

- Retail Industry News from IRI for Week Ending 7/20/07-

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Thanks to MNB
for this selection of
articles.

Globalization Means Europeans Are Targeting US Retail Sector

Good piece on *Slate.com* about how globalization is resulting in the expansion of foreign retail concepts onto American shores, with Tesco's incursion onto the US west coast a prime example.

But, *Slate* notes, Tesco is hardly the first:

"Tesco is following in the footsteps of Pret a Manger, the sandwich shop that, despite its Gallic moniker, hails from ... London. At lunchtime, midtown Manhattan office warriors queue six deep, clutching organic chicken Caesar salads and roast beef and arugula sandwiches—all in biodegradable boxes. The food is free of chemicals or preservatives, and Pret's packaging is slathered with precious foodie rhetoric. The chain (13 outposts in Manhattan) aims to 'pursue harmony and balance in the business of making and serving great food.'

"Pret found it slow going in Manhattan when it first arrived in 2001 because 'we could not find the source of very good, confident, strong-tasting ingredients,' says Julian Metcalfe, the effervescent co-founder of Pret a Manger. (A Brit talking smack about the quality of New York-area food products is a little like a Yank denigrating the relative quality of British soccer.) Pret a Manger, expanding rapidly in Manhattan, has designs on Boston and Washington. 'For us to have 50 in New York will be nothing,' says Metcalfe."

And, *Slate* notes, even Starbucks may see some European competition "from the birthplace of espresso. Italy is synonymous with slow food, lovingly crafted goods, and, to put it charitably, a less-than-frenetic pace of customer service. Yet Illy, the Italian coffee maker, this fall will open its first Illy Espressoamente coffee bar in a Las Vegas hotel.

"If you're keeping score at home, that will bring the tally to: Illy 1, Starbucks, 9,814."

Costco's Busiest Store Creates An Island Of Value

Excellent piece in the *Seattle Times* about Costco's busiest store – the Iwilei store in Honolulu, Hawaii, ringing up \$300 million in sales a year, more than twice what the average Costco warehouse generates. "While the chain boasts other high-octane warehouses, this site has been No. 1 for the last 19 months," the *Times* writes. "Nearly one in every four island residents — more than 190,000 — joined the club at this store. Tack on the other two locations — Waipio and Hawaii Kai — and half the residents carry a Costco card.

"Iwilei is so busy, in fact, that it turns its entire inventory every two-and-a-half to three weeks — a logistical wonder considering most everything comes in by water."

The *Times* also notes that "in Hawaii the demand is more pronounced because of the value it offers residents. James Wills Jr., a marketing professor at the University of Hawaii Shidler College of Business, says land and manufacturing here is so scarce that it drives up the cost for everything from milk to cars to shoes. Costco was the first retailer to fill that vacuum, offering goods at prices locals hadn't known before. The company caps its markups at 14 percent regardless of product or location, although freight is added to the prices in Hawaii."

MNB's Tales Of Tesco

- In the UK, the *Guardian* reports that Tesco is launching a new price-oriented television advertising campaign. The new campaign, according to the paper, "is a marked U-turn from recent campaigns — which have focused on the grocer's green credentials — and initiatives to improve Tesco's reputation. Instead it will simply boast how much cheaper Tesco is than its rivals."

However, while the TV campaign may put new emphasis on Tesco's prices, both Tesco and Wal-Mart-owned Asda have been trading price cuts for years as they attempt to bolster their low price images in the mind of British consumers.

- Tesco, the UK's biggest food chain, closed and then reopened 14 stores over the weekend after "unspecified threats" were made against the stores. While the UK has been on heightened alert since the attempted terrorist attacks in London and Glasgow, initial reports suggest that the British police believe that the threats are criminal rather than terrorist in nature.
- There are reports out of the UK that when Tesco's board of directors has its annual meeting early in 2008, the location for that get-together will be California, which is said to be a show of support for the company's launch of its Fresh & Easy Neighborhood Markets chain of stores there. The first Fresh & Easy stores are scheduled to open this fall; as many as 250 could be opened in the following 12 months if the launch is deemed a success.
- Meanwhile, the *Financial Times* reports that each Fresh & Easy store will have a three-person management team, which will include a "customer assistant" who will have primary responsibility for customer service.

Sobeys Buys Vancouver's Thrifty Foods

Sobeys Inc., which owns or franchises more than 1,300 stores throughout Canada, has made a deal to acquire British Columbia-based Thrifty Foods for the equivalent of \$250 million (US), according to reports in the Canadian media.

Thrift is described as "Vancouver Island's largest private-sector employer, with 3,700 employees serving customers in 20 stores throughout the Island and B.C.'s Lower Mainland," according to the *Canadian Press*. The company includes 20 full-service supermarkets, a main distribution centre and a wholesale division on Vancouver Island and the Lower Mainland.

The deal is expected to close later this year.

According to a story in the Toronto *Globe and Mail*, this could be just the first in a series of moves westward by Sobeys, Canada's second largest supermarket chain.

