



-Week Ending 8/15/08-

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Thanks to MNB
for this selection of
articles.

CVS Buys Longs Drug For \$2.54 Billion

CVS Caremark Corp. announced yesterday that it will acquire Longs Drug Stores, which operates 521 stores in California, Hawaii, Nevada and Arizona, for \$2.54 billion.

CVS does not currently operate in Hawaii.

The company said that the acquisition will give it access to Longs' eight million prescription drug customers serviced through its Rx America benefits management subsidiary, not to mention more than a billion dollars worth of real estate.

On The Horizon, Fundamental Changes In How People Shop?

There is a story in *US News & World Report* that is worth reading about "the end of credit card consumerism," suggesting that the current economic crisis could cause a fundamental change in the way people shop and how they pay for things.

"Only twice since 1965, despite half a dozen recessions, have Americans spent less in a year than the previous one," *US News* writes. "Indeed, it often seems that we have defined ourselves by our ability to buy supersized everything, from McMansions to tricked-out SUVs to 60-inch flat-screen televisions—all enabled by decades of cheap credit.

"On the surface, it may seem that there's nothing wrong with all that conspicuous consumption, especially for the biggest, most productive economy on the planet. After all, our undying love of stuff has helped fuel a global economic boom. Yet today, America finds itself at a once-or-twice-a-century economic tipping point. A sharp slowdown, record-high gas prices, high consumer debt levels, a plunging real estate market, and the growing green movement all seem to be conspiring to dethrone King Consumer and transform the economy and the American way of life for years to come."

At least part of the problem is that as credit card debt has increased (up 50 percent in just the last eight years), personal savings rates have plummeted and incomes are no longer climbing at past increments. And rising inflation is likely to cause an increase in interest rates, which will push people into even more debt.

And, *US News* suggests, the environmental movement has fostered a kind of life simplification mindset that has begun to gather some traction, offering a clear rejoinder to the profligate ways of old.





This isn't all bad: "Even if Americans do curtail their spendthrift habits, the result would probably be a healthier and more balanced American economy. Next year, the federal budget deficit is projected to reach almost \$500 billion for the first time. America couldn't afford such a fiscal shortfall if foreign investors, such as the Chinese, didn't buy our debt—U.S. treasury bonds. If as a nation we bought a bit less and saved a bit more, economists say, the result would be stronger long-term economic growth. And depending on the kindness of strangers to perpetually finance your lavish spending sure seems risky. If the foreign appetite for U.S. dollar assets abated, says T. Rowe Price chief economist Alan Levenson, the dollar would probably weaken further, reducing Americans' standard of living.

"Besides, there is more to the economy than just the consumer. The economic boom of the 1990s was led by business investment, especially in technology, aiding a boost in productivity that continues today. While businesses are holding back on investment because of recession fears, they are likely to beef it up after that threat passes, says Robert Brusca, chief economist at Fact and Opinion Economics."

However, the magazine also asks the obvious question: "What happens when budgets aren't so tight? Plenty of hardheaded economists say we'll go right back to our prodigal ways. Alan Blinder, economics professor at Princeton University and former Federal Reserve vice chairman, thinks that optimism and the drive to spend are hard-wired parts of America's cultural DNA. Blinder expects that even baby boomers will continue the spending spree that has defined most of their lives, buying medical care and golf vacations instead of new cars and larger homes."

US News concludes, "With baby boomers' habits well ingrained, it may instead be generation X and generation Y who decide to embrace a simpler, less wasteful lifestyle, rebelling against the conspicuous consumption that their parents helped make the American way of life."

Walmart Looks For Sustainability Narratives

The *Dallas Morning News* reports that Walmart is continuing its push into more and better environmentally themed marketing, and "is telling its suppliers that it's not enough to simply provide eco-friendly products. The world's largest retailer wants to be able to tell its customers the stories behind the products, of how they came to be and how sustainable they are ... Wal-Mart has been putting increasing emphasis on ways it can be environmentally friendly and ways that sustainable methods can lower costs. From motion detectors that turn on lights only when customers are in the aisle to fuel conservation to innovations in packaging, the company has been approaching the effort from multiple angles."

