

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

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Thanks to MNB
for this selection of
articles.

Store Development Takes Turn Toward Sustainability

More than a third of food retailers are incorporating sustainability concerns into their current store development plans, and 40 percent plan to do so in the next five years, according to the annual "Facts about Store Development" report released by the Food Marketing Institute (FMI).

The study also says:

- Many food retailers are focusing on reducing their impact on the environment by adding refrigeration management programs and making changes in store design, landscaping or transportation.
- Green building is an important part of retailer sustainability plans with 21.6 percent of the respondents reporting it is a goal for their company and 58.5 percent said they are looking into green building options.
- Two in 10 retailers already use recycled building materials such as concrete and steel, equipment and appliances in remodels or new construction.
- Also contributing to sustainability, retailers are retrofitting existing buildings in developing new stores. In fact, retrofits accounted for 60.6 percent of all new stores opened in 2006, exceeding the number of new buildings for the first time since 2001.

Other construction-related details discussed by the report:

- Fewer new store buildings (39.4 percent) were constructed due in part to the shortage and cost of prime real estate.
- The average store size increased slightly to 48,750 square feet. For the second year in a row, the number of stores closed increased and store remodels and openings were relatively flat.
- The median new store cost more than \$6.5 million to build in 2006 and increased slightly in size to 46,000 square feet, up from 44,753 in 2005. The median decor costs in 2006 added \$7.42 per square foot, up from \$4.25 in 2005.

- Slightly more than half of all companies surveyed (50.1 percent) remodeled at least one store in 2006. Nearly a third of the respondents (32.4 percent) said they remodeled because they anticipated or had a competitor enter the market. An additional 32.4 percent remodeled to meet the needs of changing customer demographics.

These changing demographics, by the way, mean that more stores are incorporating new sections and departments into their offerings, with many listing the following as top of mind: medical clinics, natural and organic food sections, coffee islands/espresso bars, specialty cheeses, shrimp bars, crêperies, modular ovens for artisan bread, and specialty wine tasting areas.

Wal-Mart Embraces Green Month With New Sustainability Campaign

Wal-Mart announced that it is rolling out "its most comprehensive environmental sustainability campaign, demonstrating it's serious about moving 'green' from costly dream to routine for its customers. The Earth Month merchandising and marketing campaign during the month of April, with national television advertising breaking today, highlights eco-friendly products available at budget-friendly prices. The moves tap into the growing influence of environmental concerns on consumer shopping behavior."

According to a statement released by the company, "more than 50 products spanning various aspects of sustainability including energy conservation, waste reduction, and organics will be featured on store shelves during the month of April. In addition, Walmart.com will offer more than 500 eco-friendly items, including apparel, baby products and home furnishings."

"Wal-Mart is uniquely positioned to make sustainable choices a real option for hundreds of millions of Americans -- not just the few who until now could afford to choose them," said Matt Kistler, senior vice president of sustainability at Wal-Mart. "The environment and budgets will be top of mind for our shoppers throughout the month of April, and for those reasons, we are unveiling new product initiatives as well as offering seasonal favorites at unbeatable prices."

MNB's Tales Of Tesco

- In the UK, *Sharecast.com* reports that Tesco "has come under fire from a supporter of its Fresh & Easy launch over an apparent U-turn on a pledge to report separate numbers for its fledging US business. James Anstead of Citigroup, the UK's top rated food retail analyst, said in a recent note that Tesco was shying away from a promise to break out the US as a separate business unit."
- Tesco said yesterday that speculation about its impending entry into the Russian market is misplaced, and that its expansion priorities, for the moment, are the US, India and China.

E-conomy Beat

- The *Chicago Tribune* reports this morning that Amazon.com has introduced "a new service that lets shoppers compare prices and buy things with a few quick taps on their cell phones." Essentially, the service allows customers use UPC codes to compare prices on almost anything sold by Amazon, and then place orders with Amazon if they find the online retailer's prices to be preferable.

More “Evidence” That Coupons Could See A Resurgence

Echoing another study that came out a little over a week ago, a marketing company called ICOM Information Communications has released a survey suggesting that 45 percent of respondents are “much more likely” to use coupons during a coming recession, while 22 percent are “somewhat more likely.”

According to a statement released by the company, “Broken down by age, 71% of consumers in the 18-34 year-old age bracket said they are much more likely or somewhat more likely to use coupons in a recession. That compares to 68% in the 35-54 year-old bracket and 63% among those 55 years and above.

“Geographically, 70% of Midwesterners said they are much more likely or somewhat more likely to use coupons in a recession, versus 69% of Westerners, 64% of Northeasterners and 62% of Southerners.