"This gives us a foothold in British Columbia, where we have very little presence today," Bill McEwan, Sobeys' CEO, tells the paper. "Now that we have a presence in a place where we hadn't been before, it's a natural extension to think we'll continue to grow from here. ... Public or private, we've always indicated over the years that we're willing, motivated and capable of purchasing things that make sense to us. We'll just keep looking."

Sobeys was taken private by its parent company, Empire Co. Ltd., about a month ago.

Study: Self-Service Kiosks To Generate \$525 Billion In Sales This Year

A new study by IHL Consulting Group says that North American consumers are on pace to spend over \$525 billion at self-checkout lanes, ticketing kiosks and other self-service machines in 2007, an increase from \$438 billion in 2006.

"We expect that expenditures made at self-service kiosks will rise by about 20 percent this year and another 18 percent in 2008," says Greg Buzek, IHL's president. Buzek also says that demand for self-checkout systems and other kiosks should push the dollar value of transactions to nearly \$1.3 trillion by 2011.

The types of kiosks covered in the study are self-checkout systems, ticketing kiosks, check-in kiosks, food ordering, and postal kiosks.

Tesco Says It Will Open 12 Stores In LA Area This Fall

British retailer Tesco said yesterday that it will open a dozen Fresh & Easy Neighborhood Markets in the Los Angeles area this fall and stressed that not only will one of them be in Compton, described as a "poor and supermarket starved" community, but that the company "was still negotiating seven other sites in economically depressed Los Angeles communities."

While Tesco says that its employees will be free to unionize, the company clearly is working to develop a pay and benefits package that it hopes will stave off such a development. The company has said that

each 10,000 square foot store will have 30 employees, and that the pay/benefits will include:

- Entry-level positions at Fresh & Easy will start at \$10 an hour in California, and include a quarterly bonus of up to 10%.
- All jobs at Fresh & Easy are planned to offer at least 20 hours a week.
- All employees – including part-time – will be offered affordable healthcare including medical, prescription drugs, dental coverage and vision coverage, with Fresh & Easy paying at least 75% of the cost, and a qualifying period of 90 days.
- 401-k retirement plan, with company match.
- A generous paid time off (PTO) plan.

Tesco has said that it plans to have 30 stores open in California, Arizona and Nevada by the end of the year, and as many as 200 in total in relatively short order.

FastNewsBeat

- The *Wall Street Journal* reports that Coca-Cola “is in talks to acquire a 20% stake in Brain-Twist Inc., developer of Cinnabon coffee lattes and other funky drinks for about \$5 million.” If the deal is made, the *Journal* writes, it “would continue Coke’s recent spree of investments in expanding its beverage lineup and would give the Atlanta company another shot at transforming an invention by Brain-Twist’s chief into a big brand.” The first shot, which didn’t work out when Coke decided to go in another direction, came when the soft drink giant acquired the Planet Java brand from Brain-Twist in 2001.
- The *Los Angeles Times* reports that Cadbury Schweppes has been sued by a New York consumer who charges that the company is lying when it uses the slogan “made from the best stuff on earth,” when, in fact, its products contain high fructose corn syrup and other non-natural products. The suit, which is seeking class action status, is looking for \$100 million in damages.
- The Great Atlantic & Pacific Tea Co. says that its planned acquisition of Pathmark Stores will be delayed by an additional two months while the Federal Trade Commission (FTC) completes its investigation into whether the deal is anti-competitive. Both retailers say that they have substantially complied with the FTC’s various requests for additional information.
- There are reports out of the UK that Delta Two, the Qatari royal family’s investment vehicle, has made a bid to acquire all the outstanding stock in Sainsbury, the British retailing chain. Delta Two already owns 25 percent of the company, having upped its position in the chain from 18 percent just last month.
- Carrefour reportedly will spend the equivalent of \$264 million (US) to acquire Tengelmann’s Plus stores in Spain, which will be operated by Carrefour’s Dia unit there.
- A story in the *Los Angeles Times* this morning about urban redevelopment in downtown LA notes that “Ralphs Grocery got its start in downtown Los Angeles during the horse-and-buggy days. But the supermarket abandoned the city center in 1950, a symbol of the district’s rapid decline in the wake of the post-World War II suburban boom.

“Now, Ralphs is poised to return to the heart of the city, with a 50,000-square-foot market in the shadow of Staples Center and more than a dozen new condo towers. It is scheduled to open Friday. The supermarket is a central part of a concerted effort by developers and urban planners to create

suburban touches in one corner of downtown, an area known as South Park.”

- Carrefour reportedly is planning to begin rolling out a new generation hypermarket in France that has a broader selection particularly in nonfood, as well as newly designed food departments featuring items such as chocolate and local produce. The new format also reportedly uses a gray and white color scheme.

