- Retail Industry News from IRI for Week Ending 9/7/07-

Below is the list of articles you will find for the week ending 9/7/07 edition of Retail Industry News.

Thanks to MNB for this selection of articles.

Small Ethnic Retailers Face A Familiar Competitive Challenge

The *Washington Post* reports that small, privately owned ethnic food stores are finding it difficult to compete as their corner of the food industry is swamped by bigger ethnic food stores, not to mention mainstream chain stores – ranging from Whole Foods to Safeway – that have decided to increase their offerings in ethnic and specialty food categories.

Indeed, the *Post* notes that at a Wegmans store in Fairfax, Virginia, "long aisles are dedicated to Mediterranean, Latin American, Thai, Japanese, Korean and Vietnamese food."

The challenge being faced by small ethnic stores is virtually the same as the one posed by big box stores to all small independent retailers – bigger companies have bigger ad budgets, greater purchasing power, and a sometimes simultaneously overwhelming and irresistible appeal to shoppers. Which makes it tough to compete.

Costco's Sinegal Keeps His Focus

The *Wall Street Journal* had an interview last week with Costco CEO Jim Sinegal in which the first question was whether he was sacrificing shareholder value to keep prices down and employee salaries up. His responses:

• "We want to obey the law, take care of our customers, take care of our people and respect our suppliers. And we think if we do those four things pretty much in that order, that we're going to reward shareholders. By the way, we sell for a pretty rich multiple. We're not getting penalized by Wall Street … There are all sorts of opportunities where you can try to sneak in a little more margin here and a little more profitability there, but that's not what we're about. When you start suggesting that it's not important to save the customer money on this because they'll never know the difference, you start to fool yourself. The customer trusts us. You don't want to give up on that type of reputation."

• “We think that you get what you pay for. If you hire good people, pay them good wages and provide good jobs and careers, good things will happen in your business. We think that's proven true in our case. We are the low-cost provider of merchandise, and yet we pay the highest wages. Wouldn't that suggest that we're getting better productivity?”

In addition, Sinegal tells the *Journal* that the company expects to launch a line of Martha Stewart-designed products just before Christmas, and that current concerns about imported product safety will “make us better buyers in terms of looking at every single thing that we buy and testing things much more carefully.”

MNB's Tales Of Tesco

• Reports in the UK say that Tesco plans to more than double the number of Homeplus nonfoods stores that it operates there, though the format is expected to continue to be refined as time goes on. Tesco currently has seven such units up and running, has six new sites identified and has at least four additional locations planned for the format.

“Guiding Stars” Nutrition Program Proves Boon To Hannaford Sales

One year after Delhaize-owned Hannaford Supermarkets launched its “Guiding Stars” program – designed to help customers choose nutritious foods by grading the good, better and best products with one, two and three stars – the company has found that sales of many designated items have improved significantly compared to a year ago.

Indeed, some of the greatest improvements were seen in center store, where the selection by consumers of “starred” edible grocery items – such as cereal, commercial bakery, canned products, and snack foods – grew at 2.5 times the growth rate of those that were not given any stars. Selection of breakfast cereals with Stars increased 3.5 times more than no-Star cereals, which increased only slightly.

According to Hannaford, “starred” ground beef (90 percent or more fat-free) selection increased by seven percent, while ground beef without Stars dropped by five percent. “Starred” chicken grew at five percent while chicken without Stars decreased by three percent. Movement of all meats and poultry with Stars grew at more than 2.5 times the rate of those with no Stars. And, movement of yogurts with Stars grew more than 3.5 times faster than no-Star yogurts.

In an exclusive interview with *MNB*, Caren Epstein, director of external communications at Hannaford, said that the company went into the program “without expectations. We were the first in the country to have this kind of program, and there was nothing really to measure it against.” And, Epstein noted that it is impossible to be sure to what extent the “Guiding Stars” program influenced sales, since there was no control store – Hannaford ran the initiative at every one of its 160 stores.

“Anecdotally, though, I heard from so many stores about parents who would walk into the cereal aisle with their children and say that they could pick out anything they wanted as long as it had a star,” Epstein said.