“Income didn’t make a significant difference to respondents, with 68% of those earning less than \$50,000 a year saying they are much more likely or somewhat more likely to use coupons in a recession, compared to 67% for those earning more than \$50,000.”

In addition, 58 percent of those surveyed said they could “see their coupon use increasing if they could download a coupon from the Internet and have it automatically connected to an electronically swiped frequent shopper card.”

ICOM notes that “over the past ten years, the average coupon redemption rate has declined to less than 1.0 percent from a level of 1.6 percent across all U.S. coupons distributed.”

It should be noted that in the study recently conducted by coupon processor CMS, it was reported that consumers redeemed 2.6 billion coupons in 2007 – the same number that were redeemed in 2006, and the first time in 16 years that coupon redemption has not dropped.

Sansolo Speaks: Where There’s Smoke...

by Michael Sansolo

Sometimes the pace of change is so radical, it almost makes us forget what’s really happening. And when that occurs, we all miss the chance for some great lessons.

One *MVB* “Your Views” writer made me think of this last week, when he commented on the latest story of a sizable retailer eliminating tobacco products from their stores. (Those reports, if you have noticed, get less and less attention as the decision becomes increasingly less radical.)

This reader pointed out an important part of the story, the incredible turn of events that has led retailers to remove a category that once was one of the highest in terms of sales per square foot. In fact, many of the changes surrounding smoking are shocking. It doesn’t feel like that long ago that smoking was simply commonplace. We sat in restaurants, airplanes and even conference rooms and simply accepted the tufts of smoke floating above us. I can vividly remember the firestorm set off when Northwest Airlines proudly announced it would no longer allow smoking on its planes.

At the time, it was unheard of and controversial. Today we don’t even think of it.

However, today’s column isn’t about smoking. It’s about change and what we see and what we choose not to see.

After all, the foundation for changes in attitudes toward smoking started with that very first Surgeon General's report. Suddenly, smoking was far less tolerated and school aged kids like me and my sisters were part of an army pestering our parents to give up smoking. I'd like to believe that some far-sighted retailers looked at that event and began thinking about the day they'd no longer sell cigarettes in their stores. I'd like to, but I'm not sure. The same was true for seat belts or littering. The seeds of change were sowed in many second grade classrooms.

So the question is, what signs do we see today and what unthinkable changes might they cause five, 10 or 20 years in the future? We've seen the accelerating pace of change in various attitudes. A few years back, hardly any consumers really understood anything about a trans fat and today there are whole cities where they are banned. Likewise, look at how quickly bottled water got tagged as an environmental problem as did plastic shopping bags. And "Made in China" became a warning almost overnight.

So what's next? How will environmental issues impact us going forward? Is there any form of packaging in the store that might somehow evade unseen scrutiny from shoppers and legislators? Or how will health and wellness issues change marketing and shopping going forward? Is it possible that products will be taxed based on fat content or contain new warnings from the Surgeon General on their impact?

The bottom line is that we really don't know anything for certain about the future, but we see signs all around us. We look at Generation Y and see how they interact globally in ways previously unimaginable and we have to ask ourselves what they will be like when they are our customers and employees. I've heard people question whether their environmental fervor will continue in a softening economy, but I wonder if that's applying our generational thinking to a new generational group.

What if these young people say, we don't care. What if they say: We'll make trade offs and give up luxuries to help the planet and armed with the Internet, we'll keep track of your activities around the globe. Is that really unthinkable?

Then again, is anything really unthinkable?

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Is Tesco Shifting Gears...Or Grinding Them?

The *Times* of London has some commentary about UK market leader Tesco, reporting that as the company's "bold move into the US has stalled and the mechanics have taken the Fresh & Easy vehicle into the garage for a bit of tinkering," Tesco also has decided to abandon an experiment in which it was selling clothes online in the UK.

"True, these may appear trivial glitches," the *Times* writes. "But the thing about Tesco is that it does not normally do glitches. While most of its UK rivals have hit road bumps in recent years, Tesco has cruised along, reinforcing its dominant position at home and expanding rapidly overseas.

"Flushed with this success, it decided to tackle the biggest and ugliest retailing market in the world, the US. Having identified a gap in the market for small stores focused on fresh food, it has so far rolled out 60 sites since November. But the early results are believed to have been disappointing.

"The US move is modest in relation to the group and low-risk. If it does not work it will be no disaster. In the core UK business, there is little sign that Tesco has lost its magic touch. The problem is that its rivals have finally found theirs. J Sainsbury, Asda, WmMorrison and Waitrose are finally firing on all cylinders ... As consumer spending slows, this may leave Tesco squeezed in the middle, fighting to stop foodies from defecting to Waitrose and penny-pinchers from choosing Asda and Aldi."