The MNB Wal-Mart Watch

- Wal-Mart announced on Friday that it will not sue the city of Tucson, Arizona, to force a referendum on the city's big box retailer restrictions that limit food and beverage sales to no more than 10 percent of a store's total space. The *Arizona Daily Star* reports that a Wal-Mart representative said that a lawsuit wasn't "the right alternative."

Apparently, Wal-Mart believes that it has enough support that the mayor and city council may be forced to reconsider their positions if they want to be re-elected to office. Supporters of the ordinance, however, say that Wal-Mart knew it would lose a court battle and decided not to go in that direction.

- Reports out of the UK say that Wal-Mart-owned Asda Group has opened an investigation into charges – published by the *Guardian* newspaper there – that its clothing production facility in Bangladesh was guilty of human rights abuses, including forcing workers to labor for as many as 84 hours a week for low wages and in questionable conditions.
- Interesting piece in the *Wall Street Journal* this morning noting that while virtually everything about the Wal-Mart culture is steeped in low prices, there is one exception – the cost of flying to the company's headquarters in Bentonville, Arkansas. Northwest Arkansas Regional Airport, the paper notes, while it exists primarily for businesspeople to travel to and from Wal-Mart headquarters, also features "some of the most expensive airfares in the U.S."

However, that could change.

"Northwest Arkansas Regional officials are drafting a \$20 million expansion of the single-runway airport to accommodate its soaring passenger numbers and perhaps lure a discount carrier like Southwest or Frontier Airlines Holdings Inc.," the *Journal* reports. "They plan to potentially quadruple the airport's gates to 12 via the expansion, which is tentatively planned to start next year. Packaging those new gates with recently added extra ticket counters and second baggage-claim area could entice a discounter to bring lower fares to Northwest Arkansas, airport officials say."

- In the UK, the *Daily Telegraph* reports that Wal-Mart is considering making an acquisition bid for "Beijing Hualian, a hypermarket operator which owns scores of stores in the capital and other cities across China. The two sides are believed to have held some preliminary talks about a deal, although it was unclear what stage these negotiations had reached."

According to the story, Wal-Mart currently owns 70 hypermarkets in China, plus a stake in Trust Mart, which owns another 100 stores there. A deal to acquire Beijing Hualian, the *Daily Telegraph* writes, "would dramatically expand its presence in the world's most populous country." It also would cost Wal-Mart upwards of \$1 billion (US), according to reports.

Meanwhile, *Bloomberg* reports that Wal-Mart “plans to more than double its stores in China in the next five years to tap the growing personal wealth of the country's 1.3 billion people. The expansion will help the ... company broaden its reach ... into smaller cities, where competition is less fierce. Wal-Mart expects the growth to help it garner 20 percent of China's retail market, said Terrence Cullen, vice president of its China operations.”

However, Cullen denies the Beijing Hualian report.

“There are lots of rumors, but I can tell you we are not buying them,” he tells *Bloomberg*. “There are many possible targets we are looking at, but we don't have anything at the moment.”

- Wal-Mart has announced that as part of its environmental initiatives, about 7,200 semitractor-trailer trucks already are about 15 percent more fuel efficient. According to a store in the *San Francisco Examiner*, the company expects to meet a target of 25 percent greater fuel efficiency by late next year. The annual savings in carbon dioxide, a greenhouse gas, would be equal to taking 67,744 cars off the road.

The Balance Sheet

- The Coca-Cola Co. reports that its second quarter profit was 1.85 billion, compared with a profit of \$1.84 billion, a one percent increase, for the same period a year ago. Q2 sales were up 19 percent to \$7.73 billion, vs. \$6.48 billion a year earlier.
- Couche-Tard reports that its annual sales for the just-completed fiscal year were \$12.1 billion (US), up 19 percent over the previous year, with earnings of \$196.4 million, up from \$196.2 million a year earlier.
- Safeway said yesterday that its second quarter profit was down 11 percent to \$218.2 million, from \$246.2 million a year ago – though it noted that last year's Q2 results were boosted by a \$58.5 million gain from a federal income tax refund.

Safeway's sales for the second quarter totaled \$9.82 billion, a five percent increase from last year, on same-store sales that were up 4.5 percent.

- The Great Atlantic & Pacific Tea Company (A&P) announced that its first quarter sales were \$2 billion, or virtually the same as during the same period a year ago, on same-store sales that were up one percent for the period. A&P also declared a \$43 million net loss for the quarter, compared to a loss of \$6 million last year.

Executive Suite

- Gladson interactive announced that it has hired Milan Vacval for the newly-created position of director of industry standards. Vacval comes to Gladson from UDEX, where he headed that company's global e-commerce standards initiatives and managed the Global Data Synchronization Network (GDSN) project.

At Gladson, Vacval will continue in his role as a primary contributor to the GS1's Global Standard Management Process.

- Starbucks Corp. announced that it has promoted Martin Coles, the president of Starbucks Coffee International, to be the corporation's COO, a newly created position. CEO Jim Donald tells the *Wall Street Journal* that the move was initiated as part of the company's strategic plan to grow from 11,000 locations today to 20,000 in the next four to five years.