

## - Retail Industry News from IRI for Week Ending 1/18/08-

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Thanks to MNB  
for this selection of  
articles.

### Reporting In: From FMI's Midwinter Executive Conference – Day 1

*SCOTTSALE, Arizona -- Over the next few days, MNB Content Guy Kevin Coupe will be filing regular reports from the Food Marketing Institute (FMI) Midwinter Executive Conference, being held this year at The Phoenician in Scottsdale, Arizona. Check back regularly for updates on presentations made by the likes of Safeway CEO Steve Burd and PepsiCo CEO Indra Nooyi, plus reports on sessions focusing on such disparate subjects as cloning and health and wellness marketing.*

*Posted: Monday, January 14, 2007, 2:35 pm EST*

#### **Burd, Nooyi Urge Creation Of Coalition Focusing On Health Care, Obesity**

In separate presentations today to the FMI Midwinter Executive Conference, the CEOs of Safeway and PepsiCo each threw down a challenge to the industry to create a coalition that can fight obesity in the US and develop a more holistic approach to the health care issue.

The challenge from Safeway's Steve Burd certainly had more meat on it, since it came a year after he'd rocked the same conference with a speech about corporate and national health care policy that stressed the importance of personal responsibility, and pledged to create a corporate approach at Safeway that would have enormous impact on both the health of its employees and the health of the company's bottom line.

This year, Burd's update on last year's speech came after a 12-month period in which his company had negotiated numerous union contracts, each of which had health care-related elements. And if there was one question that hung out there a year ago, it was whether Burd would be able to make his argument stick during negotiations, and convince union leaders that it simply made sense that people who demonstrate unhealthy behaviors should pay higher insurance premiums than people with more healthy lifestyles.

Remarkably enough, he did. Burd said that in virtually every negotiation, union leaders were willing to adopt a personal responsibility-driven health care model because they understand that if health care costs continue to go up, there will be no money left for pay increases. (And the fact that Safeway is willing to

write a rebate check at the end of the year to people who change their behavior and adopt a healthier lifestyle certainly means that Burd is putting his money where his mouth is.)

Burd reiterated some of the basic numbers he presented in January 2007 – that 70 percent of all healthcare costs are behavior-driven, that 74 percent of all health care costs are related to four chronic conditions, the vast majority of which can be reduced through a change in personal behavior and that the private sector – through smart and disciplined programs – can reduce costs without shifting costs or turning to the government for assistance. In the case of Safeway, Burd said, health care costs were taken down 13 percent in 2006, remained flat in 2007, and he was convinced that they would stay flat or fall further in 2009.

Burd noted that the Safeway approach has been two-pronged – it both encourages greater amounts of exercise (through a corporate fitness center and subsidizing gym membership costs in other locations) and better eating (the company cafeterias subsidize healthy meals and charges full market value for less healthy options).

But there were other, remarkable elements to the Safeway approach that Burd described, including a soon-to-launch concierge service that will assist employees and their family members diagnosed with either cancer or cardiovascular disease. It will, he said, give them someone they can call and rely on for support after getting the diagnosis, helping them make the proper and most effective treatment decisions.

And, he said, Safeway currently is forming a healthcare services company that will endeavor “to help other companies and governments replicate our experience.”

Burd urged attendees – retailers and manufacturers alike – to join the Coalition to Advocate Healthcare Reform (CAHR), which currently consists of 53 members and is focused on influencing national public policy in the health care arena. The essential concept is to create a mechanism so strong that it will be able to influence, even dictate, national policy in this area because it has been so effective and efficient, creating a market-based healthcare system that focuses on universal coverage and individual responsibility, imbedding real change within both public institutions and private enterprise.

In the morning’s opening presentation, PepsiCo CEO Indra Nooyi chose to address the obesity crisis in America, urging the food industry – and society at large – to “stop the blame game. You cannot blame one person, industry or government.”

Nooyi suggested that the industry band together to create a national awareness program on the scale of the “Keep America Beautiful” and “Buckle Up” campaigns. Such a campaign, she said, would develop science-based programs that could be distributed to schools, helping students understand portion control, healthy eating and the importance of moderation; it could also lobby for states to mandate K-12 physical education programs.

Virtually everyone in the industry can agree on both the goals and the process, Nooyi said. “The hardest part is the will,” he said. And she called for an obesity-focused industry conference that would take place within three months, aimed at pulling together a cohesive and coherent strategy.

