

- Retail Industry News from IRI for Week Ending 11/30/07-

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Thanks to MNB
for this selection of
articles.

Tesco CEO Lays Out Global Goals

The *Times of London* reports on an interview with Tesco CEO Sir Terry Leahy in which he describes the company's US expansion as just part of an ambitious global growth strategy, saying that within the next decade Tesco hopes to generate more than half of its annual revenue from non-UK operations. Currently, the UK represents 73 percent of Tesco's volume.

"We keep looking at everywhere," Leahy said, noting that India and Russia remain possibilities for the company.

Unified Inks Deal To Become Part Of IGA

Unified Grocers, the retailer-owned cooperative that supplies some 2,800 independently-owned grocery stores in Washington, Oregon, California, Nevada, Arizona, Alaska and Hawaii, has been approved for membership in the IGA Alliance. IGA is the world's largest voluntary supermarket network with aggregate worldwide retail sales of more than \$21 billion per year.

Ahold Said To Be Looking For Acquisition Opportunities

Reuters reports that Ahold CEO John Rishton has told a press conference that the company "will continue to look for opportunities to acquire businesses in geographical regions we operate in."

And, according to the story, Belgium-based Delhaize continues "to be a good merger candidate."

Sansolo Speaks: Giving Away The Store

In all the world of terrible commercials, there is nothing quite like those hawking mattresses. I don't know what it is, but they make the whole notion of buying a mattress seem worse than it actually is, which is saying something since buying a bed can be such a terrible experience.

Yet I'm shocked to admit, there is one commercial that sends a message we should all consider.

The story line is stupid and the mere fact that I cannot recall the name of the retailer or the mattress demonstrates how badly the ad fails. Yet it tackles the value equation in a way food retailers rarely do.

The commercial begins with a restless wife trying to sleep while her giddy husband happily changes channels on his new flat screen television. Finally she sits up and asks how much he spent on the television. "\$4,000" he proclaims. Then she asks, "How much did we spend on this mattress?" In other words, why is the television so much more valuable than the bed on which they are sleeping?

Linger on that for a second and the problem we all have in setting value becomes crystal clear. Why exactly are some things so much more valued than others?

This is a great question for the food retail industry to ponder as we move past yet another Thanksgiving holiday with its own interesting question on value. I don't have to ask it because *MNB* reader Jeff Antil of Bozzuto's put it so well in a recent e-mail.

Antil wrote, "Why is it the grocery industry lowers prices on items everyone is going to buy, like turkeys during Thanksgiving, hams during Easter, prime rib during Christmas? Other industries like restaurants have special menus for holidays increasing prices on food upwards to 50-75% higher?

"During peak holidays airlines increase prices 200-300%. Hotel and motels increase prices when rooms fill up. Imagine if grocery industry charged 50% more for food during a snowstorm or holiday just because other industries can? Sad part is we're the turkeys."

Well, yes and no. It does seem counterintuitive somehow that food retail, among all industries finds a way to buck the basic laws and supply and demand and cuts prices for products that are most in demand. It's not like the airline, restaurant or hotel businesses lack competition. But somehow their value calculus is very different than ours.

There are powerful historic reasons why supermarkets behave the way they do at holidays, and not all are wrong. Building relationships with shoppers requires thinking beyond just the price of a single product and looking into the total spending that shopper may do over the year and years to come.

But we should question the basic nature of value every now and again. After all, food is special. Food is the staff of life. And good food is something to be, well, valued.

Yet that's rarely how it's presented in most supermarkets. If mattress ads are poor, supermarkets would be hard pressed to insult them. Most circulars still hawk price, price and more price. Most frequent shopper programs have become another mechanism for delivering price specials. The value conversation begins and ends too often right there.

Perhaps, there are other ways to start this conversation by talking about taste and quality and delivering on shopper needs. Perhaps we can talk about the importance of making that most important holiday meal of the year something everyone will remember and not because of the price of the turkey. (How many of us sit around the Thanksgiving table discussing the price of turkey after all? If the meal is bad, does anyone actually say, "Well at least it was cheap.")

It's happening already in stores that have turned holidays into the time to serve customer needs like never before. Maybe it's time for a whole new debate about values. Heck, we can learn from the mattress stores this once.

In The UK, The Competition Targets Tesco

In London, the *Times* reports that the three major supermarket chains not named Tesco are ganging up on the UK's dominant retailer as a way of slowing down its continued market share growth.