Meanwhile, the *Los Angeles Times* reports that “financial analysts believe the Brits may be missing their sales targets by as much as 70%, but the company maintains a stiff upper lip” even though “many customers, competitors, grocery experts and financial analysts say they are not convinced that the much-ballyhooed British invasion of Southern California has been a success -- at least so far.”

And, the *Times* writes, “Shoppers vary widely in their impressions. Some customers like the selection, the prices and the convenient locations. Others say they can't find the products and brands they want and they see no reason to change their shopping habits.”

The *Times* also takes note of reports that “the chain has developed fractious relationships with some suppliers. Representatives of wine and produce companies have said that the chain is difficult to work with. The individuals asked not to be named because they were fearful how it would affect future business.”

And things are not likely to get easier, as companies such as Wal-Mart and Safeway develop their own small-store formats that are likely to be more ‘American’ in their design and function.

Safeway Invests \$200 Million in Dominick's, Fights Sale Rumors

The *Chicago Tribune* reports this morning that Safeway-owned Dominick's is investing more than \$200 million into the renovation of its Chicago-area stores, not to mention ramping up its marketing budget hoping to reverse what is called “years of decline.” While the company says that these moves into the “lifestyle” format used by Safeway to significant success elsewhere in the country reflect the company's commitment to the division, the *Tribune* notes that rumors continue to “swirl” about it being for sale.

FastNewsBeat

- Spartan Stores reportedly will sell 12 of its Pharm units in the Toledo, Ohio, area to Rite Aid, leaving it with two more Pharm units, the future of which are under discussion. The move was made to allow Spartan to focus more on its core businesses.
- Kroger-owned Ralphs announce yesterday that it “will begin offering pharmacy customers generic drugs for \$4 per prescription at its stores in Southern California. The \$4 price will apply to hundreds of generic drugs prescribed for 30-day supplies and will be available at 90 pharmacies in Ralphs stores throughout Southern California ... Ralphs' program includes generic alternatives for some of the most commonly prescribed drugs used to treat conditions such as diabetes, asthma, depression, heart disease, thyroid and other health problems.”
- Published reports say that the Japanese government has commissioned a study into the safety of consuming cloned animals, following the issuance of a report there saying that there is no biological difference between the milk and meat of cloned and non-cloned cattle.

There is no timetable on the study, but *Reuters* notes that “many Japanese consumers, notoriously sensitive to food safety, are likely to oppose moves to introduce meat or milk from cloned animals into the human food supply.”

The MNB Wal-Mart Watch

- The *Minneapolis / St. Paul Business Journal* reports that Wal-Mart is looking for “local vendors of environmentally friendly products and services to partner with its stores in Minnesota and Wisconsin ... Vendors could include farmers who sell organic foods, landscapers that use innovative techniques to conserve water, or recycling companies.”

The Balance Sheet

- Walgreen announce that its March 2008 sales were \$5.1 billion, up 10,6 percent over the same month a year ago, with same-store sales up 4.4 percent.
- Drug chain Rite Aid said that its total March sales increased 50.7 percent to \$2.044 billion as compared to \$1.356 billion for the same period last year, reflecting the acquisition of Brooks Eckerd in the intervening time. Same-store sales were up 2.6 percent.
- Dollar General Corporation announced that net sales in fiscal 2007 increased \$325.4 million, or 3.5 percent, to \$9.50 billion compared to \$9.17 billion in 2006. Same-store sales were up 2.1 percent.

For the year, Dollar General's net loss was \$12.8 million compared to net income of \$137.9 million a year ago.

Sales in the fourth quarter of fiscal 2007 were \$2.56 billion compared to \$2.55 billion in the fourth quarter of fiscal 2006, with same store sales increasing 0.4 percent. Net income in the fourth quarter was \$55.4 million compared to \$50.1 million in the fourth quarter of fiscal 2006.

Executive Suite

- The *San Francisco Business Times* reports that Des Hague is leaving his job as president of perishables at Safeway, and will be succeeded by Kelly Griffith, who has been president of the company's Portland, Oregon, division.

Steve Frisby, president of Safeway's Texas division will replace Griffith in Portland, and Tom Schwilke, group vice president of produce and floral, will replace Frisby as president of the Texas division.

- Kevin Darrington, former senior VP and chief accounting officer for Pathmark, reportedly has been named senior VP/CFO at Tops Markets.