

- Retail Industry News from IRI for Week Ending 5/16/08-

Below is the list of articles you will find for the week ending 5/16/08 edition of Retail Industry News.

- ▶ Wal-Mart, Safeway Focus On Fresh Food In New Formats
- ▶ In Atlanta, In-Store Medical Clinics Thrive
- ▶ Weis Markets Introduces Local Angus Beef Program
- ▶ Tesco Hypes Gas Savings As Fresh & Easy Rationale
- ▶ Continued Warning Signs For US Economy
- ▶ The Continuing Impact Of Obesity In America
- ▶ Sansolo Speaks: Meet the Metaphors
- ▶ Tesco To Roll Out Expanded Own-Label Products in US Stores
- ▶ Cold Economy Forces Shoppers To Change Food Priorities
- ▶ Sprouts Doubles Expansion Rate
- ▶ FastNewsBeat
- ▶ The Balance Sheet
- ▶ Executive Suite



Thanks to MNB
for this selection of
articles.

Wal-Mart, Safeway Focus On Fresh Food In New Formats

The *Financial Times* reports this morning that when Wal-Mart opens the first of its Marketside small store formats later this year in the Phoenix area, the focus will be on "a passion for fresh and delicious food" and "the highest level of customer service."

Meanwhile, Safeway has opened the first of its take on the small store format – The Market – in Long Beach, California. The unit is reported to have strong presence in fresh and prepared foods, which some products based on items developed for its Citrine stand-alone restaurant concept. The Market is in a former Vons store, and still carries the Vons name in small print, a move that the company believes will give it both credibility and recognizability.

According to the story, the new stores will be quite a departure for Wal-Mart. "The world's largest retailer - best-known for sprawling superstores with minimal service levels - says that its planned 15,000 sq ft Marketside neighborhood stores will be 'dedicated to helping our customers answer the question, What's for dinner?' The retailer is also planning to prepare and serve food in the stores themselves, a new direction for Wal-Mart that mirrors the approach of more upmarket retailers such as Whole Foods Market. The stores will include a kitchen, food counters, and seating for up to nine people, according to planning documents."

Also according to the *FT* story, "The Marketside format is a third of the size of most of Wal-Mart's 134 Neighborhood Market supermarkets, and less than a tenth of the size of most of its more than 3,400 superstores. The stores will be trading under a logo depicting a pile of stylised vegetables and fruits, with the Marketside name in green and a small blue star providing the only branding reference to Wal-Mart."

The new format allows Wal-Mart to expand its presence in markets without the political issues that have challenged its supercenters in some areas, and it also allows the company to compete head-on with Tesco, which has been opening small-forma Fresh & Easy Neighborhood Markets in Southern California, Arizona and Nevada.

In Atlanta, In-Store Medical Clinics Thrive

The *Atlanta Journal-Constitution* reports that while there have been reports that the growth of in-store medical clinics has stalled in some areas, not so in Atlanta, where there are more than 50 such facilities in operation, and Publix plans to its clinic count from nine to 18 this year.

Michael Howe, CEO of industry leader MinuteClinic, tells the paper that the city's demographics are perfect for the concept – it has plenty of families with children, people who are time-constrained, and people who tend to face long commute times – and who need clinics that are close to home and open at more convenient hours than doctors' offices.

Weis Markets Introduces Local Angus Beef Program

Weis Markets has introduced a new Pennsylvania Proud Choice Angus Beef program, which is supplied by Angus producers throughout the Commonwealth of Pennsylvania. According to the company, it is "the nation's first locally raised beef program offered by a supermarket chain and it is also the first branded Pennsylvania Angus program."

"Buying local is one of the hottest trends in food today but it's been a hot trend for us since 1912," said Norman S. Rich, Weis CEO. "Pennsylvania has a vibrant agricultural economy known for its quality. Last year alone, we purchased more than 19 million pounds of produce from local Pennsylvania producers. Our Pennsylvania Proud Choice Angus Beef is the logical extension of our commitment to buying and selling Pennsylvania's best products. We are proud to be the first supermarket company in the country to offer a local beef program."

Tesco Hypes Gas Savings As Fresh & Easy Rationale

Is this a case of defying the critics' expectations? Or doth Tesco protest too much?

For the second time in a week, Tesco's Fresh & Easy chain in the western US has issued a press release designed to hype a positive access of the company's business, even as critics and analysts lambaste the company for they are feel are the inadequacies of the Fresh & Easy format. Earlier this week, the emphasis was on how Fresh & Easy's private label was so popular that the chain was adding another 250 SKUs to its own label lines.