According to the story, Sainsbury, Wal-Mart-owned Asda and William Morrison Supermarkets are all preparing to submit responses to a report released by the government Competition Commission two months ago. That preliminary report said that there were 110 sites described as "landbanked," or stockpiled by various retailers in order to block competitors from getting a foothold in certain markets. Tesco is believed to control about half the sites being criticized by the commission, though the other retailers could be vulnerable to sanctions imposed by the government.

The *Times* story says that while all three retailers agree on their opposition to Tesco, they differ on what the government should do. Asda, for example, is said to favor planning regulations that would give preferential treatment to retailers that don't have stores in new markets, and that it could support moves to force Tesco to sell off some landbanked properties and perhaps even some stores. Sainsbury is said to favor a less radical approach, in part because it does not want to become the victim of remedies that it recommends.

Not surprisingly, the *Times* writes, "Tesco is expected to insist there is no need for tough remedies because the grocery sector is already extremely competitive. It will fiercely oppose the introduction of a competition test or store and land sales."

FTC Approves A&P Purchase Of Pathmark

The Federal Trade Commission (FTC) yesterday ruled that the Great Atlantic & Pacific Tea Co. (A&P) can acquire Pathmark Stores – though the FTC also said that the combined entities have to sell six stores in order to alleviate concerns about competitive imbalances.

As a result, according to a *Reuters* report, four Waldbaum's supermarkets owned by A&P and one Pathmark supermarket on Staten island, as well as one Waldbaum's supermarket on Long Island, will be divested by January 10, 2008.

The five Staten Island stores reportedly will be acquired by King Kullen, while the Long Island unit will be sold to Ahold-owned Stop & Shop.

The FTC ruling prohibits A&P from opening new stores on Staten Island – which is one of the five boroughs that make up New York City – for the next decade.

According to the *Reuters* story, the FTC approval is provisional, with the public able to comment on the deal until December 27, after which the FTC would decide whether to make it final.

MNB's Tales Of Tesco

- Tesco released a statement yesterday – following a meeting with investors that was picketed by Los Angeles area community groups upset with Tesco being unwilling to meet with them and sign an agreement covering labor, social and environmental issues – maintaining that its US Fresh & Easy Neighborhood Market stores have started off well, and that their fresh food offerings were “particularly well received.”

Taking the Broader View Of Sweetbay's Potential

In Florida, the *News-Press* reports on a speech given by Sweetbay Supermarkets CEO Shelley Broader in which she said that the company “is not dependent on population growth” in order to continue growing. ““We can grow our market share in a market where growth is somewhat stagnant,” she said, noting that while Sweetbay has become known for produce and bakery, she wants the chain to be seen as more than a special occasion destination.

According to the story, “Broader said growing the company has been challenging because of established competitors like Publix and Wal-Mart,” but noted that Sweetbay has “tremendous opportunity because those two competitors are not as strong as they once were.”

Peapod Testing New DVD “Burning” System

Ahold-owned e-retailer Peapod reportedly is testing a new system that will allow it to “burn” DVDs on demand, and then deliver those DVDs with grocery orders placed by consumers.

The system allows Peapod not to actually stock an array of DVDs, but rather only create those DVDs that have been requested by shoppers.

Study Says Tesco May Be In Top 10 US Food Retailers By 2015

Marketing group TNS Retail Forward has published a study suggesting that Tesco’s new Fresh & Easy Neighborhood Market format, which has recently begun rolling out in the US, “potentially represents a significant threat to the U.S. food retailing industry,” and that by 2011, Tesco could be generating \$4 billion in sales in the US, and that by 2015 it could be doing \$10 billion in sales and be among the nation’s top 10 retailers.

According to the report, “Fresh & Easy’s format fulfills several different shopping modes and occasions including fill-in trips, immediate consumption, ‘grab-n-go’ and quick replenishment. TNS Retail Forward believes Fresh & Easy’s small-size advantage gives it the opportunity to almost double space productivity per square foot compared with supermarket industry averages.” The Fresh & Easy stores generally are about 10,000 square feet in size, carry predominantly convenience-sized packaging, and have more than 50 percent of their products in private label rather than national brands.

“The combination of Fresh & Easy’s smaller stores, self service tills and ready-to-cook meals has direct

appeal among U.S. shoppers whose primary concern is convenience,” said Jennifer Halterman, senior consultant at TNS Retail Forward, in a prepared statement. “There is demand for this type of concept, and we expect other U.S. retailers to be watching Tesco closely for ideas on how to tap into this buoyant market. Fresh & Easy’s smaller store size gives it an ideal formula to replicate quickly throughout the United States.”

