

- Retail Industry News from IRI for Week Ending 3/21/08-

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Thanks to MNB
for this selection of
articles.

Internet Relevance In A Recessionary Economy

Forbes has a story in which it looks at the “central role” that the Internet may play during the current recession.

“The Internet was around during the shallow recession of 2001, and almost 50% of Americans were using it,” *Forbes* writes. “But it was not yet embedded in our way of life, largely because broadband penetration was, at the time, only about 20%. Today, more than 70% of the population is online, with more than 80% of these Internet users having high-speed access.

“The Internet has empowered consumers as never before, providing previously unknown and unimagined opportunities to make informed decisions with detailed information, product ratings, expert and user-generated reviews and price comparisons on anything from computers to coffee beans to cat food.

“In good times, when consumers feel cash-rich and time-poor, they can afford to be less diligent about their spending. But as economic pressures mount, sentiment changes. People feel cash-poor and are more willing to invest time and effort in getting the best deal.

“What sets the current recession apart is that, for the first time, consumers have a tool that empowers them to subject everyday buying decisions to the kind of scrutiny formerly reserved for big-ticket items and large business-to-business transactions. Marketers should anticipate this shift. They will not be able to rely on ads to pull the wool over consumers' eyes--or on imagery to wow them.”

Forbes suggests that a number of factors will lead to consumers turning to online options – the price of gas, the lack of sales tax online, the plethora of shopper review sites that help consumers make more intelligent decisions, and the vast array of sites offering virtually every kind of product.

And, the magazine suggests, “Virtually anyone selling anything should be online, with as much sophistication as they can afford or muster.”

Peapod Introduces Virtual Nutritionist

Ahold-owned Peapod.com announced yesterday that it “has developed and created its own software program that essentially reads the labels for its customers. Like a virtual nutritionist, NutriFilter sifts through all the products available online and highlights the ones that meet customers' unique nutritional needs, whether it's for gluten-free, peanut free or low-fat foods, or foods that meet other requirements, such as being Kosher, organic, high- (or low-) fiber, or even as specific as high in Vitamin A or calcium.

“Customers have the option of using five pre-set plans (gluten-free, peanut-free, USDA good fiber, USDA low-fat, and USDA low-sodium), with more to be added in the future, or, they can create as many of their own custom plans as they'd like. Customers are presented a blank nutrition panel, like those seen on all packaged products, and they are able to select as few or as many nutritional criteria as are important to them. One can create a sort of dream label, specifying maximum calories, grams of fat, milligrams of potassium, and so on, and then activate that specific filter...”

Walgreen Taking More Holistic Approach To Health Care

The *Wall Street Journal* this morning has a story about drugstore chain Walgreen Co, noting that the company traditionally has grown sales and market share simply by “pushing out more prescriptions per year than any other chain.”

But now, challenged by improved competition and a tough economy, Walgreen is taking a different tack, reshaping itself as a broad healthcare provider.

This means opening more in-store and work site health clinics. It means opening pharmacies in non-traditional locations, such as factories and other such sites. And, the *Journal* writes, “It has dropped its longtime aversion to acquisitions and snapped up specialty pharmacies that are experts in infertility, cancer, AIDS and other conditions that are expensive to treat. It is opening pharmacies in hospitals and assisted living facilities. Last year, it quadrupled the number of pharmacists certified to give flu shots and other immunizations.”

Walgreen has not, however, done what competitors Wal-Mart and CVS Caremark have done – get into the business of managing employer drug benefit programs. The company believes that it will fare better by being independent of such programs.

Starbucks Lays Out Future Plans

At its annual meeting yesterday, Starbucks CEO Howard Schultz rolled out a series of initiatives that he said are designed to improve the company's fortunes, generating new sales and boosting the share price.

Among the moves:

- A new automated espresso machine called the Mastrena, made in Switzerland, that “grinds coffee for each drink and has a lower height that will allow customers to see baristas making their beverage,” according to the *New York Times*. Starbucks expects the machines to be in all of its stores by 2010.
- The *Times* also reports that Starbucks will acquire “the Coffee Equipment Company, the four-year-old Seattle-based maker of the Clover coffee machine, which brews a more expensive, higher-quality coffee one cup at a time. The price was not disclosed. Starbucks will roll out Clover systems in select markets.”
- Starbucks also introduced a new coffee blend, called Pike Place Roast, that Schultz described as “a coffee so fresh that those people who drink it with milk and sugar will want to drink it black because of the sweetness.”

