

- Retail Industry News from IRI for Week Ending 2/1/08-

Below is the list of articles you will find for the week ending 2/1/08 edition of Retail Industry News.

- ▶ **Wal-Mart To Challenge Amazon's Online Strategy**
- ▶ **Ad Review: Roundy's Uses New Campaign To Promote Private Label**
- ▶ **Costco Introduces Private Label Beer Brand**
- ▶ **MNB's Tales Of Tesco**
- ▶ **Sansolo Speaks: Facebook, Dick Clark, & You**
- ▶ **Cities Addressing "Grocery Gaps" In Low-Income Neighborhoods**
- ▶ **FastNewsBeat**
- ▶ **The MNB Wal-Mart Watch**
- ▶ **The Balance Sheet**
- ▶ **Executive Suite**



Thanks to MNB
for this selection of
articles.

Wal-Mart To Challenge Amazon's Online Strategy

The *Financial Times* this morning that Wal-Mart is endeavoring to "emulate" Amazon.com's online supremacy with "an international e-commerce initiative aimed at securing billions of dollars of additional sales in countries including China, Japan and Brazil ... A new global unit at Wal-Mart's international division will oversee the creation of an -e-commerce platform that could sell groceries, general merchandise and digital products while linking its stores with call -centres."

According to *FT*, Wal-Mart already generates \$2 billion a year in online sales in the US, and also has strong e-commerce operations in the UK and Mexico. The *Times* of London reports this morning that Wal-Mart's Asda Group in the UK plans to expand its Internet operations by putting more than 750,000 nonfood products for sale online, hoping to generate \$1.99 billion (US) in sales by 2011.

But the new initiative is aimed at generating new sales at a time when Wal-Mart's US operations have been experiencing slower growth.

"The retailer is now recruiting software architects and engineers to build what it calls a 'globally scaleble' system that would essentially act as a kit of online parts – with elements such as data mining and customer analysis - that could be readily deployed in different markets," *FT* writes. "Tesco, the UK retailer, has taken a similar approach in the international expansion of its physical stores, using a set of software applications nicknamed 'Tesco in a box' that are adapted to different locations."

And, *FT* notes, Wal-Mart's "move reflects growing interest among US retailers in the international possibilities of e-commerce, after an initial focus on expanding the US market. Online now accounts for about 13 per cent of total US retail sales excluding cars and groceries, according to Forrester Research."

Ad Review: Roundy's Uses New Campaign To Promote Private Label

Too often, television commercials for supermarket chains feature either pretty pictures and/or hot prices, but don't take advantage of the opportunity to carve out a specific and unique image for the company, its people, and its products.

But Roundy's delightful new commercial campaign, launched this week on television, radio and in print, uses its chairman, Bob Mariano, to create a distinct persona for the company and its own-label products.

In the ads, Mariano is cast as "Chairman Bob," who travels to orange groves, potato chip factories and ice cream freezers to test and give his imprimatur to specific private label products. He's accompanied by actors playing corporate toadies, attending to his every need as he relentlessly searches out the best products to sell in the company's Pick 'n Save, Cops and Rainbow food stores. The music is great, the commercials are well-directed, and Mariano is absolutely terrific with tongue firmly in cheek as he parodies the image of the demanding CEO.

Even better, all the commercials can be seen online at www.meetchairmanbob.com, as well as interviews with Mariano as he talks about the campaign, and some pretty funny "outtakes." (There is one hysterical "interview" with one of the corporate toadies who says she is in charge of food safety, and who grazes a cafeteria snack table, taking a nibble of cookies and crackers and then putting them back on the plates. Not sure if consumers will find it as funny as I did, but it is refreshing to see a campaign in which the company doesn't take itself too seriously.)

Kudos to Roundy's for commissioning this new campaign, and for simultaneously taking private label very seriously while being willing to poke fun at itself.

Costco Introduces Private Label Beer Brand

Advertising Age reports that Costco is preparing to roll out a line of private label beers.

According to the story, "The retailer has filed label applications with the federal Tax and Trade Bureau for a Kirkland Signature Hefeweizen, amber ale and pale ale. The beers will be brewed by San Francisco-area craft brewer Gordon Biersch, which also brews private-label beers for the Trader Joe's supermarket chain."

Costco has been selling private label wines in states that allow wine sales for some time.

And, *Ad Age* notes, "Big-box stores such as Costco have been a lucrative source of case sales for brewers and any additional competition in the channel will not be appreciated at a time when those brewers are struggling to increase sales."

MNB's Tales Of Tesco

- The *San Francisco Business Times* reports that Tesco's US Fresh & Easy Neighborhood Market operation has identified 18 Northern California locations where it will open stores, stretching "from San Francisco to Walnut Creek and from San Jose to Napa. Three will open in Oakland and two in San Francisco.

"Tesco, the third-largest retailer in the world, began peppering Southern California, Arizona and Las Vegas with these stores just 12 weeks ago, and 37 are already open with hundreds more locations announced."

Sansolo Speaks: Facebook, Dick Clark, & You

by Michael Sansolo

There is a world all around us that, depending on our ages, we simply do not know. Its impact on our employees, our shoppers and our families is incredible. And despite what we think, we simply don't understand it at all.