Burd agreed with the suggestion, but emphasized that any obesity strategy has to be a subset of the larger health care debate.

*Note: Michael Sansolo will offer additional analysis in his “Sansolo Speaks” column Tuesday morning.*

In other news...

- Barry Scher, the longtime vice president of public affairs at Giant Food and Ahold USA, received the FMI

2008 Glen P. Woodard Jr. Public Affairs Award, in recognition of his leadership in helping the industry address governmental issues.

- Liz Minyard, former co-chair and co-CEO of Minyard's Food Stores, received the FMI 2008 Sidney R. Rabb Award for community service, especially "her efforts to feed the hungry and help the homeless, students and other people who suffer from chronic diseases."
- Tom Infusino, chairman emeritus of Wakefern Food Corp., received the FMI 2008 Herbert Hoover Award for "personal and professional excellence in serving the food retail and wholesale industry."
- A.G. Lafley, chairman/CEO of Procter & Gamble, received the FMI 2008 William H. Albers Industry Relations Award.

## Reporting In: From FMI's Midwinter Executive Conference – Day 2

### **Burd, Nooyi Urge Creation Of Coalition Focusing On Health Care, Obesity**

SCOTTSDALE, Arizona - In separate presentations today to the Food Marketing Institute (FMI) Midwinter Executive Conference here, the CEOs of Safeway and PepsiCo each threw down a challenge to the industry to create a coalition that can fight obesity in the US and develop a more holistic approach to the health care issue.

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## Reporting In: From The FMI Midwinter Executive Conference – Day 3

### Health Care, Generational Opportunities Highlighted At Industry Confab

SCOTTSDALE, Arizona – Opportunity knocked on two doors yesterday as the final sessions of the 2008 Food Marketing Institute (FMI) Midwinter Executive Conference wrapped up. All that remains is for retailers to decide whether to answer them, and then to follow through with the hard work necessary to live up to the promise.

The opportunities were in different areas – in health and wellness, and in catering to the next generation of shoppers. What they had in common, however, was that they reflected the rapid changes taking place in the retail world, and how retailers can – indeed, *must* - respond if they are to remain relevant.

Perhaps the most tangible case was presented by the Coca-Cola Research Council of North America, which with the Institute for the Future has developed a road map for how retailers can create new value for shoppers by drawing a direct line between food and health. The possibilities were vividly reflected in a single illustration: a woman gets a prescription for sleeping pills filled, and the label that comes with the pill bottle informs her that eating foods such as bananas, whole wheat bread and turkey also can help one sleep.

Such an approach would build on an awareness that already exists in the minds of some consumers, and that research has shown virtually all customer demographics would be open to. Archie McGregor, owner of McGregor Stores, said that health and wellness “seem to be pretty well dispersed from an interest standpoint.”

In a video presentation made to the conference Sweetbay Supermarkets CEO Shelley Broader, who also chairs the council, noted that “food, health and wellness, and sustainability are all converging in the minds of consumers,” and that such an approach would help retailers redefine their futures, serving as a kind of portal to the healthcare system.

The framework for such actions could take place as both static and dynamic in-store communications, could occur online, and also could take the form of comprehensive, integrated health care services. And Paul Boyer, a member of the council and vice chairman of Meijer Inc., noted that many of the pieces are already in place.

“Customers already are connecting food and health to preventative treatment,” he said, noting that supermarkets already have the brand equity, consumer trust and, in many cases, pharmacies – all that remains is to develop the infrastructure that connects the dots.

And, Boyer warned, “Other people are going to try to get there first. What would happen if health clubs decided to start selling the 10 superfoods? We have to make sure that we don't sit back and take our time.”

The Coke Research Council plans to be rolling out its research and recommendations in a series of “chapters” that will be released in coming months.

*Full disclosure: MorningNewsBeat's Michael Sansolo is a member of the Coca-Cola Research Council.*

The second major opportunity came compliments of futurist Martin Lindstrom, who painted a vivid portrait of the teenaged generation, which in a few years will be the center of the marketing bull's-eye for retailers. “This is the generation on which you are going to be dependent very soon,” he said, “if not already.”

In his presentation, Lindstrom took note of some basic truths – that kids are able to absorb far more material simultaneously than adults, as much as 31 hours worth of content in 24 hours; that they get far more of their information from the Internet than they do through more traditional means such as television,

that they often are the decision-makers in their households, as parents either seek their approbation or advice when making major and minor purchase decisions. And, he said, “they know more about brands because they are exposed to so much,” which means they actually are educated consumers, which can make them even more demanding than their elders.

