

- Retail Industry News from IRI for Week Ending 6/29/07-

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Thanks to MNB
for this selection of
articles.

Whole Foods Takes Path Less Taken To Registers In NYC

The *New York Times* reports that Whole Foods' approach to New York City supermarket lines – which is more like a bank or an airline terminal, with "serpentine single lines that feed into a passel of cash registers" – seems to work for Big Apple consumers, who find it to be faster than the traditional "one-line-per-register system."

"Because people stand in the same line, waiting for a register to become available, there are no 'slow' lines, delayed by a coupon-counting customer or languid cashier," the *Times* writes. "And since Whole Foods charges premium prices for its organic fare, it can afford to staff dozens of registers, making the line move even faster."

According to the *Times*, "Whole Foods executives spent months drawing up designs for a new line system in New York that would be unlike anything in their suburban stores, where shoppers form one line in front of each register.

That traditional system, they determined, would take up too much space and could not handle the crowds they expected here.

The single-line, bank-style system was quickly chosen for its statistical efficiency. Then, Whole Foods paired the system with possibly the largest number of registers in the city, more than 30 per store, and it hired an army of cashiers to staff them throughout the day (including 'floaters' to fill in for those who need a break).

"The result is one of the fastest grocery store lines in the city. An admittedly unscientific survey by this reporter found that at peak shopping times — Sunday, from 4 p.m. to 6 p.m. — a line at Whole Foods checked out a person every 4.5 seconds, compared with 19.6 seconds for a line at Trader Joe's."

The *Times* notes that many NYC consumers were skeptical, but the majority seems to have been convinced that this is a good system. And even John A. Catsimatidis, owner of the Gristede's chain, which uses the traditional line system, tells the *Times*: "I should give it a closer look."

Are In-Store Clinics Really A Healthy Business?

Investor's Business Daily has an interesting story about in-store health clinics, in which it suggests that there are at least some skeptics who wonder if they will prove to be as successful as many retailers – including Wal-Mart, Walgreen and CVS – seem to be betting.

Regina Herzlinger, a Harvard Business School professor and author of the new book "Who Killed Health Care?", says that they haven't proven to be profitable yet, which is why some of the operators are so eager to sell to large retailers such as Walgreen and CVS.

"Their business model is questionable," she tells the *Daily*. "As stand-alone enterprises, they don't break even."

Mary Kate Scott, chief executive of health consulting firm Scott & Company, says that the clinics are in "a high-fixed-cost business," and that each unit needs two to three years to break even and become profitable. One question seems to be whether traditional retailers have that kind of patience.

Two other concerns about the clinics:

1. Legal fees tend to be high, because the companies need to indemnify themselves against possible mistakes by employees.
2. Convenience, rather than quality, is said to be the motivating factor for customers to go to such clinics for the first time, and then return.

Big Box Stores Try To Become Less Big, Less Boxy, Less Intimidating

The *Wall Street Journal* this morning reports that big box stores are looking for new ways to create a less intimidating shopping experience.

Wal-Mart, for example, "is attempting to make its sprawling stores easier to navigate" ... by offering "better signs to help shoppers find merchandise, more convenient placement of hot-selling items and staffing changes to speed up checkout times."

And, the *Journal* writes, "Many of Wal-Mart's big-box brethren, from Home Depot Inc. to Best Buy Co., are also pursuing the goal of making their premises less overwhelming for shoppers. Their tools range from brighter light bulbs for quicker comparison shopping, to personal assistants catering to customers' whims. Like Wal-Mart, many are determined to eliminate lengthy checkouts, perhaps the biggest turnoff of all for harried customers."

Another example: "Electronics retailer Best Buy is employing 'personal shopping assistants' in 60 stores who are knowledgeable about all merchandise in the store. They wear button-down dress shirts to set them apart from regular Best Buy salespeople clad in Navy blue polo shirts. Their job is to individually serve time-starved customers making complicated purchases such as home-theater systems."

The *Journal* writes, "Focusing on convenience represents a turning point for discount retailers. For years, they kept building bigger and bigger boxes, figuring the combination of low prices and huge assortment trumped other considerations. The result is that shoppers all too often spend much of their time trudging from department to department to find elusive items on their shopping list, and some give up without finding them."