The Hannaford program was created using input from a scientific panel to create a proprietary algorithm that analyzes food products and assigns them a rating. The formula credits a food’s score for the presence of vitamins and minerals, fiber and whole grains. It debits the score for trans fats, saturated fats, cholesterol, added sugars and added sodium.

There are some 25,556 products in Hannaford's stores that were eligible to be rated; just 7,155 SKUs were assigned one, two or three stars – which meant that more than 70 percent of each store's products did not carry any sort of rating. Epstein emphasized that all vendors were consulted and informed before the program was launched, and that manufacturers were told that Hannaford would not "market, merchandise or promote their (non-starred) products any differently than in the past." The goal was not to demonize certain products, but rather make the process of selecting healthier products easier for consumers.

In certain categories – produce, seafood and fresh bakery – the starring of items didn't seem to have much impact, which Epstein said probably was because most people had a strong feeling about which of those products were healthy and which were not. Baby foods will be rated starting September 15. Star ratings for oils and other fats will be in Hannaford stores toward the end of this year.

The only category not rated is bottled waters, coffees, teas, spices and other foods with five or fewer calories per manufacturer's serving size because they are not a significant source of nutrients.

Epstein noted that while consumer interest in starred items has been across the board, there has been particular interest in three demographic segments – families with young children, older people with specific health issues, and people in their thirties, forties and fifties who have begun thinking about maintaining a higher standard of personal health. "But we've been careful to say that this is not a diet and is not a disease prevention or management program," Epstein said.

Hannaford has been aggressive in its outreach efforts, talking to schools as well as health care and child care professionals about how to use the "Guiding Stars" program. And, the company also has been expanding its use by Delhaize's other US divisions – Sweetbay Supermarkets in Florida started using the program earlier this year, and Food Lion is expected to adopt it sometime in 2008.

While Epstein would agree with the assessment that the "Guiding Stars" program is pioneering and ahead of the wave, she also noted that Hannaford was only doing what customers were asking for, and that consumer interest in starred items reflects what is happened in a broader sense across the nation. Consumers are more interested in healthy products, and therefore they respond to how the retailer has highlighted them on shelves and in cases.

Epstein fully expects that in a matter of years, there will be a higher percentage of starred items in Hannaford's stores, in part because of cultural changes and in part because of regulations that could demand it. "That's not a goal for us," she said, noting that company buyers aren't buying any differently than in the past. "But I think it is going to happen, simply because customers are looking for those kinds of foods … (Manufacturers) are hearing the same things from consumers that we are. They want more nutritious foods."

Report: "Private Label" Expanding Into New Service Areas

The Private Label Manufacturers Association (PLMA) has released a new report suggesting that as "consumers are turning to their favorite supermarkets, drug stores and mass merchandisers as convenient places to shop for an array of financial and personal services, ranging from home mortgages and credit to insurance and health care, travel services, telephone and Internet," these retailers are creating self-branded options that can offer value to the consumer while building credibility for the store.

PLMA cites the following examples:

• "Kroger, the nation's biggest supermarket chain, has introduced a broad portfolio of financial and personal services, including home and auto insurance, credit reporting, and insurance coverage for identity theft."

• "Walgreens, which operates about 6,000 drug stores across the country, is now offering diagnostic services, vaccinations and treatment for minor ailments—ranging from poison ivy to mononucleosis."

• “Wal-Mart is pushing ahead with plans to carve out store space for its expanded financial services program, including check cashing and money services.”

• Regional retailers are also jumping on the trend. In the mid-Atlantic states, Wakefern Food Corp. is offering a ShopRite private label credit card that includes the benefits of its ShopRite PricePlus loyalty cards. The largest supermarket chain in Texas, H-E-B, is marketing life and auto insurance, with offices located inside H-E-B stores.”

Safeway’s Burd Identifies “Growth Engine” Opportunities

In a presentation to a Lehman Brothers conference in Boston, Safeway CEO Steven Burd said yesterday that the company was committed to developing new “growth engines” every two or three years, and that the company would develop a small-store format if Tesco’s Fresh & Easy Neighborhood Market stores prove to be successful when they open later this year in Southern California, Arizona and Nevada.