FMI Releases Annual Industry Financial Review

The Food Marketing Institute (FMI) yesterday released its Annual Financial Review 2006-2007, noting that “food retailers overcame continuing sharp increases in energy, healthcare and other costs to post a median after-tax net profit of 1.91 percent in fiscal year 2006-2007, up from 1.46 percent the previous year.”

The report continues: “The smallest and largest companies reported strong bottom-line results. Retailers with annual sales under \$100 million had a median net profit of 1.83 percent, and those with sales of \$1 billion or more 1.93 percent. Mid-sized retailers with sales in between did not fare as well with profits of 1.10 percent.”

“Satisfying consumers each and every day is the key to improving financial performance,” said FMI President and CEO Tim Hammonds. “Retailers are serving consumers with the right mix of products, keeping items in stock and controlling inventories.

“Retailers are driving down costs with the speed and efficiency of e-commerce,” he said. “They can focus on providing optimum service to the American consumer, saving time and money through faster, more accurate inventory management and fewer errors on electronic invoices and orders.”

“Also noteworthy,” Hammonds said, “is that the industry achieved these gains before food inflation began to rise in mid-2007. In addition, the majority of retailers absorbed energy cost increases over the past two years.” This report found that 56 percent did not pass along these energy cost increases to consumers in 2006, and 57 percent did not do so in 2005.

The full report can be obtained from www.fmi.org.

FastNewsBeat

- Target Corp. is testing the sale of used electronics – such as iPods, televisions and video game consoles – on its website. The company has characterized the initiative as a test, and has not said whether it will continue the strategy.
- HE Butt reportedly will launch its own proprietary discount prescription drug program, offering 500 brand name medications for \$50 or less and 90-day supplies of generic medications for \$9.99. Consumers have to pay \$5 to apply for the program.
- BJ’s Wholesale Club reportedly has relaunched its e-commerce site.
- *MSNBC* reports that “while Americans are spending less overall on presents, sales of food gifts grew almost 50 percent to nearly \$16 billion from 2004 to 2006...”

- Kroger reportedly plans to open a 552,000 square foot distribution center near Los Angeles, which will be used as a logistics hub by its Ralphs and Food 4 Less chains.
- *Bloomberg* reports that Wisconsin-based American Foods Group has recalled more than 95,000 pounds of ground beef – already sent to retailers and distributors in Indiana, Kentucky, Maryland, Ohio, Tennessee, Wisconsin and Virginia – that is suspected of being contaminated with E. coli. Two people who ate the meat got sick, according to the US Department of Agriculture (USDA).
- The *Washington Post* reports that Safeway, having reached the point where 1,000 of its stores have been converted to the “Lifestyle” format, is saying that all of its 1,738 units will have been converted by 2010,

And, the *Post* notes, “Safeway has slowly gained market share in the Washington region, though it remains second in both sales and number of stores to longtime leader Giant Food. But as Giant struggles with remote management, low employee morale and sluggish sales, Safeway has invested heavily in renovating its stores in the area.”

- The Great Atlantic & Pacific Tea Co. (A&P) said yesterday that it has sold all of its 11.7 million shares of Metro Inc. supermarket chain for \$347 million as part of its financing to buy Pathmark Stores for about \$679 million. Canada’s Metro Inc. is buying 1.5 million of the A&P shares.
- *Business Week* reports that “the Food & Drug Administration is planning hearings on Nov. 29 that will reopen a long-dormant debate over whether stricter limits on salt in processed foods are needed. The move has snackmakers and food companies scrambling to fend off the prospect of rules and labeling requirements that could scare consumers and potentially take a bite out of the billions Americans spend on food each year.

“Americans on average ingest 3,400 milligrams of sodium a day--about 1 ½ teaspoons’ worth, well above the recommended level of 2,300 mg.”

- *USA Today* reports on what it describes as one of the nation’s hottest food trends – macaroni and cheese.

“In an age of better-for-you eating, calorie- and carb-heavy macaroni and cheese is making a comeback. It’s now sold in restaurants from fast-food and casual-dining to chi-chi establishments. Even packaged-food giants are cashing in as folks seek sensory comfort in the tastes and smells of their youth.