Given that you are reading this column on the Internet, you probably think you understand cyberspace. I thought I did and I was wrong. I came to this reality last week while watching the PBS show *Frontline* on kids growing up in the Internet age. As *Frontline* explained, the generation gap that exists around the Internet is every bit as large as the gap that once separated boomers and their parents over rock and roll.

Check out:

<http://www.pbs.org/wqbh/pages/frontline/kidsonline>

Let me offer some examples:

Frontline interviewed a teen-age girl who found support and guidance on how to be anorexic on line. Anorexia is referred to as "Ana," a goddess who helps young girls avoid the nightmare of *weighing more than 100 pounds*. (I wish I were kidding.)

There were high school girls who engaged in a fierce argument on line that finally erupted into a full-scale brawl in their school. School administrators were caught by surprise because there were no visible signs of hostility until the fight occurred. Another teen explained how easily he subverted the "parental control" feature on his computer.

Even as the *Frontline* episode aired, the power of this new world was grabbing headlines in Fairfax, Virginia. Upset that school wasn't cancelled when it snowed one recent day, a student used the on-line white pages to leave a complaint on the home phone of a school administrator. The administrator's wife replied with an angry voice mail to the student's cell phone. That was a mistake.

The student uploaded the message to Facebook and YouTube. From there, it was a small jump to celebrity on the front page of the *Washington Post* and the *Today* show.

It won't be the last time.

As *Frontline* explained, the realm of the Internet has grown beyond the scope imagined by most people of a certain age, probably somewhere around 25. (The dividing age may be even younger. A 20-something *Frontline* reporter found herself stymied repeatedly by the way teens were communicating. E-mail is now seen as too slow. Text messages and Facebook were the only way she could get through.)

It was a message Martin Lindstrom gave the FMI Midwinter audience a week earlier on the changing face of media and connection today. We're in a new world, an unseen world and, sadly, a world that is hard to understand. The world of Facebook, texting, Xanga, YouTube, AIM, etc...is here and it's not going away. It's reshaping communication in good and bad ways for Generation Y, a population larger than the baby boom itself.

The same effortless communication that set off a firestorm about a snowstorm in Virginia will some day be unleashed against your stores or your products. The same inability to communicate without texting may someday impact your methods of reaching employees. The same need to turn high school classes into multi-tasking, web-based lessons may be the coming face of training.

I like to believe there is always a solution. I think we can learn, we can grow and we can change.

Sure, this generation gap may be as large as the chasm caused by rock and roll, and that should get our attention. I keep flashing back to those days when I tried to get my parents to understand that the Rolling Stones made music, not noise. I never did win that argument, though one of their contemporaries, Dick Clark, certainly seemed to figure it out. As I recall, he created a pretty good business opportunity out of it.

Now we face something just as perplexing with our children who, let's remember, are soon to be our customers and our employees. That's our challenge and our opportunity. Think of the advantage that will accrue to companies who learn to master this new world of communication, who learn how to harness these links instead of running in fear of them.

Our world is going to be rocked! So, let's roll.

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Cities Addressing “Grocery Gaps” In Low-Income Neighborhoods

Interesting piece in *USA Today* about how “large cities such as Philadelphia, New Orleans and Chicago, as well as smaller ones such as Louisville and Troy, N.Y., are studying and trying to address the issue of grocery gaps - the lack of full-service supermarkets in lower-income neighborhoods. Such a lack, experts say, usually means that residents (who may not have cars) often don't have fresh fruits and vegetables available to them, do have ready access to fast food and convenience stores, and therefore tend to have poor eating habits. These poor eating habits can then translate into lifelong health and wellness issues that affect them as well as their employers and the health care system in general.

Among the approaches being taken, according to the paper:

- “Louisville established a food-security task force of members of the Louisville Metro Health Department, food-justice advocacy groups and the city's development staff. Its mission is to look for ways to close the gap with strategies including farmers markets, incentives for small stores to carry fresh produce and increased education about nutrition.”
- In Philadelphia, the “statewide Fresh Food Financing Initiative has pumped nearly \$22 million in grants and loans into 27 projects over the past four years, including new supermarkets in poor urban areas and refrigerators for corner stores to carry more fresh fruits and vegetables...”
- In New Orleans, “a coalition is working to expand markets in poor areas such as the Lower 9th Ward after Hurricane Katrina reduced markets citywide from 36 to 15, said Dee Bowling at the Prevention Research Center at Tulane University.
- And, in Troy, “a mobile market funded by a \$500,000 state health department grant began last April. It delivers food ranging from herbs to fruits and vegetables to residents who lack nearby supermarkets, according to the Capital District Gardens, which runs the program.”

