

- Retail Industry News from IRI for Week Ending 2/22/08-

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Thanks to MNB
for this selection of
articles.

Tesco's Fresh & Easy Reaches 50 Units: Are Magic Numbers Ahead?

Tesco announced that it opened its 50th Fresh & Easy Neighborhood Market in the US this week, a rollout that began last November with the company's first American store in Hemet, California.

"Opening our 50th Fresh & Easy is an important milestone for us," said Fresh & Easy CEO Tim Mason. "We are very encouraged by the response from our customers and new neighbors. We are excited to continue bringing fresh, wholesome food at affordable prices to all types of neighborhoods."

In addition to Southern California, Tesco also has been opening the small-format (10,000-15,000 square foot) stores in Arizona and Nevada; it is slated to start opening stores in Northern California later this year or early in 2009.

Costco Creates New Rx Savings Program

KING-TV News in Seattle reports that "Costco has teamed with a dozen pharmaceutical companies that manufacture some 7,000 drugs, pitting them against each other to provide the lowest price for Costco customers," especially the some 47 million Americans without health insurance. "If you take a prescription to Costco, the pharmacist searches those 7,000 drugs to find one that has the same effects but costs less."

According to the story, "Costco charges the uninsured \$50 a year to take part in the plan. Since the quiet rollout last July, the company has already seen 30,000 to 40,000 people enroll, giving Costco an important head start in a lucrative segment of the market that has been widely ignored."

KING-TV also reports on how Costco's program rate against other retailers, and the station compared Costco's prices for five popular drugs - Diovan, Lunesta, Prevacid, Furosemide and Fluoxetine to four other pharmacies. "In every case, Costco was cheaper by hundreds of dollars - nearly a \$500 difference between Costco and the most expensive retailer, Rite Aid."

The Medical & Business Case For In-Store Health Clinics

Salon.com has a fascinating piece written by a doctor, Rahul K. Parikh, M.D., in which he notes that most physicians seem to be opposed to the in-store medical clinics that have become popular in retailers across America: "Their basic argument is that retail clinics run counter to the concept of 'a medical home,' a place where patients receive care for any and all of their problems. They worry that patients will have no sensible place to follow up their test results, and that putting a clinic in a mall or a Wal-Mart could expose shoppers to people with a contagious illness.

"The medical community needs a second opinion. Retail clinics are good for American healthcare. By giving doctors a run for their money, they force us to do something we don't do well: innovate. At their best, retail clinics can make doctors look like smart entrepreneurs instead of a self-interest group futilely trying to protect archaic ways of doing business."

Essentially, Parikh makes the following points:

- Traditional medical practices "must measure success in terms of access, quality and cost," but don't fare well in any of these areas. Access is a problem simply because most practices can't or won't offer round-the-clock service or even extended hours. . "Costs keep rising and being shifted to consumers in the form of higher premiums, deductibles and co-pays," he writes. And despite all the chest-beating about the superiority of the US health care system, there clearly are problems.

"Despite having the brightest medical minds and therapies, basic medical quality in America remains poor," Parikh writes. "According to a 2004 report by the Government Accountability Office about Medicare preventive services, 30 percent of people over age 65 did not receive a flu vaccine and 37 percent had never had a pneumonia vaccine. Another example: In 2000, Medicare estimated that 6.6 million beneficiaries were never told by their doctor that they had high blood pressure."

- "On the other hand," Parikh writes, "retail clinics are thriving. They provide excellent access. After all, what's more convenient than showing up any day, night or weekend to have your sore throat checked? No telephone time spent on hold trying to make an appointment, no shuffling your personal schedule to get there.

"Then there's cost. Retail clinics operate on a fee-for-service basis and don't accept insurance. Most charge a maximum of \$50, which is significantly cheaper than the \$100 plus your insurance company (or you, if you carry an increasingly popular high deductible insurance plan) will pay when see your doctor for the same concern. That relative savings makes retail clinics a great place to go if you're uninsured and have a minor medical problem. This desire to pay out of pocket is a not-so-subtle sign that consumers are asserting their purchasing power in the health sector, just as they would with other goods and services."

The quality of care, Parikh suggests, may actually improve because of health clinics: "Retail clinics don't do everything. Literally, a customer has to choose what he or she wants from a menu of choices posted on a marquee. Choices are limited to simple, easy-to-handle medical problems like sore throats, allergies and cold sores or a request for routine flu or pneumonia vaccinations. No acute medical problems, like injuries or asthma, are addressed. All decisions are made using very strict decision trees, leaving no room to treat issues beyond or outside of them."