Still a matter of some debate is the role of self-checkout, with Home Depot having it in every store and Costco experimenting with it. But Target CEO Bob Ulrich isn't buying: "I am convinced that one professional checker is as fast as four self-checkout machines," he says.

New Safeway Stand Alone Restaurant Could Be First In A Series

InsideBayArea.com reports on how Safeway has “quietly opened a stand-alone restaurant ... called Citrine without a word of advertising or publicity.” The restaurant, in Redwood City, California, is described as a “test” in which Safeway can find new ways to sell prepared foods. While there are numerous reports suggesting that this is the first in a series of test restaurants, Safeway is not commenting on any further rollout.

“This is an experiment where we’ll have the opportunity to test some culinary ideas,” Brian Dowling, a Safeway spokesman, tells the website. “We never talk about experiments that are in this early stage.”

According to the site, “Citrine offers features entrees such as Thai barbecue chicken for \$12.49, margarita pizza for \$8.99 and grilled fish for \$13.99. Other offerings include sandwiches starting at \$7.99, soup for \$3.99 and salads starting at \$8.49. It’s décor features blonde wood accents along with a color palette of the soft greens, oranges and yellows.”

Tesco Continues To Grow UK Market Share

Tesco’s market share in the UK has grown to 31.6 percent in the quarter ending June 17, according to a study done by market research company Taylor Nelson Sofres, up from 0.2 percentage points from the same period a year ago.

Wal-Mart-owned Asda Group had a 16.6 percent market share, down from 16.7 percent a year ago.

Sainsbury was at 16.2 percent, down 0.1 percentage point.

William Morrison Supermarkets’ market share reportedly stayed steady at 11.2 percent of the market.

Tesco CEO: US Stores Will Focus On Convenience “From A Slightly Different Angle”

The *Wall Street Journal* this morning has an interview with Tesco CEO Sir Terry Leahy, in which he discusses, among other things, the company’s plans for the US.

Excerpts:

- “(The United States)is a place that rewards innovative retailers, so if you do something different, you get rewarded for it. Retailing returns in America are quite good by international standards ... We didn't want to buy an existing business because what's the point of going to America and just doing the same as everybody else? There is already so much retail there. So what we tried to do is turn a weakness we had – that we had no presence in America -- into an advantage: We can research and design the perfect store for the American consumer in the 21st century. Our team went over to live in the U.S. We stayed in people's homes. We went through their fridges. We did all our research, and we're good at research.”
- *On dealing with criticisms...* “It's normal that people discuss how you do your business. You've got to be prepared to engage in that discussion. Also, you shouldn't concentrate on debating the negatives but come forward with some positive ideas. There was a lot of debate about Tesco as a good neighbor. So we set out our community plan, which was a set of initiatives about open sourcing, nutritional labeling, energy conservation and recycling, which has been very well received. Actually, people are very interested. They will criticize you, but they will be very open to your coming forward with positive suggestions.”
- *On competing with Wal-Mart...* “Wal-Mart is a great retailer, but America is a big place. The part of the market that we are addressing, which is convenience, is an underinvested part of the market. And I think there is plenty of room in the market ... A Wal-Mart Neighborhood Market would be more their version of an American supermarket. We would be approaching it from a slightly different angle.”

Kroger Introduces Cholesterol-Lowering Milk

Kroger is launching a new cholesterol-lowering milk under its “Kroger Active lifestyle” brand. The milk reportedly uses an ingredient with plant sterols, which the US Food and Drug Administration (FDA) has said can reduce the risk of heart disease by lowering cholesterol levels.

FastNewsBeat

- Dollar General said last week that its shareholders have accepted a \$6.9 billion offer for the company from the private equity group Kohlberg Kravis Roberts (KKR).
- In New Jersey, the *Courier-Post* reports that Ahold-owned Stop & Shop is preparing to sell nine stores that it has decided are “underperforming” to Wakefern Food Corp. Neither retailer is commenting on the deal for the record.
- Published reports say that unionized employees at Kroger stores in Dallas and Houston have ratified a new three-year contract that both sides say gives 13,000 workers wage increases, increased vacation and affordable health care.
- *Advertising Age* reports that PepsiCo plans to spend as much as \$55 million launching a new brand - Diet Pepsi Max, described as “a cross between a soft drink and an energy drink to rouse men out of that 2 p.m. slump.” The company reportedly is looking to “crack the code” and get men to drink more diet drinks.