FastNewsBeat

- *Business First of Buffalo* reports that western New York's Tops Markets, recently sold to Morgan Stanley Private Equity, has decided to convert its four Martins Super Food Stores back to the Tops banner. The move follows through on a pledge made by CEO Frank Curci when he took the top job at Tops late last year.
- The *Flint Journal* reports that Kroger will begin selling E85 fuel today. E85 is described by the *Journal* as “an alternative fuel that is a blend of 85 percent ethanol, which is made most often from corn, and 15 percent gasoline - currently sells for about \$2.55 per gallon, about 30-40 cents a gallon cheaper than regular unleaded fuel.” However, E85 can only be used in flex-fuel vehicles.
- Associated Wholesale Grocers reportedly will acquire four Dillon stores, in Kansas and Missouri, from Kroger. The deal is expectedly to close next month.

At the same time, there are published reports that Dillon may acquire five Homeland stores owned by AWG in Wichita, Kansas.

- The *Seattle Times* reports that Costco has lost a legal battle over the role of liquor distributors in Washington State, as the 9th U.S. Circuit Court of Appeals has ruled that the state's liquor board “can ban distributors from

offering high-volume discounts and variations in prices to different retailers. It also upheld rules requiring distributors to make deliveries to each store rather than a retailer's central warehouse."

Costco previously had won a legal fight to overturn the state's rules, but the appeals court overturned that ruling. The retailer still has the option to appeal the new ruling with either the 9th U.S. Circuit or the US Supreme Court.

- The *Boston Business Journal* reports that Hannaford Supermarkets and Whole Foods Markets "are founding partners of the U.S. Environmental Protection Agency's GreenChill Partnership, a program that promotes strategies that reduce refrigerant usage harmful to the environment as well as reduce greenhouse gasses and save money.

"As a part of the group, Hannaford and Whole Foods will inventory its current refrigeration emissions and use only ozone-friendly and advanced refrigeration technologies in all new and remodeled stores."

The MNB Wal-Mart Watch

- In the UK, Wal-Mart's Asda Group has instituted a new marketing program called "Green Rollbacks," in which it has committed that its efforts to reduce packaging sizes and energy costs will directly result in lowered costs for consumers.

"Asda believes that going green should reduce the cost of living not increase it, and so every penny of the £10 million saved as a result of this programme will be passed back to our customers," says Asda CEO Andy Bond. "Our in-house packaging team will review every product in Asda's range, tracking by line the amount and type of packaging used across our entire range. Products that have had packaging reduced will be entitled to a Green Rollback which will ultimately lower the cost of living for our customers."

- Wal-Mart announced yesterday that it is lowering prices on thousands of items by between 10 and 30 percent, as well as offering no interest payments for 18 months on purchases of \$250 or more made on its Wal-Mart credit card.

The company framed the price cuts as being its own "economic stimulus package," coming even as the federal government negotiates and debates a federal approach to the worsening economy.

"We all know economic times are tough so our plan is to help with added savings throughout the year, focusing especially on what people want, when they need it," said John Fleming, Wal-Mart's chief merchandising officer, in a prepared statement. "Shoppers are depending on us to deliver the best price so they can stick to their plans, no matter what the economy throws at us. We won't let them down."

The price cuts cover food and nonfood products.

- The *New York Times* this morning reports that "in a major revamping of its sluggish clothing business, Wal-Mart Stores will shut two divisions at its headquarters in Arkansas, eliminate dozens of positions and move dozens more to New York City.

"This will be the first time in years that Wal-Mart, a company renowned for growth, has laid off a significant number of workers at its headquarters.

"The overhaul, which has not been made public, is intended to revive one of the weakest departments in Wal-Mart's 5,000 stores: men's, women's and children's apparel, a \$30 billion business for the retailer."

The move is seen as a complete reversal of the company's previously announced strategy, which was keyed to more upscale brands and collections. Instead, Wal-Mart is now embracing basic items like t-shirts, with a more overt focus on value.

The Balance Sheet

- Harris Teeter reported that its first quarter sales increased by 12.6 percent to \$896.6 million, compared to sales of \$796.3 million in the first quarter of fiscal 2007. Operating profit at Harris Teeter increased by 24.8 percent to \$44.2 million in the first quarter of fiscal 2008 as compared to \$35.4 million in the first quarter of fiscal 2007.
- CVS Caremark Corp. reported that its Q4 sales were up 82 percent to \$21.94 billion from \$12.07 billion a year prior.
- Ingles Markets said that its first quarter profit rose 14 percent to \$12.7 million, from \$11.2 million during the same period a year ago. Revenue rose 13 percent to \$777.1 million from \$685.7 million.
- Amazon.com announced that its fourth quarter net income rose to \$207 million, or 48, up from \$98 million a year earlier. Net sales grew to \$5.67 billion from \$3.99 billion a year earlier.

For fiscal 2007, the online retailer reported net income of \$476 million, compared to \$190 million in 2006. Sales rose to \$14.84 billion for the year, up from \$10.7 billion in 2006.

Executive Suite

- Natural foods retailer Earth Fare has hired Jack Murphy, a co-founder of Fresh Fields, to be its new CEO/president. The move comes after the resignation last week of Earth fare CEO Michael Cianciarulo.
- Gristedes Foods announced yesterday that Renee Flores has been appointed chief of the chain's Security / Asset Protection Department.

Flores most recently was director of loss prevention at Gap Inc. / Old Navy stores. Prior to that, she was director of asset protection for the Food Emporium chain of supermarkets.