In addition, given the state of technology today, it isn't hard for these clinics to communicate with family doctors and medical practitioners ... and, in fact, electronic medical records systems are making this easier all the time.

"Most important, by relegating minor complaints to the walk-in clinic, a doctor can be a doctor," Parikh writes. "Many of us didn't get into this job to become 'diaper-rash doctors,' the kind who pack their day seeing patients with minor complaints to pay the bills. Yet after years of training and preparation, too many of us become just that. We simultaneously complain that we don't have the time to address the challenges that come with complex, chronic health issues, like obesity or childhood asthma. Adopting the retail model in-house could change the way we spend our time, allowing us to get back to practicing challenging and more satisfying medicine."

Better-For-You Food Increasingly Found In College Cafeterias

Advertising Age reports that "college students, increasingly concerned about the source and quality of food they're eating, are demanding that schools purchase regional produce. That's forced major food-service companies to scramble for grass-roots alternatives -- and allowed some nimble regional rivals with good local connections to elbow their way into the \$5 billion on-campus-dining market."

However, as *Ad Age* writes, there has been an adjustment period. "The catch ... is while students are demanding organic and local fare, they aren't always sure what that means -- or how it tastes." Which means that the cafeteria operators are having to educate their staffs and the students about why organic milk tastes different from traditional milk, for example, or why free range meats can sometimes be gamier than the usual kind.

Sansolo Speaks: Number One

by Michael Sansolo

One of my favorite quotes of all times comes from a Star Trek episode, in which Captain Jean-Luc Picard reminds us that "things are only impossible until they're not." It's a great way of reminding us that the unexpected somehow always has a chance and I believe it.

But even I'm on overload this week. First, I'm a fan of the New York Giants, who you might have heard won the Super Bowl this year. Now Giants fans have an unusual form of fatalism born of history. We were the team that once had a lead, with the ball and four seconds left on the clock. And we lost. So when the Giants won, I went into shock.

Then something bigger happened. A beagle won the Westminster Dog Show in New York.

Here again, I'm not an idle observer. I own a beagle, or rather I should say, a beagle owns me. While Uno the beagle was delighting the crowds in New York Hunter (my beagle) was disproving the old adage that you can't teach an old dog new tricks. On his own he learned to unroll a full roll of toilet paper and start consuming it.

Hunter is talented that way. We rescued him from the pound 11 years ago and he rewarded us by running away that night. Since then, he had made a daily ritual of walking the fence that now surrounds our house. Despite his pampered lifestyle he needs to check daily to see if there is any way he can escape. He's too old to run far, but he likes to know the possibility is always there.

Now, each week I try to figure out someway of working interesting news stories into object lessons for this column and Uno the beagle just seemed tailor-made for a discussion about management.

After all, here is a dog breed that, while beloved, has a weak record of achievement. Uno was not just the first beagle to ever win best in show; he was the first beagle to even win the hound division in nearly 70 years. Cute as they are, beagles have their issues.

But the difference between Uno and Hunter probably has more to do with how they were *managed* than anything else. I'm betting that Uno's owner is probably a whole lot better than me at training a dog. We have to remember that with our employees too. Their performance comes down to how we treat them, working their strengths and weaknesses and understanding that greatness lies in all of them. That is, if we bring it out. (See, I told you I'd find a business connection.)

So I reflect on Uno and Hunter, knowing that had I been a better dog owner, maybe my beagle would have achieved greatness. Or at least, he might have been able to eat toilet paper without leaving so much mess. Once again, things aren't always impossible.

Or maybe they are... Over the past couple of weeks I wrote about the need for debate and not charging to extreme positions at the drop of a hat. It's pretty obvious to say the change won't come from Washington.

There are many divisive issues in the Capitol and some of the differences are actually important. However, how is it possible that the discussion of Roger Clemens' alleged use of performance enhancing drugs broke down on party lines? And wasn't there something more important for Congress to do last week? Like look for the videotapes the New England Patriots took of other team's football practices? Surely, Uno's win in the dog show merits some scrutiny of some kind.

Repeat after me, "things are only impossible..."

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Study: Consumer Confidence Continues To Wane

The University of Michigan's American Customer Satisfaction Index (ACSI) is out this morning, and says that "customer satisfaction with the goods and services that Americans buy declined in the fourth quarter of 2007 ... The index falls to 74.9 on the ACSI's 100-point scale, down 0.4 percent to its lowest score of 2007."