According to the story, Walmart has created four points of emphasis when it comes to sustainability – waste reduction/recycling, natural resources, energy, and social/community impact. The retailer has given manufacturers a deadline – August 18 – by which time they need to submit products to be included in next year's Earth Month promotion; the products will be chosen based on how they relate to the various points of emphasis, and how their individual stories can be told to consumers.

Tesco's Fresh & Easy To Set Up Shop In Chicago

In the UK, *The Independent* reports that Tesco is getting ready to set up an office in Chicago that will serve as a precursor to an eventual opening of its Fresh & Easy Neighborhood Markets there.

According to the story, a team of executives already has a team of executives on the ground there, looking for property that can be used both for retail stores and a Midwest distribution center. Matthew Price, a real estate director for Fresh & Easy, is said to be in charge of the Chicago property acquisition team.

No target date has been set for when Fresh & Easy might begin opening stores in Chicago.

As the *Independent* writes, "The revelation is the clearest indication yet that Tesco intends to gain geographical spread in the US beyond the 71 Fresh & Easy stores it has already opened in southern California, Arizona and Nevada."





Sansolo Speaks: Doing Well & Doing Good

by Michael Sansolo

Can companies do well by doing good? That is, can they prosper by working for the benefit of the environment and the world? The answer, increasingly, seems to be yes.

Consider the following quote from an article in the *New York Times* Monday, in a story about retailers using solar energy panels on the roofs of stores.

"It's going to be the Wal-Marts of the world that will buy these things over acres and make a difference," said Roger G. Little, chairman and chief executive of the Spire Corporation, a Boston company that provides solar equipment.

Analysts are not sure how much power the rooftop projects could ultimately produce, but they say it could be enough to help shave total electricity demand. In many communities, stores are among the biggest energy users. Depending on location and weather, the solar panels generate 10 to 40 percent of the power a store needs.

If Wal-Mart eventually covered the roofs of all its Sam's Club and Wal-Mart locations with solar panels, figures from the company show that the resulting solar acreage would roughly equal the size of Manhattan, an island of 23 square miles.

That story, which "Content Guy" Kevin Coupe highlighted in Monday's *MNB*, should be must reading for everyone in the industry because it details a number of important truths about energy, lack of congressional action and activities by leading retailers.

But mostly it makes clear the point of how doing well and doing good are linked together. As explained in the story, retailers installing solar panels are also looking for a major impact on the bottom line by cutting energy costs, an issue certain to grow larger in years to come.

No doubt there are many readers out there who scoff at the concerns raised about the environment, global warming, energy prices and supply, water shortages...etc. There might be some of you with similar feelings about food safety, health and wellness and more. And, of course, you are entitled to your opinion though I'd disagree with you across the board.

But let's put aside politics and emotion and focus on business. To my thinking it's hard to ignore this simple truth: what matters to shoppers must matter to you. Increasingly, shoppers say they are prepared to evaluate a wide range of issues when making a purchase. Food safety and health and wellness are on the list. Energy and environmental impact are getting on that list. Now that may not make a difference today or even in five years, but the day is coming.

I'd also argue that you look simply at the business side of this. How will you compete with those who learn how to talk about and market to these concerns? How will you answer questions from shoppers wondering why the store down the street is talking about packaging or energy reduction, while you aren't?

And, let's be even more direct. How will you compete if other retailers are shaving costs repeatedly by cutting waste, cutting energy use and more? Pennies quickly add up to dollars and pretty soon, we're talking about real money.

Take a second while watching the Olympics tonight and consider the razor thin margin of victory and defeat. Consider the care the swimmers put into deciding which suit to wear. Or contemplate a study reported in the *Washington Post* sports section Monday on the microscopic, but important advantage sprinters get by lining up with their left leg in front of their right.

Winners look for every edge, no matter how small.

Then look at your roof, your energy policy, your waste management plans and ask yourself, am I doing all I can?

The clock is ticking.





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FastNewsBeat

- The Canadian Press reports that Canada Safeway employees will vote next week on a tentative contract agreement reached between the chain and the United Food and Commercial Workers (UFCW). Terms of the deal were not disclosed.

The MNB Wal-Mart Watch

- Information Resources Inc. (IRI) reports that while a declining economy has proved troublesome for a number of retailers, Walmart in fact has been gaining market share in 84 percent of the top consumer packaged goods categories.