Burd said that Safeway was ready to do whatever is necessary to defend its market share, and that he felt Safeway was better positioned than Tesco in the long-run because it has a well-established brand identity.

As far as new growth engine examples, Burd said not all would necessarily be in Safeway’s core business. He pointed to Safeway’s Blackhawk Network business, which distributes gift cards and phone cards through retailers all over the country, and is expanding to Australia, France, Germany, Mexico and the United Kingdom.

Amazon Expands “Fresh” Service

The *Puget Sound Business Journal* reports that Amazon.com has expanded its “Amazon Fresh” service beyond Mercer Island, where it began last month, to the Queen Anne neighborhood of Seattle.

The pilot program delivers perishable groceries to consumers, including organic and non-organic fruits and vegetables, dairy products, ice cream, meat and seafood, but does not use a third-party service such as FedEx or UPS; rather, Amazon has its own refrigerated trucks that are delivering directly to homes there.

Amazon has also established local pick-up points for customers so inclined.

To this point, Amazon is said to be offering the service “by invitation only,” stepping carefully through the minefield of potential problems that could derail its latest food-oriented endeavor.

Supervalu Sets Goals For Coming Year

Forbes reports on a presentation made by Supervalu CEO Jeff Noddle to a Goldman Sachs retailing conference, in which he said that the company is entering the “implementation phase” of its acquisition of much of the Albertsons chain, having spent the past year integrating the operations of the two companies.

According to the story, “Noddle outlined three initiatives - building programs for retail growth, implementing synergies and maintaining fiscal discipline,” and said that “the company would try to reduce its debt by $400 million and return to an investment grade credit rating in 2008. He said the company would also work on its private-label brand. He added that the chain would remodel 80 percent of its stores in the next seven years through a $1.2 billion capital spending plan.”

"I'm pleased with our success in year one," Noddle said. “This is a marathon and not a sprint."

Publix CEO Charlie Jenkins Jr. To Retire

Charlie Jenkins Jr., who began his career at Publix in 1969 and became CEO of the company in 2001, has announced his planned retirement, effective March 29, 2008.

Jenkins will remain a member of the company's board of directors, and will become chairman of the board. The current chairman, Howard Jenkins, will become chairman of the executive committee.

Once Jenkins leaves the CEO position, company president Ed Crenshaw will move into the CEO job. Todd Jones, senior vice president for product business development, will become the chain's new president.

FastNewsBeat

• Published reports say that Bi-Lo has begun offering at 80 of its more than 200 stores two different bags pegged as being environmentally friendly – a canvas bag selling for $2.99, and a recycled plastic bag selling for 99 cents. Customers using the bags are given a five-cent discount at checkout.

• Meijer has launched a new own-label line of electronics – including DVD players, televisions, stereos and clock radios – described as offering "excellent performance, modern styles and features at a great price." The brand name being used is "gfm," and the brand slogan being used is "technology within reach."

• The *Sunday Times* reports that the board of directors at J. Sainsbury has requested that Delta Two – the investment fund controlled by the Qatari royal family – make a "best and final offer" in its quest to acquire the British retailer. The reports are that Sainsbury will not open its books to the fund for due diligence until it is satisfied that Delta Two's offer is sufficient and that the fund's debt structure is such that it can support the acquisition.

• The Great Atlantic & Pacific Tea Company (A&P) reportedly has signed a deal with Starbucks to operate coffee shops in selected A&P Fresh and Gourmet/Fine Foods units, starting in November 2007.

• France-based Carrefour, the world's second-largest retailer, announced last week that it will sell some of its real estate portfolio as well as other assets – including its Portuguese hypermarkets and all of its Switzerland operations to fund a buyback of its publicly traded stock shares. The retailer is expected to generate more than $4 billion through the sale of roughly 20 percent of its assets. In addition, Carrefour said it would spin off 60 percent of its property assets into a separately listed company in 2008, allowing it to provide significant returns to investors.