Today, it is about how Fresh & Easy is at least a partial solution to \$4-per-gallon gasoline. The press release reads as follows:

"Fresh & Easy Neighborhood Market customers already know the grocer for its high quality fresh, wholesome food at affordable prices. But what many customers may not realize is that Fresh & Easy may help save customers money on gas. As a true neighborhood market, Fresh & Easy offers everything a family needs at prices that are easy on the pocketbook all in a location that is easy on the gas tank.

"When developing Fresh & Easy, customers told the company they often shopped at several stores, sometimes miles from their neighborhoods, all in order to find the freshest, most authentic food at the most affordable prices. Fresh & Easy is located right in the neighborhood and provides fresh, high quality food, as well as favorite brand products, at honest, everyday low prices everyone can afford. With the cost of gas rapidly increasing, Fresh & Easy provides customers with the convenience of everything they need in one place, which saves them time in the car and money at the pump.

"Based on a recent study from The Nielson Group, gas share of customers' weekly shopping ranged from 12 to 16 percent in 2007. As gas prices continue to rise, Nielson expects consumers' gas share of their weekly spend to rise to 19 percent. With gas prices hitting \$4 per gallon in many places, consumers are spending even more of their household budget on gas."

And Simon Uwins, Fresh & Easy's chief marketing officer, is quoted as saying: "We save our customers time and money by locating stores that offer everything they need at honest, low prices right in their neighborhood ... No one should have to travel miles to get fresh, wholesome food they can trust at prices they can afford."

Continued Warning Signs For US Economy

The *Los Angeles Times* reports that a poll that it conducted in concert with *Bloomberg News* suggests that "Americans struggling with rising food and energy costs are more worried about their personal finances than at any time since the early 1990s." Among the findings noted by the *Times*:

- "Nearly 2 out of 5 people say the state of their personal finances is fairly shaky or very shaky, the poll found. And for the first time since 1993, the percentage of people who said their finances were very or fairly secure fell below 60% -- to 57%, said Times Poll Director Susan Pinkus. 'Anything below 60% is sort of like a warning sign of what's coming next,' Pinkus said. 'It paints the picture of a very grim, weakened economy that is affecting how people are going to spend'."
- "More than three-quarters of those polled said they thought the economy had fallen into a recession and that the country was 'seriously off on the wrong track'."
- "56% of registered voters said the economy should be the top priority for the presidential campaign -- a shift from December, when the majority said Iraq should be the candidates' focus."
- "Money worries plague Americans across the financial spectrum. Of those making between \$60,000 and \$100,000 a year, 26% described their finances as shaky; 10% of those making more than \$100,000 ... used the same terminology."
- The poll also found a sharp ethnic disparity in how Americans view their finances. Although 61% of whites and 54% of other ethnic groups polled said their personal economic situation was secure, just 39% of African Americans described their finances in positive terms. More than half of African Americans polled, 53%, said their finances were shaky; 34% of whites and 42% of other ethnic groups polled expressed similar concerns."

Meanwhile, the *Washington Post* reports that "rising global grain prices helped spark the largest increase in monthly food costs in nearly 20 years, as consumers paid more in April for cereals, baked goods, and the dairy, meat and other animal products that rely on feedstocks, the government reported today.

"Food prices have risen 6.1 percent in the past three months on a seasonally adjusted annual basis. The one-month rise between March and April of 0.9 percent was the biggest since January 1990, according to the Bureau of Labor Statistics. The rise in prices covered all categories of food but was most severe among such staple goods as grains and oils -- goods where inflation has touched off food riots in some less developed countries and led to concerns about supply shortages."

The Continuing Impact Of Obesity In America

Reuters reports that a new study by Wake Forest University suggests that obesity continues to be a problem for Americans, and that the nation's weight problem is having specific and dramatic effects on a variety of other health issues.

"Among 6,814 middle-age or older adults participating in the Multi-Ethnic Study of Atherosclerosis, or "MESA" study, researchers found that more than two thirds of white, African American and Hispanic participants were overweight and one third to one half were obese.,," the report says. However, not every ethnic group is impacted to the same extent: "Obesity rates were far lower in Chinese Americans in the study, with 33 percent overweight and just 5 percent obese."

Reuters writes, "The investigators also found that obese adults, compared with normal-weight adults, had higher rates of high blood pressure (up to more than twice as high), abnormal lipids (two- to three-fold higher), and diabetes .. Obese adults also had more silent vascular disease (blood vessel disease that causes no symptoms); they had more atherosclerosis (hardening of the arteries) and thicker heart walls, even after adjusting for 'traditional' risk factors like high blood pressure and high cholesterol levels."