According to the story, “The ‘invigorating’ cola contains ginseng and 46 milligrams of caffeine per eight ounces, double that of regular Diet Pepsi but a third the stimulant level in coffee or energy drinks.”

- Wendy’s International, which is considering selling the company, is going ahead with plans to sell more breakfasts. The company says that it plans to have a new breakfast menu available in some 650 stores by Labor Day, up from the 160 units where it has been testing the expanded menu.

The *Washington Post* reports that Wendy’s believes that new breakfast sales could add between \$75 million and \$95 million to the chain’s annual operating profit.

- The *New York Times* reports this morning that Ahold-owned US Foodservice “has postponed its sale of \$650 million in bonds that were expected to finance the unit’s equity buyout.” The decision, according to the *Times*, “comes as investors in the debt that supports these transactions have begun seeking higher interest rates and imposing tougher terms.”
- The *Detroit Free Press* reports that Kroger plans to shut down six of the Farmer Jack grocery stores that it bought today and reopen them under the Kroger banner on July 6.

The MNB Wal-Mart Watch

- The *New York Times* this morning reports on opposition that Wal-Mart is finding to a new supercenter planned for Monsey, NY – opposition that is largely grounded in religious concerns about the company and the products it sells.

Monsey is populated mostly by Hassidic Jews, and “when residents talk about traffic, they are fearful for the safety of families walking to synagogue on Saturdays. When they fret about merchandise, they wonder if frowned-upon items like bikinis and lingerie will be on display for everyone to see. And when they imagine the outsiders who would shop at the store, they worry that their presence could transform the town’s pious, sheltered atmosphere.”

Wal-Mart says it has been doing outreach to the community for several years, and is willing to listen to any complaints or reservations that the people who live there might offer. However, it does not seem willing to do the one thing that would really make the local citizens happy – build somewhere else.

- Wal-Mart Canada has announced that it will begin making decisions on the products it carries based, in part, on whether those items use excessive packaging.

CEO Mario Pillozzi told a supplier group that both retailers and manufacturers need to work harder on packaging issues, including environmental impact and recycled content of packaging.

- *Newsweek* reports that this week marks the shift by Wal-Mart in employee wardrobe, from the “iconic bright blue vests and smocks” to khakis and navy blue polo shirts that have the Wal-Mart logo.

One of the most interesting points of the story, however, has to do with what the company plans to do with the old vests and smocks, more than one million of which could end up having a minor environmental impact once disposed of.

“In August, the retailer will announce that it’s converting the old uniforms into free supplies for the U.S. military,” *Newsweek* writes. “In partnership with the VFW Foundation and Hallmark, Wal-Mart’s used vests will become lap blankets, to be handed out at Veterans Administration hospitals in November, and packages of greeting cards, which will be sent to troops in Iraq and Afghanistan in time for the holidays.”

If you want a vest, though, there are options – you can get one for as little as five bucks on eBay.

- A new study from the Economic Policy Institute (EPI) charges that Wal-Mart’s purchase of products from China has helped to contribute to a trade deficit with that country of \$233 billion, with Wal-Mart’s imports alone accounting for \$27 billion. EPI also says that Wal-Mart’s purchases from China alone led to the loss of close to 200,000 jobs in the United States between 2001 and 2006.

The Balance Sheet

- Walgreen Co. reports that its third quarter net income was up 20 percent to \$561.2 million, from \$469.2 million during the same period a year ago. Sales rose to \$13.7 billion from \$12.2 billion a year ago, with same-store sales up 7.8 percent.
- The Kroger Co. reports that its first quarter net income was \$336.6 million, up from \$306.4 million during the same period a year ago. Q1 sales increased 6.7% to \$20.7 billion.
- ConAgra Foods said that its fourth quarter revenue rose to \$3.33 billion from \$2.94 billion a year ago, while its Q4 profit was \$192 million, compared to year-ago profit of \$59.2 million.

Executive Suite

- Winn-Dixie announced that Dan Portnoy, the former president/CEO of Kings Super Markets in New Jersey, has been named its new vice president and chief merchandising and marketing officer. He succeeds Tim Robbins, who is retiring.
- Rite Aid has promoted Brian Fiala to be its new executive vice president of store operations.