- The *Times* reports that Starbucks baristas “will be directed to brew smaller batches of coffee and refresh the coffee in urns every 30 minutes. Today, coffee can sit in Starbucks’ urns for as long as two hours.”
- Schultz also said that customers using the Starbucks card now will be able to customize their espresso drinks with soy milk or flavoring at no extra cost.
- *USA Today* also reports that “Starbucks has strengthened and lengthened its relationship with Conservation International, a non-profit concerned with responsible land use. The companies declined to state the financial commitment.”
- The company also plans to “introduce health- and wellness-related food and drinks and energy beverages later in the year,” according to the *Times*.
- And, Schultz introduced a new social networking site, *mystarbucksidea.com*, which will serve as both a corporate blog for Starbucks executives and a place where customers can make suggestions, observations, even criticisms.

USA Today reports this morning that “consumers will be encouraged to submit ideas, to comment and vote on ideas from others, and even to follow along as ideas evolve into real products. Some 48 Starbucks employees will respond to comments on the site, and Schultz will have a blog. Alas, consumers will not be compensated for ideas that Starbucks adopts.”

The *Wall Street Journal* reports that “the company has stopped testing \$1 drip coffee because ‘at the end of the day, we were not selling many,’ said Michelle Gass, senior vice president, global strategy.”

“This is the first time the U.S. business is under pressure; it’s a character test,” Schultz told the meeting. “But it’s not about the economy. We don’t want to use that as an excuse. And it’s not about the competition. Don’t believe the media hype. There’s no coffee war going on. This is about us. We somehow evolved from a culture of entrepreneurship, creativity and innovation to a culture of, in a way, mediocrity and bureaucracy.”

Sansolo Speaks: March Sanity and Madness

by Michael Sansolo

Sports may be all about playing fair, but business rarely is. The question many businesses have to ask themselves is not how to cheat, but rather how to play by the rules that produce victory. Start by looking at today’s economic turmoil in a different way. Consider it opportunity knocking, but only if you make the rules work for you.

Mealtime, it seems, is up for grabs in ways that haven’t been seen in years. The weakening economy combined with growing concern about eating healthily presents supermarkets a rare opportunity to win back meals lost over the years to restaurants. Nancy Kruse, a leading foodservice consultant, detailed the steps for victory at the recent Annual Meat Conference run by the Food Marketing Institute, the American Meat Institute and the commodity groups representing chicken, turkey and pork.

But the steps will require supermarkets to play differently to win and that means doing things differently. For instance:

- Merchandise your menu by talking about the great attributes of the food. Kruse showed an example from Publix, where the glorious details listed on the chain’s website were sadly missing in stores. Tell shoppers about your recipes, your ingredients, and get them excited about eating. Most of all focus on the freshness of your food offerings, just as restaurants do.

- Play up your chefs and the culinary experience in your company. Once again, supermarkets can learn from restaurant competitors, many of who play up new dishes, new tastes and the chefs who create them. Nothing prevents supermarkets from doing the same on websites and in stores. Many companies have corporate chefs and menus, but neglect to put them out front of shoppers.
- Be convenient by better managing lines and time. Every restaurant, Kruse said, has an expeditor whose oversees the preparation process to make sure service is a prompt as possible. Supermarkets need to address the woes of long lines by doing the same and showing shoppers that the store understands their time pressures.
- Play to your strengths. Kruse says supermarkets have a group of unassailable advantages, but neglect to talk them up enough. The frequency of shopping trips and the convenient locations of supermarkets are both great advantages. But, Kruse says, the advantages go on. Supermarkets are known for freshness, which equals taste, health and value in the minds of shoppers. And in 2008, there is little that more important than health, taste and value.

Victory isn't a guarantee, especially as many restaurants are reacting to the same trends. But doing nothing is a sure path to losing. Opportunity is knocking...

Of course, winning and losing is a national obsession this week as the country plunges headlong into March Madness and the NCAA basketball tournament, which gets my vote for both the best sporting and national annual event we have. This year is especially good as six schools with food marketing or management programs - Cornell, Michigan State, Portland (OR) State, Southern California, St. Joseph's and Texas A&M - are all in the tournament. It would take an incredible sequence of upsets, but four of those schools could meet on the final weekend. Of course, that's not likely to happen, so my hope is that Kansas, Texas, Connecticut and North Carolina (my final four) get into food programs. (Oh yes, I have Kansas beating Texas in the finals.)

