

- Retail Industry News from IRI for Week Ending 1/4/08-

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Thanks to MNB
for this selection of
articles.

Inflating Food Prices Changing Consumer Behavior

The *Wall Street Journal* reports this morning that "with the rising cost of milk, eggs, meat and produce contributing to the biggest jump in food prices in 17 years, consumers are starting to feel the pinch. Some shoppers, already dealing with falling home values and rising fuel costs, are finding creative ways to save, opting for cheaper ingredients and private-label goods and leaning more heavily on discount grocers. And restaurant diners, who have been eating out less frequently, will likely face even higher prices on menus."

And, the *Journal* continues, "Food prices are rising for a number of reasons. A growing middle class in Latin America and Asia can afford more meat and milk, which has driven up demand for grain to feed cattle and hogs. A drought in Australia in 2006 reduced the supply of milk available to Asia, further pushing up the cost. Rising global demand for U.S. wheat and poor harvests in other wheat-producing countries caused wheat prices to soar to record levels last year.

"Demand for grain-derived ethanol, driven by government incentives, has helped push up corn and soybean prices, which in turn have raised the cost of many products derived from those crops, such as oils and high-fructose corn syrup, a sweetener used in everything from soft drinks to ketchup. To top it off, rising fuel costs are making it more expensive to transport food from the producers to stores and restaurants."

To this point, however, the increased prices don't seem to be hurting supermarkets, and the *Journal* notes that Kroger CEO David Dillon recently told analysts that inflation often is good for supermarket sales.

At the same time, the *Dallas Morning News* reports that "the sharp rise in food prices seen in 2007 is expected to be followed by another higher-than-normal jump next year, the USDA said Dec. 17. And 2008's punch will be to the breadbasket.

"Items made with wheat (breads and crackers) and soybean oil (cooking oil and fried foods) are expected to rise so much next year that they'll boost the cost of cooking at home by up to 4.5% -- half a percentage point more than predicted just a month ago.

"So pinched consumers thinking they can cut back by eating at home more will find little relief there. This year is expected to go on record as having one of the largest increases in food prices since 1990 -- a jump of 4%, according to economists at the U.S. Department of Agriculture."

Gristedes Signs On With Wakefern

Wakefern Food Corp. announced that it has entered into a wholesale agreement with New York City-based Gristedes that will make its 7,000-item ShopRite private label brand available in the 40 Gristedes stores in the New York metropolitan area. The ShopRite line includes organics and specialty grocery items.

"By making our line of specialty products available to other retailers, we are providing them with a quality, exclusive brand that provides a real point of competitive difference in the marketplace," said Joe Colalillo, chairman and CEO of Wakefern, in a prepared statement. "Helping independents grocers succeed in a space dominated by much larger competitors has always been our primary focus and our strength."

Tesco Offering In-Store Health Checkups

In the UK, the *Telegraph* reports that Tesco is offering its consumers in-store medical checkups, providing measurements of weight, blood pressure and cholesterol, as well as screening for diabetes.

Cost of the checkup is the equivalent of \$20 (US), going up to \$40 at the end of January.

Design Makeovers On Tap For Numerous Food Chains

In Maryland, the *Carroll County Times* reports that "Safeway, Giant Food, Weis Markets and Super Fresh are just some of the stores that are making changes both inside and out," as they look to acquire – or emulate – "small town appeal."

A Weis store in Westminster, according to the story, is getting "a specialty cheese section, a new hoagie shack and a pizza shop with a pizzeria-style oven." And a number of Giant stores, the *Times* writes, are getting "a new, fresher look, with parts of the store resembling an open market," as well as "a large area of new movies and books."

FastNewsBeat

- Members of the United Food and Commercial Workers (UFCW) have approved a new four-year contract with two Safeway divisions in Northern California. The new contract provides for wage and benefits increases, according to news reports.
- *Advertising Age* reports that "Taco Bell, Jack in the Box and Starbucks are rolling out 'light' products in preparation for a wave of guilt-ridden consumers who have overindulged during the holidays. The goal, according to *Ad Age*, is to give Americans an option when they try to lose the seven pounds that the average person gains between Thanksgiving and New Year's Day.

The MNB Wal-Mart Watch

- Wal-Mart announced last week that it has closed its online movie download service, saying that the company providing the enabling software, Hewlett-Packard, had decided to discontinue its service. The company has reportedly not decided whether to resurrect the service using a different software provider.

The move takes Wal-Mart out of a business in which it was trying to compete with Apple and Amazon.com. The decision has an element of *déjà vu* for Wal-Mart; two years ago, it tried to compete with Netflix and Blockbuster by launching an online video rental service, but eventually the retailer decided to bail out and subcontract it to Netflix.

The Balance Sheet

- Rite Aid said that its December sales were up 48 percent to \$2.2 billion, an increase that was largely through acquisition. Same-store sales were down 0.5 percent.

Executive Suite

- Stater Bros. announced that George Frahm, the company's Group Senior Vice President of Retail Operations and Administration, has been promoted to the position of Executive Vice President of Retail Operations and Administration.

At the same time, Dennis McIntyre, Stater's Group Senior Vice President of Marketing, has been promoted to the position of Executive Vice President of Marketing Administration.

- The *San Jose Business Journal* reports that Bob Spengler, president/COO of Save Mart Supermarkets, will retire tomorrow – the second time he has done so. Spengler originally retired from Save Mart in December 2005, but returned 14 months ago to help in the effort to acquire part of Albertsons LLC.