Combine these realities with the fact that these same kids are highly proactive when it comes to communicating their own preferences to their peers. “Consumers are becoming even more powerful than you are at building your brand,” Lindstrom said, noting that more than 500,000 new blogs appear every week.

And so, Lindstrom’s “opportunity” was this – retailers need to get aggressive about embracing these new shoppers and their needs and wants, and need to work to understand and take advantage of new communications realities. As in the case of the health and wellness opportunity, not to do so is risk irrelevance.

- In other news, FMI CEO Tim Hammonds told the conference that FMI is working with the Grocery Manufacturers Association (GMA) and other food industry associations to develop a standardized online tool that will facilitate recalls in a more effective and efficient manner. It is expected to be available for industry-wide use in coming months.

## **Wal-Mart To Launch New Small Store Format**

The *Financial Times* reports this morning that Wal-Mart plans to launch a new small-store format called “Marketside,” which will be about 20,000 square feet and “comparable” to the 128 Neighborhood Market format that it has used in a number of markets. However, *FT* postulates that Marketside’s logo - green lettering with a stylized tomato, egg and grape topped by a Wal-Mart blue star – indicates that the store could have a strong fresh foods focus.

The stores appear to be a direct rejoinder to British retailer Tesco, which has been rolling out its own small stores, dubbed Fresh & Easy Neighborhood Markets – in the western US. The first four Marketsides are slated to be opened in Arizona later this year, and some of them will be located less than a mile from new Fresh & easy units. They are all on street corners formerly occupied by drug stores, and will join 12 Supercenters and five Neighborhood Markets currently operating in Arizona.

And, *FT* writes, most significantly the new Marketside format potentially gives the retailer “a way for Wal-Mart to grow into cities and states where its Supercenter expansion has been slowed by union-backed political opposition.”

## **Defining – And Understanding – Customer Loyalty**

Interesting piece yesterday in the *New York Times* about how the airlines – long leaders in the creation of frequent flier loyalty programs – may have misjudged and mismanaged the concept. That’s the feeling of James T. Kane, who in addition to being a frequent airline passenger also happens to be a corporate consultant on customer loyalty.

The quandary in which many airlines find themselves is that as they have emphasized efficiency in search of profitability, they have alienated many of their best customers by eroding the benefits associated with their frequent flier programs. The *Times* writes that the airlines’ “chief brand-builders, those elite-status frequent flier programs, may merely reinforce a customer’s dislike of a company that he or she feels forced, not motivated, to use, Mr. Kane contends.

“We don’t look on those perks as privileges,” Kane tells the paper. “We merely see them as entitlements. To get mine, I had to fly 178,000 miles last year. At the same time, every delay, every missed connection and

overcrowded plane, every bad meal, every time somebody reclined a seat and rammed it into my knees - it doesn't matter if it was caused by circumstances beyond the airline's control or not, I blamed them for all of it."

The big problem is that airlines may be misinterpreting the fact that a lot of passengers keep flying them; they believe that the customers are loyal, but these "best customers" instead feel trapped. They need to fly certain airlines to get some basic amenities, but their trust is consistently abused and neglected...and that only builds hostility, even as they keep flying the airline. In other words, they are not really loyal at all.

The *Times* writes: "True customer loyalty is defined by long-term trust that a company anticipates a customer's needs, Mr. Kane said. 'The airlines keep trying to change your behavior rather than changing theirs,' he said. 'When an airline makes a big mistake, they want to give me more miles. They don't understand: I really don't want to get on your plane under the conditions you're subjecting me to. Give me good service instead'."

## Tests Look To Get Coupons Into Consumers' Hands In New Ways

The *Associated Press* reported over the weekend that Kroger and Procter & Gamble "are partners in a digital coupon trial that began last month. Other supermarket companies around the country have been trying out ways to offer digital discounts in addition to the traditional clip-outs from newspapers and mailings." The system, according to the story, has shoppers loading online discounts onto their store loyalty cards, receiving the credit at the checkout.

"Although online coupons for ordering everything from DVDs to laptops on the Internet have been around for several years, couponing, especially for groceries, is still dominated by paper. Digital use by companies with the combined reach of Cincinnati-based P&G and Kroger could help transform habits."

The story also notes that "Giant Eagle, a Pittsburgh-based regional chain, in November launched 'E-offers,' allowing customers to load coupons for 20-plus products, including national brands such as Minute Maid orange juice and Kellogg's cereal, to their loyalty cards. Giant Eagle spokesman Dan Donovan said it plans to expand paperless coupons as customers become familiar with the program.