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Changing The World With Food Nutrition Labels

The *Chicago Tribune* reports on Hy-Vee's plans to implement the Overall Nutritional Quality Index (ONQI), a system created by David Katz of Yale University that will evaluate virtually every food item on a scale of 1-100 for nutritional value:

"Their goal: To cut through the clutter of nutrition claims -- one-third less fat! multigrains! -- bombarding shoppers. In theory, consumers would be able to make healthier food choices, while grocery stores would likely boost customer loyalty and perhaps corral more shoppers.

"But there's the risk that the Yale-Topco initiative, and other rating systems like it, may only add to consumers' confusion over health and wellness claims, grocery and nutrition experts say. And supermarkets risk alienating their suppliers -- food manufacturers -- who could wind up with weak nutrition ratings, even on products the makers are touting as healthy."

The *Tribune* contrasts the ONQI system with the Guiding Stars program created by Hannaford Supermarkets -- and now being licensed to other retailers and manufacturers -- that rates products that meet certain nutritional criteria with one, two or three stars as good for you, better for you, and best for you. While the ONQI system has not yet been rolled out, so knowing what impact it will have on sales is an unknown, the Guiding Stars program has demonstrated that it can move the needle significantly on products that carry an imprimatur.

Target, Hormel, Cargill Team To Create New Meat Labeling Program

The *Minneapolis / St. Paul Business Journal* reports that Target Stores is teaming up with Hormel Foods and Cargill "to place labels on meat letting consumers know when food been treated with a gas to make it look fresher." The new program could begin as soon as later this month.

A number of companies have been criticized for treating their meat with carbon monoxide, which is used to help meat retain its red color.

The labels will say: "Color is not an accurate indicator of freshness. Refer to use or freeze by [date]."

FastNewsBeat

The *Washington Post* reports that the US Food and Drug Administration (FDA) is seeking approval from the Chinese government to put its own regulators on the ground in China, where they would be expected to monitor the production of food, drug and other nonfood products. Serious questions about the safety of Chinese exports have been raised over the past year, which recalls of a number of items – including toothpaste and pet food – announced by the US government.

- Supervalu-owned Jewel-Osco reportedly plans to open a new 62,000 square foot supermarket on Chicago's South Side, according to a story in *Crain's Chicago Business*. The opening is part of a broader effort to bring mainstream shopping alternatives to a neighborhood long underserved by traditional retailers.
- The *Washington Post* this morning reports that Safeway and Giant Food, both serving the DC/Baltimore marketplace, are in the midst of negotiations with the United Food and Commercial Workers (UFCW) for a new contract to replace the one that expires on March 30. The talks are characterized as slow going by the UFCW.

Safeway and Giant reportedly are accepting applications for temporary employees in the event of a labor dispute. Four years ago, the negotiations were said to be contentious but the two sides managed to resolve their differences before a strike occurred.

- The *Chicago Tribune* reports this morning that the likelihood that Wal-Mart will open a second store within the city's borders "just got smaller," as the city "declined a request to allow the world's largest retailer to build a store at the 50-acre Chatham Market on the South Side, a former steel plant site that the discount chain has been eyeing for at least four years."
- Delhaize Group has launched a initiative, the Delhaize Group Fund, which it says will be used to fund a series of diversity programs...initially in Belgium, but possibly to be expanded to other markets where Delhaize does business.

The MNB Wal-Mart Watch

- Published reports say that Wal-Mart plans to open its biggest US store on the outskirts of Albany. The store will be "a 260,000-square-foot, two-story supercenter selling department store merchandise as well as groceries, liquor and automotive and other services," according to a report by the *Associated Press*. The grand opening is scheduled for May.

The Balance Sheet

- General Mills reports that its third quarter net profit rose 61 percent, to \$430.1 million, compared with \$267.5 million in the period a year earlier. Net sales rose 11.5 percent, to \$3.4 billion.

Executive Suite

- The California Grocers Association announced that it has hired Ronald Fong - the former president of independent retailer United Markets as well as, most recently, vice president of government affairs for the California Credit Union League – to be its new president/CEO. He succeeds Peter Larkin, who left the association late last year to go into a private consulting practice.