According to the report, "Consumer spending growth slowed in the fourth quarter as predicted by the third quarter drop in ACSI. A second consecutive drop in customer satisfaction, combined with increasing unemployment, plummeting house prices, tighter credit, high levels of household debt, and inflating fuel and food prices, is likely to pose even more challenges this quarter for consumer spending growth."

However, the news is good for some in the supermarket industry: "Supermarkets are up 1.3 percent to 76, the highest level in 14 years, despite the recent rise in food prices. Publix continues to lead the category with a score of 83. According to their customers, Publix, like Nordstrom, offers high quality products and superior customer service, which has been the foundation for the lead in customer satisfaction over the past 14 years. Winn Dixie plunges 7 percent to tie Wal-Mart's supermarket business at the bottom of the industry at 71. Whole Foods Market makes its ACSI debut with a score of 73, leading in quality but at the bottom for value."

Excerpts from the report:

- "Customer satisfaction with the retail sector, which includes department and discount stores, specialty retail stores, supermarkets, gas stations, and health and personal care stores, slips 0.3 percent to 74.2 on ACSI's 100-point scale."
- "Nordstrom succeeds where Wal-Mart hasn't. Nordstrom is reintroduced to ACSI after increasing its market share, and it leads the department and discount store industry with a score of 80 as a result of high quality merchandise and superior customer service."

- “Discount store giant, Wal-Mart, takes a sharp turn south, plummeting 6 percent to its all-time low of 68, well below the industry average. Competing on price is no longer enough to offset lagging quality. Wal-Mart also scores lowest in the industry for customer service.”
- “Deep discount store Dollar General makes its ACSI debut with a strong score of 78, providing customers with a wide variety of merchandise in a reasonably small store space at super discount prices.”
- “The e-commerce sector rises 2.0 percent to a new high of 81.6. In the highly competitive e-retail category, Amazon.com leads with a score of 88, one of the highest regardless of industry. Amazon.com has been successful at keeping pace with increasing customer expectations and improving the customer experience accordingly. Newegg, Netflix, and Overstock make their first appearance in the e-retail category this year. Newegg (87) and Netflix (84) debut just behind Amazon, while Overstock’s first appearance is at the bottom of the industry with a score of 80.”

Central Market Promotes “Innovative” Bag Policies

The *Austin American Statesman* reports that HEB’s Central Market has responded to Whole Foods’ plan to stop using plastic bags as of April 22 “by promoting its own efforts to sell reusable bags and recycle plastic bags.

“A Central Market press release details the ‘variety of innovative bags’ that the company has to offer. They include: reusable bags, plastic bags that can be recycled, paper bags made of 40 percent post-consumer and 60 percent post-industrial waste.”

According to the paper, “Central Market is feeling the pressure to tout its own environmentally-friendly practices after Whole Foods’ move last month got so much buzz. Whole Foods banned plastic bags in all of its stores in the United States, Canada, and Great Britain. After April 22, Whole Foods will only offer paper bags and reusable bags.”

FastNewsBeat

- In Pennsylvania, the *Morning Call* reports that a King’s Supermarket in Dorneyville, Pennsylvania, that is owned by Weis Markets is testing an e-commerce service that is being managed on the technology side by MyWebGrocer.

Dennis Curtin, a Weis Markets spokesman, tells the paper, “We’re test-marketing the program at this single location to see if customers want it and if we can do it profitably. If results are positive, we’ll make it available at more stores.”

- There is a report from *Agence France Presse* this morning saying that Wal-Mart and Carrefour “are battling it out for market share in China with aggressive expansion plans aimed at opening ever more stores. Last year the heavyweight retailers broke their own records, with the French giant opening 23 new hypermarkets in China and US-based Wal-Mart cutting the ribbon at nearly 30.

The story notes that the two companies are opening stores in both major cities and secondary markets, and continue to face significant competition from local retailers that remain “extremely powerful.”

- Harris Teeter announced yesterday that it will embark on a new animal welfare program, which will include giving purchasing preference to suppliers that use or switch to controlled atmosphere systems, that phase out “gestation crates” that confine pregnant pigs, and introducing a new line of private label cage-free eggs.

- The *St Louis Post Dispatch* reports that Schnucks Markets plans to open a new downtown store in St. Louis late this year or in early 2009, a “20,800 square foot space (that) will contain a full service store that will include a pharmacy, fresh and specialty foods including natural and organics.

"There also will be a floral shop, Kaldi's Coffee bar, meat and seafood departments and prepared foods stations including a salad bar, Asian hot-food bar, barbecue bar, pizza station and made-to-order sandwiches. There will be an overhead 6,303 square foot mezzanine holding a wine department with a tapas tasting area and seating space."