## ***Sansolo Speaks: Rhetoric Of Power***

*by Michael Sansolo*

It's hard to imagine a bigger moment of truth than the honesty Safeway's Steve Burd displayed when talking about healthcare reform to the FMI Midwinter audience. Burd was explaining how he started to bring about many of the changes he's championed on health and wellness inside his company.

"They usually do what I want them to do," he said, referring to his direct reports in his company. Then he quickly amended the statement, adding, "Well, they actually always do what I want." Sometimes power matters.

Then again, it should. While Burd's talk was about healthcare reform, it was really about the challenges of leadership. It wasn't enough that Burd has talked about reform, he has lived his words bringing about changes in Safeway policies, Safeway benefits and taking his case to the world of unions and politicians. "There's no issue that's more important than this," he said and then he outlined the steps he's taken demonstrating clearly that his words weren't empty rhetoric. And the challenge he gave to the entire audience to join his coalition of change were aimed at drawing the same level of commitment.

In many ways, Burd's comments and actions followed perfectly on the speech from Dan Sanders of United Supermarkets, the chairman of the conference. Sanders opened the meeting talking about his leadership philosophy leadership in terms that every leader at every level—should consider.

Sanders, who has authored a leadership book called *Built to Serve*, talked about the concept of servant leadership that is popular among many entrepreneurs in the industry. The message is fairly simple: the job of the leader is enabling the power of those reporting to them.

Sanders said he tries to delegate authority not responsibility, giving his people the best possible chance of success. For him and his company to succeed, he said, his store managers must have the power to be merchants, not storekeepers.

It was a powerful message in a day with many such themes. While some speakers outlined key new issues of industry interest from animal cloning to the state of the Middle East, the underlying theme was about how the words of leadership translate into action and change. And how the food industry is so well positioned inside the community to create exactly that level of change throughout society.

The message of turning words into action came again and again. Beyond Burd there was PepsiCo's Indra Nooyi urging a high industry profile on health and wellness. Where Burd sees business reshaping the debate on healthcare, Nooyi sees the same type of high profile on improving the overall state of America's health. Former FMI chair Liz Minyard - the recipient of FMI's Rabb Award for industry service - reminded the crowd that this is a good industry "that must care about customer, employees and issues."

As Sanders said, the burden on today's leaders is to "create the future." Lofty words all around and possibly easily dismissed by skeptics. Yet, as Burd's comments made clear, the CEO's words can and should become action and rhetoric can become a powerful force of change.

When that happens, anything is possible.

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## **The "Holy Grail Of Retail"**

The *Cincinnati Enquirer* reports that the Kroger Co. has "become a leader in the emerging arena of cyber-shopping with a pilot project that uses technology to tie cell phone users – and more importantly their wallets and credit cards – to the chain's millions of shopping carts. Kroger's Mocupay approach, which could link the company's estimated 40,000 check-out lanes to text-message-capable consumers in the year to come, is at least a long look at what is the Holy Grail of retail..."

The story also notes that "Kroger does not yet have a hand-held system for shoppers to buy and bag goods as they move through the company's 2,500 grocery stores, but it may not be long before it has no choice but to embrace shopper technology.

"Motorola announced today that will bring its \$900 consumer scanners to 90 Stop and Shop Supermarkets following a successful pilot program in Pittsburgh. Stop and Shop has stores in Connecticut, Massachusetts, Rhode Island, New York, New Hampshire and New Jersey. The device, named an MC-17, offers a color display, allows customers to scan groceries, bag groceries and go to a self-service area to pay the bill without having to remove groceries from the cart to let a clerk process the buy and then bag and return the items to the cart."

## Hy-Vee Launches Generic Drug Program

The *Des Moines Register* reports that "Hy-Vee Inc. plans to offer many generic drugs for \$4 per month," a program that "will cover 30-day supplies of 400 medications. Officials said the list will include antibiotics and drugs that treat ailments such as allergies, asthma, arthritis, diabetes, cholesterol and digestive issues. The program is similar to ones launched last year by Wal-Mart and Target.

## New Smart Shopping Cart Test Planned

The *Wall Street Journal* this morning reports that Microsoft has spent four years working with MediaCart Holdings "on a grocery cart-mounted console that helps shoppers find products in the store, then scan and pay for their items without waiting in the checkout line. Microsoft's acquisition of online advertising company aQuantive last year for \$6 billion shored up the company's capacity to serve video ads onto these grocery cart screens.