The report also notes that these conditions are becoming far more evident despite the fact that enormous sums of money are being spent on a wide variety of medications. Which reinforces the notion that there is a significant economic impact as well.

Sansolo Speaks: Meet the Metaphors

by Michael Sansolo

As a rabid fan of both baseball and metaphors, it's easy for me to find constant lessons in the game I still consider the national pastime. And every now and again, someone agrees and the lessons become clearer still.

Doug Glanville, a long time professional baseball player, wrote a recent column for the *New York Times* that bears reading whether you love baseball or know nothing about the sport at all. Without offering a word about retailing or consumers, it explains everything you need to know about the current state of business.

Glanville's article centers on what must be the single hardest act in sports: hitting a curveball. For those of you who know nothing about baseball, this is the essence of that statement. Few acts in sports are considered harder than hitting a baseball. The hitter has something like two-tenths of a second to locate the ball whizzing toward him, make a decision to swing his bat and manage to make the bat meet the ball.

As Glanville explains, that act becomes infinitely harder when the curveball is involved. Unlike a fastball, which travels very fast and straight, a breaking ball moves. The movement could be down or side to side. Of course, the hitter has no idea it is coming, which means you have to wait to see if, when and where it will break. (Or you could follow my example and dive on the ground and wait for the umpire to call you out. Did I mention that I hate curveballs?)

Not all curveballs are thrown in baseball. Glanville's article also talks about life's curveballs and the challenge of dealing with them. And in that statement, he provides the lesson facing us all in business these days.

In even the easiest times, success doesn't come without a price. Fastball problems those coming at us straight and true—aren't that easy to hit after all. We have to work at execution, strategy, hiring...and well everything. And you have to be really, really good to hit a fastball.

But 2008 seems like a time of curveballs. With the economy weakening and prices rising, suddenly everything has gotten trickier. Choices have to be made on how much of cost increases to pass on to consumers. Too little and you start losing money; too much and you might send them to a lower cost operator.

As Glanville explains, he learned to hit curveballs through hard work, even though his natural skills were strong enough to get him deep into professional baseball. Again the metaphor is clear: none of this will come easily. In a tough environment, only the best will succeed.

Not surprisingly, I love baseball movies too. My favorite scene in "A League of Their Own" doesn't involve crying in baseball. Rather it's when Tom Hanks and Geena Davis argue over her decision to leave the game because it got to be "too hard." Hanks replies, "it's supposed to be hard. It's the hard that makes it great. If it wasn't hard, everyone would do it."

Retail success is no different. What separates the best companies from the rest isn't how well they perform in good times. After all, most everyone can hit a fastball. Rather, it's what happens in tough times, when the obvious decisions aren't so easy and the game suddenly becomes harder than ever.

That's when skill needs the support of practice, creativity and new thinking. Otherwise, it could be strike three really quickly.

Batter up!

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Tesco To Roll Out Expanded Own-Label Products in US Stores

The reviews by fellow retailers and members of the investment community may not be raves, but that hasn't stopped Tesco's Fresh & Easy chain of stores in the US from announcing an expansion of its private label program due to what it called "increasing demand" from customers.

According to a statement released by the company, "Following a great customer response and encouraging sales of Fresh & Easy own-brand food, the company is expanding the range with 250 additional products. Some of the new products include fresh prepared ready meals, new juices and brewed teas, soy and goat yogurt, and a range of ready-to-grill meats.

"One of the new product additions already in stores is the mixed grill pack, which retails for \$9.99 and contains four sausages, four beef patties, four chicken thighs and four chicken drumsticks – a little something for everyone.

"In addition to the tried and tested favorites, the new products that will be introduced over the next three months will give customers plenty of new dishes to try. While shoppers are checking out these products they may also notice a few other improvements to Fresh & Easy stores."

The statement also quotes Fresh & Easy CEO Tim Mason: "We developed Fresh & Easy by listening to what consumers wanted in a grocery market. We are delighted customers have responded so well to our own-brand foods. We know our popular ready meals – such as our mango chicken and beef lasagna – give families a great value alternative to take-out, and now there will be plenty more for customers to choose from ... We continue to listen to our customers and look for ways to make our shopping trip even better."

Cold Economy Forces Shoppers To Change Food Priorities

BrandWeek reports that the nation's economic difficulties are driving people away from restaurants and into supermarkets, with the frozen food section a beneficiary of changing consumer priorities.