- Roundy's Supermarkets is suing Nash Finch, saying that the wholesaler owes it \$7.9 million. According to news reports, the suit is related to a 2005 agreement that had Nash Finch buying two warehouse facilities, and a "purchase price adjustment" of \$7.9 million that Roundy's says it is owed.

At the same time, Nash Finch reportedly is countersuing Roundy's for \$18 million, charging the company with breach of contract and misrepresentation.

The MNB Wal-Mart Watch

- Forbes reports that yesterday's announcement by Wal-Mart's Asda Group of a store expansion program that will result in the hiring of more than 9,000 people is just the latest but of jousting between Wal-Mart and its arch-rival, Tesco.

"The timing of these plans - which Asda describes as its 'biggest jobs program this decade' - may seem rather odd, given the outlook for the market," Forbes writes. "Though the British economy isn't expected to take as much of a hit from the subprime crisis as the U.S., growth is expected to slow, as the latest data on consumer spending and house prices reveals. But strategically it's a stroke of genius, catching its larger British competitor, Tesco, at a time of vulnerability. While Tesco dismayed investors with sales figures that were far short of expectations and revealed its vulnerability on its home territory last month, Wal-Mart reported health earnings for the fourth-quarter of 2007, despite difficult trading conditions."

- The Northwest Arkansas Morning News reports that Wal-Mart is disputing the study released earlier this week that questioned the retailer's ability to satisfy customers.

In that study, the University of Michigan's American Customer Satisfaction Index (ACSI), Wal-Mart was described as having dropped to "the bottom of the industry" in terms of shopper satisfaction. However, the Morning News writes that Wal-Mart says that "its survey of 2 million customers each quarter shows customers are increasingly satisfied with their store experience."

The Balance Sheet

- Safeway reported fourth quarter net income OF \$301.1 million, down 2.2 percent from year-earlier net income of \$307.9 million. Q4 sales rose 6.8 percent to \$13.4 billion, better than analysts' average estimate of \$13.03 billion.

In a conference call with analysts, Safeway CEO Steve Burd said, "We are clearly observing a cautious consumer ... I think some of that caution stems from the fact that they are a little concerned about the economy. Everybody is forecasting some kind of recession."

Meanwhile, the *Chicago Sun-Times* reports that "Dominick's, the Chicago area grocery chain, long rumored to be for sale by its owner Safeway, could instead be part of a private-equity buyout of the entire Safeway chain, one analyst speculated Thursday in a report to investors.

"Sean Egan, managing director at Egan-Jones Ratings Co., said a private-equity firm such as Kohlberg Kravis Roberts & Co., Thomas H. Lee Partners or Chicago's own Madison Dearborn Partners would be the likely buyers of Safeway."

- Whole Foods announced that its Q1 net profit dropped 27 percent from \$53.8 million to \$39.1 million, which the company attributed to costs related to its acquisition of Wild Oats. Q1 sales reached \$2.46 billion, up 32 percent from a year ago, on same-store sales that were up seven percent.

- Winn-Dixie announced that for the second quarter, its earnings were \$4.1 million...an enormous drop from the year-ago Q2 earnings of \$286.8 million. However, the company noted that last year's numbers were skewed by non-cash gains stemming from the company's financial restructuring.

Adjusted second-quarter earnings totaled \$21.6 million, up from \$500,000 a year ago, the company said. Net sales for the quarter rose to \$2.25 billion from \$2.23 billion a year ago, with same-store sales up 0.5 percent.

Executive Suite

- Golub Corporation/Price Chopper Supermarkets announced that Donna Almeda has been hired to be the company's new Director of Floral Merchandising, reporting directly to Jon Strom, Vice President of Floral and Lifestyle Merchandising.

Donna comes to Price Chopper with many years of experience in floral merchandising and worked for Acme Markets as a buyer, was the sales manager for Garden State Growers and most recently as Floral Director for Pathmark.

- Price Chopper Supermarkets yesterday announced that Jerry Golub, the company's senior vice president of sales and merchandising, has been named executive vice president and COO.

Joseph Kelly, previously vice president of merchandising, has been named vice president, sales and merchandising.

- Weis Markets announced yesterday that it has hired David J. Hepfinger to be its new president and chief operating officer, succeeding Norman S. Rich, who remains as the company's CEO. Hepfinger is a veteran of Price Chopper Supermarkets, where he most recently was senior vice president of retailing and administration.