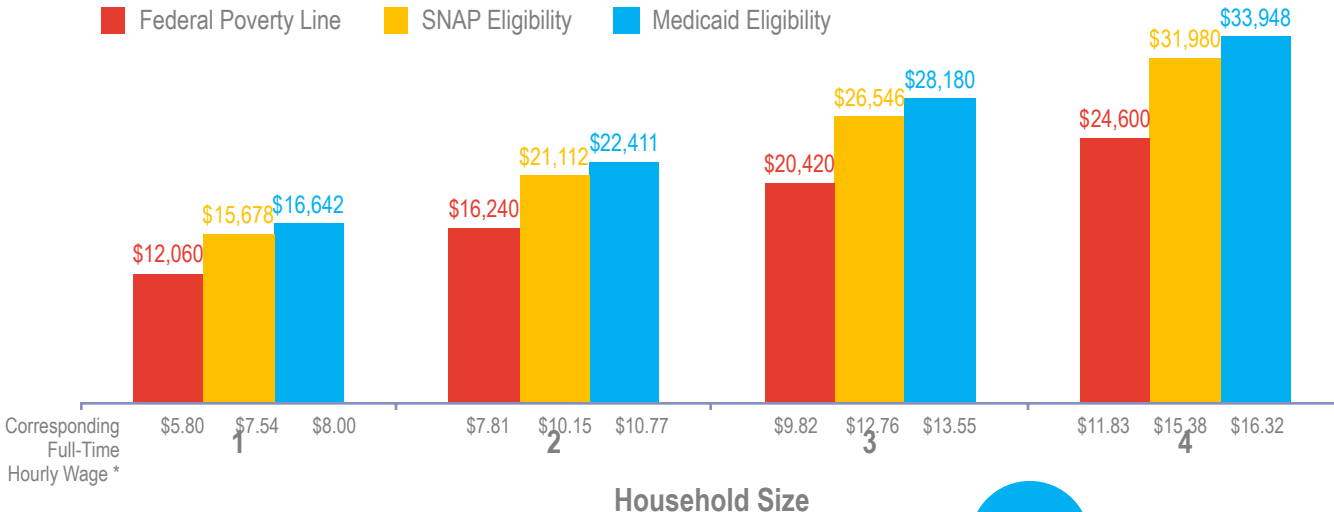
ALTHOUGH REPORTED NEEDS & TURNOVER ARE MORE IN SYNC IN 2017 VS. 2016, MACHINE LEARNING & AUTOMATION PROCESS IS UNDERWAY



FOOD & HOUSING INSECURITY ARE THREATS TO RETAIL WORKFORCE

DEFINING POVERTY

■ Federal Poverty Line
 ■ SNAP Eligibility
 ■ Medicaid Eligibility



- In Ohio, **\$15.00/ hr. required** to afford a 2-bedroom
- On average, **2.9 full-time jobs** paying minimum wage are needed to rent a 2-bedroom unit
- Most employees are considered to be **living in poverty** and need State Aid as in food stamps, free school lunch, etc. just to get by.

* Corresponding Full-Time Hourly Wage (2080 hrs (40 hrs x 52 weeks))



“Something is wrong when the people who are actually making this company profitable are the ones deepest in poverty. I literally work at a grocery store and can’t afford to eat regularly. In short, pay us what we are worth; we know you can afford it.”
Associate Insights Survey