According to the story, "Traffic for casual dining, a segment that includes Applebee's, Ruby Tuesdays and TGI Friday's, fell 0.3% in the first quarter of 2008. But industry watchers say those ex-diners aren't necessarily cooking at home. Instead, they're gravitating to prepared foods at supermarkets like Publix and Whole Foods Market ... Prepared foods account for almost \$5 billion a year in sales at supermarkets nationally, per the International Dairy Deli Bakery Association in Madison, Wisc.

"Meanwhile, there's some evidence that consumers may be reaching for frozen dinners—at least some of them—more often."

Sprouts Doubles Expansion Rate

Sprouts Farmers Market, which operates 25 natural foods stores in the western United States, announced that it has secured the funding to boost its growth rate to 15 + new stores per year. The company has doubled its targets and now is aiming to have more than 100 stores up and running within five years,

First up – seven stores to be opened by this fall, with new stores in Texas (Murphy, Richardson, McKinney), California (Tustin, Seal Beach), and Sprouts' debut in Colorado (Westminster, Parker, Ft. Collins).

FastNewsBeat

- Following up on Safeway's recent announcement that it has created something called the Better Living Brands Alliance to market its O Organics and Eating Right product lines across all retail channels – including foodservice and global markets – the company said yesterday that it has chosen a number of licensees to be a part of the alliance. The companies include Lucerne Foods, Overhill Farms, Ready Pac Produce, and Schreiber Foods.
- *Crain's Chicago Business* reports that Kraft Foods CEO Irene Rosenfeld told shareholders this week that the company will raise its prices this year as a way of offsetting its increased costs and protecting profits and margins. Rosenfeld did not offer specific examples, but said that she expected the competition to do the same thing.
- *Dow Jones* reports that JM Smucker has acquired ConAgra's Knott's Berry Farms food business. Terms of the deal were not disclosed.
- The *Business Courier of Cincinnati* reports that Supervalu is closing its Bigg's store in Cincinnati Mills, reducing the number of stores in that fleet to 11. The unit, one of the original hypermarkets in the US, "did not fit into the company's business plans for the future," the company said in a two-paragraph statement.
- The *Dallas Morning News* reports that a week after Wal-Mart expanded its \$4 generic drug program – covering 90-day prescriptions and additional medicines – "Kroger Co. says it will implement identical changes to its \$4 drug plan today ... Before the recent changes, both retailers included more than 300 generic drugs to treat common conditions such as diabetes, asthma, depression and heart disease on their lists of drugs costing \$4 for a month's supply."

The Balance Sheet

- Spartan Stores reported that its Q4 profit rose 12 percent to \$8.1 million, on quarterly sales that were up 10 percent to \$570.7 million. Same-store sales for the quarter were up 5.2 percent.

For the just completed fiscal year, net income rose 36 percent to \$34.3 million, and revenue rose 12 percent to \$2.48 billion...increases attributed in part to the company's acquisition of Felpausch.

- Whole Foods reports that its second quarter profit was down 13 percent to \$40 million, from \$44 million during the same period a year ago., a decline that the company attributed to the costs associated with the integration of Wild Oats into its business. Q2 sales were up to \$1.87 billion, from \$1.46 billion a year ago, on same-store sales were up 6.7 percent.
- Unified Grocers reports that its second quarter sales grew 31.6 percent to \$991.9 million, up from \$753.6 million during the same period a year ago, an increase that was largely attributed to its acquisition of Associated Grocers of Seattle. Net earnings for the quarter were \$7.4 million, up from \$7 million a year ago.

Year-to-date sales grew 33 percent to \$2,044.4 million.

- Carrefour, the world's second largest retailer, said that its first quarter sales were the equivalent of \$36.2 billion (US), up 10 percent from the same period a year ago. According to the company, sales excluding acquisitions rose 6.8 percent.

Executive Suite

- Rite Aid Corp. announced yesterday that Jim Donald, the former Starbucks CEO who previously served as CEO of Pathmark Stores, has joined its board of directors. He replaces Roundy's Supermarkets CEO Robert Mariano, who resigned from the position.
- Del Monte Foods announced that it has hired William D. Pearce, the former chief marketing officer at Taco Bell, to be its new senior vice president/chief marketing officer, effective immediately.

The position is a new one at Del Monte.

- Walgreen Inc. has hired Wade D. Miquelon, Tyson Foods' executive vice president/CFO, to be its new senior vice president/CFO. He succeeds William Rudolphsen, who has been named to the new post of senior vice president and chief risk officer at Walgreen.