"Starting in the second half of 2008, the companies plan to test MediaCart in Wakefern Food Corp.'s ShopRite supermarkets on the East Coast. Customers with a ShopRite loyalty card will be able to log into a Web site at home and type in their grocery lists; when they get to the store and swipe their card on the MediaCart console, the list will appear. As shoppers scan their items and place them in their cart, the console gives a running price tally and checks items off the shopping list.

"The system also uses radio-frequency identification to sense where the shopper's cart is in the store. The RFID data can help ShopRite and food makers understand shopping patterns, and the technology can also be used to send certain advertisements to people at certain points," as well as "help advertisers reach potential consumers based on past grocery purchases, which are logged when they swipe their loyalty cards."

## FastNewsBeat

- The *Dallas Morning News* reports that "Kroger Co. plans to bring its larger Marketplace stores – which sell furniture, electronics, linens, dishes and other general merchandise in addition to groceries – to North Texas." Kroger currently operates about 30 of the units, under several banners.
- Local press reports say that Hannaford Bros. is acquiring Mister Market, a single store operator in Winthrop, Maine, that the company has been supplying. Terms of the deal were not disclosed. Hannaford is expected to raze the store – pending planning approvals – and build a new one to serve the community.

## The MNB Wal-Mart Watch

- *Information Week* reports that Wal-Mart has said that it will charge \$2 per pallet for each pallet delivered to a Texas warehouse that does not carry a radio frequency identification (RFID) tag. The warehouse is one of 22 that Wal-Mart uses to supply its Sam's Club stores; Wal-Mart also has informed manufacturers that all pallets coming in to all the warehouses will have to be tagged within three years.

According to the *Information Week* story, "The charge going into affect this month is to cover Sam's Club's cost to affix tags on each pallet, said a Wal-Mart spokesman, since the retailer needs to have every pallet tagged to meet inventory efficiency goals ... Wal-Mart seems focused on turning its 700-store Sam's Club division into an example of RFID supply-chain technology in action, down to the item level, by 2010. It makes sense: Sam's Club has far fewer suppliers than Wal-Mart stores, and customers buy products by the case, the pallet, or individual packages that are larger (like a 48-count box of granola bars) than what's typically sold in retail stores. That makes the cost of RFID tags, at about 20 cents a piece, more digestible for Sam's Club suppliers. The division contributed \$41.5 billion to Wal-Mart's \$344.9 billion in revenues for its 2007 fiscal year."

- In Arkansas, the *Morning News* has an interesting follow-up to the story about how Wal-Mart has decided to cut back on its once-weekly Saturday managers meeting - part entertainment and part hard-core business reviews - that dates back to the Sam Walton era. The frequency previously had been cut back to twice a month, in part because there were too many managers to fit into one meeting, and now it will be once a month, and managers "will gather down the road at Bentonville High School where a larger auditorium can house the growing crowd of department managers required to attend."

Not everybody thinks this is a bad idea, and there is considerable sentiment that Wal-Mart has outgrown the weekly meeting.

However, the *Morning News* did an interview with Michael Bergdahl, who has written about Wal-Mart, and he said: "I believe if you want to understand Wal-Mart, the Saturday morning meeting is the culture personified. It's really larger than life. The Saturday morning meeting equals competitive advantage ... I think the Sam Walton recipe for that culture is something nobody should mess with, and (Lee Scott, chief executive officer) messed with it, and it's done and changed forever."

### **Executive Suite**

- The Kroger Co. announced yesterday that David Brislin, its vice president of human resources at Kroger's corporate headquarters in Cincinnati, has been named vice president of operations.

And, Kroger said, Joe Fey, vice president of merchandising for its Dillon Division in Kansas, has been named vice president of merchandising.

- BJ's Wholesale Club announced that it has named Laura Sen, the company's executive vice president of merchandising and logistics, has been elevated to the post of president/COO.
- Wal-Mart has appointed Vicente Trius to be Executive Vice President, President and CEO of Wal-Mart Asia, International. Trius has been serving as president/CEO of Wal-Mart Brazil.
- Trius will be succeeded in Brazil by Hector Nunez, who previously was serving as executive vice president/COO.
- Dollar General announced that Richard W. Dreiling has been appointed CEO of the company. Dreiling previously was chairman/president/CEO of Duane Reade, and also was a senior executive at Safeway and Longs Drug Stores.