



Dillon Food Stores
2700 East Fourth
Hutchinson, Kansas 67501

To: The Members of the House Commerce & Economic Development
From: Dave Dillon, Retired Kroger Chairman of the Board
Date: February 13th, 2016

Good afternoon. My name is Dave Dillon. I retired as Chairman of Kroger's Board of Directors 2 years ago and am thrilled and to have move back to Kansas. I have always considered Kansas my home, and so it is an honor for me personally to be here with you today.

When my great-grandfather, J.S. Dillon, opened his first grocery store in Hutchinson, his vision was to build a business that provided a convenient shopping experience for Kansas families. Our stores have changed dramatically since that first store opened more than 100 years ago. We have evolved from selling basic grocery items to include pharmacies, floral shops, fuel, bakeries, Sushi, banking services and more recently Ecommerce and Click List, which allows our customers to order on line and pick up in-store.

While it would be easy to conclude that Dillons is doing fine, please remember in retailing history, success is always dependent on making regular improvements for the customer. A&P, Sears, and Kmart are recent illustrations of failing to do so. 10 years ago, I never would have imagined, on-line shopping retailers, including Amazon, would be a threat to our brick and mortar stores. Adding beer and wine to our stores will help assure our continued strength in Kansas.

Our loyal Kansas shoppers have trusted us with their business and patronage, and in return, we have reinvested hundreds of millions of dollars back in our Kansas communities. We have created countless jobs by investing in stores through renovations and new construction. We are currently hiring to fill an estimated 250 hourly positions in our Kansas stores. And we have helped our neighbors in need by donating cash, products and volunteer hours to hundreds of organizations throughout the state.

When Dillons merged with Kroger way back in 1983, we knew we would be successful because we remained, first and foremost, a local operator. Dillons is still run by a President who grew up in Great Bend, Kansas and lives in Hutch. Our associates live and support their towns. Many Kansans became Kroger stockholders, and that's benefitted the local economy. We are proud to support Kansas farmers, producers and manufacturers. The success of our company has meant secure pensions, good jobs, and valuable investments for our friends and neighbors right here in the *Sunflower State*. You cannot get more local than that!

We learned to grow by continuing to listen very closely to what our customers want and adapting and changing based on their feedback. More than a century later, we're still continuing to listen. And we hear similar requests from customers over and over again: "Where's the wine?" and "What do you mean I can't buy regular beer here?" Like the consumers in 47 other states, our shoppers want the freedom to purchase full-strength beer and wine in their local grocery store. And if it were solely up to us, we'd scrap the overly protectionists laws that exist and honor our customers' request.

We hear this request from busy moms who want a bottle of wine with their dinner who are crunched for time and don't want the hassle of an additional stop. We hear it from our shoppers who value local, and who want to buy beers from great Kansas microbreweries like Free State in Lawrence , Walnut River in El Dorado or Tallgrass in Hays. We hear it from rural families, who live in a county that has a liquor store... but not a grocery store. We hear it from customers who have recently moved to Kansas and think not being able to buy regular beer or wine in a grocery store is ridiculous. We have heard from the 2,000 +customers who signed post cards in our stores a few weeks ago, who don't believe the government should pick winners and losers in the marketplace. We believe, like our Colorado neighbors to the west, and our neighbors to the south in Oklahoma, who recently passed consumer friendly legislation which allows adult beverage sales in grocery stores, the time has come to fix the legally-constrained restrictions that govern the sale of a legal product in Kansas.

One of the Kansas values that has stayed with me my whole life is the importance of a strong, free-market economy. That is not a buzzword. It is what makes our entire system work. Our country's success has always been defined by our ability to win in the most competitive environments. The best businesses – the great ones- are able to face new competition head on, adapt and prosper. The American-- the Kansan-- Way is to believe that we can compete and succeed. Without that core belief, Dillons wouldn't be the company we are today, and neither would Kansas.

In my career at Dillons and then at Kroger, I watched as non-traditional retailers and more recently on-line stores, have added groceries to their shelves. You can buy milk and diapers at convenience stores, drug stores, big-box stores, home improvement stores and now on-line! But you know what? As painful as new competition can be, I cannot think of an instance when the customer didn't benefit. Competition Always Makes Us Better. We became better at serving our customers and found ways to increase our traffic and give our customers a different experience. No one at Dillons ever suggested passing a protectionist law that prevented other retailers from selling groceries.

We all know that liquor store owners do not like this legislation. I understand their anxiety about change. But let's look at the facts. For 60 years, they have enjoyed their legal exclusivity to sell adult beverages, at the expense of the consumer, and have never had to worry about new competition, industry developments, or changing customer desires. It is a mistake to conclude that Liquor stores are best served by continuing the government provided protection from competition. Competition makes you better, and the customer wins. Sometimes shielding a business like liquor stores keeps the liquor operators from becoming their best, too. You don't help your kids by overly protecting them from competition, and you don't help liquor store operators, in the long run, by leaving in place ancient barriers.

At Dillons, we work hard to earn a profit with razor thin margins. We are after all a publicly-traded company. But anyone who tries to argue that all our profits go out of state is just not being truthful. Here is how we reinvest what we earn in Kansas. In the last five years, we have invested \$200 million dollars to improve and build new stores in Kansas. That money pays Kansas contractors,

architects, and builders. Today, with more than 10,000 associates, Dillons is one of the largest employers in Kansas. We create jobs that provide retirement, insurance and other meaningful benefits!

In addition to our own employees, we use Kansas plumbers, Kansas electricians, Kansas window washers, Kansas lawn services, Kansas trash services, Kansas laundry services, contract with local Kansas bakeries for fresh homemade products, support Kansas manufacturers, Kansas farmers and hundreds of other Kansas businesses. We fund pensions of retirees that live in Kansas. We provide health care to our associates and retirees who live in Kansas. We deliver dividends and stock growth that benefit Kansans who are invested in our company. And we pay taxes to our local communities in Kansas. Dillons is part of the fabric of this great state and we always will be.

Something else that is important to me personally is safety. And it is important in this debate as well. We have the training, technology and infrastructure to responsibly handle this product safely, as we do with many other products such as tobacco, pharmaceuticals, and lottery tickets. Our Dillons division based in Hutch already sells these products under our banner stores Gerbes in Missouri and Bakers in Omaha, and grocery stores that our company operates sell wine and spirits in 27 other states.

If you take away one thing from my comments today, remember this: Grocery retailers are willing to compromise. We think liquor stores should be able to increase their product lines to sell products that they are currently prohibited from selling and they will continue to be the exclusive outlet for liquor in the state. Tomorrow you will hear from the opponents all the reasons this legislation couldn't possibly work. Yet this works in 47 other states, where independent liquor stores and grocery stores thrive, and where wholesalers and distributors still have very successful business models that serve a more free market.

Listen closely tomorrow. What you **will not** hear is advocacy for our customers and your constituents. Entrenched liquor stores are quite content to keep the status quo and squelch the

benefits that consumers would realize from a free market; tangible things such as better pricing, an increased product selection and an improved shopping experience.

At Dillons we know our customers and we know what matters to them. That is why I am here today, on their behalf, respectfully urging the committee members to pass HB2282 out of committee, for a vote of the full House. This is a bill the majority of Kansas consumers want, that creates jobs, that benefits our local economies, and that most of all, values the free-market.

47 other states allow beer and wine sales in grocery stores. Why not Kansas?