In part, this has been a result of Walmart's "always low prices" approach to marketing, which is a compelling message to recession-minded shoppers. But the retailer's ubiquity also seems to have played a role, since customers are looking to make fewer trips because of the high price of gasoline, and want to visit supercenters where they can do a greater amount of one-stop shopping. Since Walmart has more supercenters than anyone else, the trend plays into the retailer's sweet spot.

- Walmart-owned Asda Group in the UK said that there were two pieces of evidence suggesting that British shoppers were changing their buying habits because of recessionary mindset. For one thing, sales of its Smartprice budget brand products were up 20 percent in the just-completed second quarter, as were sales of frozen food in general – meaning that customers were looking for products that both cost less and would last longer.

- Walmart announced yesterday that it plans to invest a minimum of \$1 billion (US) in its Brazilian operations to expand its store count there by between 80 and 90, beginning next year. Walmart first came to Brazil in 1995, and currently operates 318 units there.

- The Wall Street Journal features an interview this morning with Eduardo Castro-Wright, CEO of Walmart's US stores division, in which he addresses both the company's resurgence during tough economic times and other issues confronting the company.

Regarding the three-year plan that brought the company to the point where it could take advantage of a declining economy, Castro-Wright says, "First, we had to reinforce our price leadership. We needed to ask ourselves what we stood for and it was more than just low prices, but [rather] saving people money to make their lives better. That gave us a unifying marketing message and gave 1.3 million associates a powerful sense of purpose.

"Then it included everything from improving navigational signs in the stores so people could find things more easily to investing in technology to allow for a faster checkout. We took down high shelves to reduce clutter and improve sight lines throughout the store.

"We learned that providing customer choice wasn't about more products, but carefully selected products that customers cared about. We made big bets in growth categories such as consumer electronics, providing brands that gave us authority. It's still not finished yet."

And, he adds, The one thing I would do differently is I would have done things faster, which is counterintuitive.





When you think about changing a big organization rooted in its history, you think the changes should be gradual. I think that the faster you move, the faster you make the tough calls and the better off you're going to be. You don't want to have organizations in what some people think of as a liquid state. I'm an engineer by training so my physics comes back. An organization is something very solid and when you apply a lot of heat to change it, it becomes fluid. You want to make sure that you don't keep it fluid too long, because liquids move in many directions that you might not have intended."

Interestingly, Castro-Wright downplays the current economy's role in the company's comeback: "I wouldn't say a significant part of the current results is related to the economic environment. The changes in merchandising, marketing and improved service in the stores ... have vastly improved the shopping experience, and that will continue to drive sales after the economy rebounds."

The Balance Sheet

- Walmart announced this morning that its second quarter net sales were up 10 percent to \$101.6 billion, on same-store sales that were up 4.5 percent in the US (excluding fuel). Q2 net income was \$3.45 billion, up 17 percent from \$2.95 billion during the same period a year ago.
- Unified Grocers reports that its third quarter net sales were \$1,017.1 million, compared to \$790.6 million for the 2007 period, a 28.6 percent increase that it attributed largely to its acquisition of Seattle-based Associated Grocers. Q3 net earnings were \$12.2 million compared to \$11.3 million in the same period a year ago.
- Stater Bros. reports that its third quarter earnings were down 41 percent to \$9.2 million, from \$15.6 million during the same period a year ago. Q3 sales were \$932.7 million in sales, up 2.5 percent from a year ago.

CEO Jack Brown conceded that the tough economy had an impact on the company's profits, but noted that its stores actually saw an increased customer count during the quarter. "This means that when our customers have more to spend, we'll get our share and unlike some retailers, we won't have to go looking for our customers," Brown said. "A lost customer is very hard to locate and win back."

- Family Dollar Stores said that its July sales rose 7.2 percent to \$527.1 million, on same-store sales that were up 4.6 percent.
- Dollar Tree Inc. said that its second quarter sales were \$1.093 billion, up 12.5 percent over the same period a year ago, on same-store sales that were up 6.5 percent.

Executive Suite

- Starbucks has named Darcy Willson-Rymer, the company's vice-president for Europe, the Middle East and Africa, to be its new managing director for the United Kingdom and Ireland. He succeeds Phil Broad, who resigned for "personal reasons."