• Ahold said last week that it has decided to delist its company from the NY Stock Exchange, noting that the majority of its shares held by US investors have been purchased on the Euronext Amsterdam exchange. The move should take effect on or about September 20.

The MNB Wal-Mart Watch

• Building on stories saying that Wal-Mart is considering creating new formats to energize its US growth curve, the *Financial Times* reported that the giant retailer is considering possible acquisitions that could jump-start its efforts. And, according to *FT*, Wal-Mart is looking to hire an executive to assess the strategic implications of making a US acquisition – something that it has not done in its home market.

• The *Wall Street Journal* reported last week that the Pritzker family, which owns the Hyatt hotel chain, has sold a $1 billion minority stake in that company to Madrone Capital Partners, an investment firm affiliated with Wal-Mart Stores and the Walton family.

• The *Washington Post* reported last week that Wal-Mart has donated $1.5 million "to help establish a sustainability research center at the University of Arkansas in Fayetteville, part of the company's initiative to become more environmentally friendly.

"The Applied Sustainability Center will work to develop green business practices for the retail and consumer goods industries. Over the next year, the center plans to study ways to reduce carbon in products and identify key sustainability issues in agriculture. The center will also hold a speakers series, help train buyers for Wal-Mart and fund student research."

• Published reports say that Wal-Mart plans to spend more than $200 million (US) in northeastern Brazil before the end of the year to support the opening of 19 new stores there. Wal-Mart also is said to be spending more than $35 million to upgrade its existing Brazilian fleet of stores.

• Wal-Mart announced yesterday that Margaret A. McKenna, the former president of Lesley University, has been named the new president of the Wal-Mart Foundation, charged with taking the company's corporate giving – which last year amounted to $270 million – "to a greater level of impact and excellence."

• The *Wall Street Journal* reports this morning that Wal-Mart "aims to spend less than the $15.5 billion it earmarked for this year's capital spending on building and expanding stores, among other projects. The year's capital budget originally was for $17 billion, but in June the company cut the number to $15.5 billion, saying that it wanted to reduce its expansion rate in favor of improving same-store sales and stock performance. "In curtailing its expansion, Wal-Mart is moving ahead first with the new stores that yield the best return on its spending," the *Journal* writes. "The retailer aims to spend less than its $15.5 billion budget by finding ways to cut its construction costs, among other things."

The Balance Sheet

• BJ's Wholesale Club reported that its August sales increased 6.4 percent to $661.7 million from $622.2 million, on same-store sales that were up 1.4 percent.

• Walgreen said that its August sales were up 10 percent to $4.62 billion from $4.19 billion in the prior year period, with same-store sales for the month up 6.5 percent.

• Wal-Mart Stores reported August sales that were up 9.3 percent from a year ago to $28.22 billion, on total same-store sales that were up 3.1 percent. The company said that Sam's Club same-store sales for the period were up 5.2 percent, while its Wal-Mart stores were up 2.8 percent.

• Rite Aid has posted August sales of $2.51 billion, up 52.9 percent compared to the same month a year ago, an increase that it said was helped by the acquisition of the Brooks and Eckerd chains. Same-store sales were up just one percent.

Executive Suite

• BJ's Wholesale Club has promoted its marketing chief, Edward Gillooly, to the newly created position of Chief Marketing Officer. Gillooly is a two-decade veteran of the company who retired in 2002 but returned to run BJ's marketing efforts earlier this year.

• The Stop & Shop Supermarket Company announced that David McGlinchey, vice president of merchandising services, has been promoted to the role of senior vice president, Business Insight and Merchandising Services.

At the same time, Jim Sylvia, vice president of real estate, has been given expanded responsibilities as senior vice president of Real Estate.

In addition, Peter Hurtgen has been hired as the company's new senior vice president, Labor Relations. Hurtgen most recently was a partner in the Labor & Employment group of Morgan Lewis.

And, Ruth Kinzey, a veteran of the communications industry, has been hired for the newly created position of senior vice president, Communication and Public Affairs.