“Sonic Drive-In started selling it as a snack this month. Kraft has introduced an organic version. Cheesecake Factory sells it as an appetizer. And at two trendy New York eateries, it’s the *only* entrée.”

- Whole Foods announced that it will launch a bi-monthly consumer magazine – called, predictably enough, “Whole Foods Market Magazine” – early next year. Published by Active Interest Media, the magazine will “feature the latest in health and wellness news, food and environmental issues and trends, a wine column, the latest in beauty and self-care products, and more. The magazine will also feature the best natural, organic and gourmet foods as well as healthy and delicious recipes,” according to a statement released by the company.

- Publix Super Markets announced that it will open its first Chattanooga, Tennessee, store on December 12.

- The *Puget Sound Business Journal* reports that Amazon.com “is expanding the Seattle areas where its AmazonFresh grocery service is available and is now giving away produce to entice customers.

“The online grocery now delivers to Seattle's Montlake, South Lake Union and West Seattle areas. For a limited time, the grocery said, it's giving away a free bag of produce with a customer's first order.”

- Hy-Vee reportedly has signed a deal with the Maid-Rite sandwich shop chain that will have it opening shops in a number of Hy-Vee gas station and convenience stores.

The MNB Wal-Mart Watch

- The *Washington Post* reports that Wal-Mart has gotten serious – extremely serious – about lobbying in Washington, DC.

“The overarching goal is to improve the company's image so it can operate unhindered by the automatic opposition its reputation has inspired. It also had a specific legislative agenda spanning issues such as normal trade relations with China and the number of hours truck drivers are allowed to work. In its attempt to make its desires known, it has transformed its lobbying force from a humble two-man shop to a \$2.5 million operation that employs some of K Street's heaviest hitters.

“Campaign donations from Wal-Mart's political action committee to federal candidates jumped from \$135,750 during the 1998 election cycle to \$1.3 million in 2006 – the biggest increase and largest amount of any retailer or retail trade organization, according to the Center for Responsive Politics. It has added consultants ranging from a whitewater guide to a former presidential adviser to court the activist groups that have been Wal-Mart's most vocal opponents.”

And yet, Wal-Mart can be outspent on lobbying. For example, during 2006 the retailer spent \$2.5 million on total lobbying efforts, including \$1.3 million on federal campaigns. During that same time, the Service Employees International Union (SEIU) and the United Food and Commercial Workers (UFCW) combined to spend \$2.9 million on their lobbying efforts.

- The *Wall Street Journal* reports that Wal-Mart has failed in its attempt to prevent future filings in a North Carolina tax dispute from being made public. The retailer, which is being scrutinized for its efforts to reduce its state tax exposure, had said that public access to its filings created “unreasonable and undue annoyance and oppression of a party that is attempting to litigate a serious dispute with a public agency.”

The North Carolina attorney general said that public access to court documents in the case served the public interest, and a state judge agreed.

No word yet on whether Wal-Mart plans to appeal the ruling.

- Published reports say that the US Attorney's office in Arkansas has decided to put off the re-sentencing hearing for former Wal-Mart vice chairman Tom Coughlin until after the US Supreme Court rules on a similar case that could affect sentencing guidelines in the Coughlin case.

Coughlin – convicted on felony wire-fraud and tax-evasion charges related to his embezzlement of roughly a half-million dollars worth of cash, gift cards and merchandise from Wal-Mart - originally was sentenced to 27 months of home confinement because of what his lawyers called health issues. But an appeals court said that the sentence was too lenient and unreasonable, and called for a new sentencing hearing. Coughlin wanted that ruling overturned, but failed – and now experts suggest that it seems likely that he will spend at least some time in jail.

- Wal-Mart has announced that it will feature a Christmas concert on its in-store television network, to be shown on December 7 in all of its Wal-Mart and Sam's Club stores. In addition to holiday music, the concert also will include a seasonal homily from Pastor Rick Warren, author of "The Purpose Driven Life."

The Balance Sheet

- Publix Super Markets said that its Q3 net earnings were down 1.5 percent compared to a year ago, to \$249 million compared to \$252.9 million. Third quarter sales were \$5.6 billion, up 6.5 percent, and same-store sales were up 4.5 percent.
- Dollar Tree Stores reported that its third quarter earnings were \$35.9 million, up from \$32.5 million a year earlier. Sales increased almost 10 percent to \$997.8 million, as same-store sales were up 1.9 percent.
- Sears Holdings reported that its third quarter earnings were \$2 million – down from \$196 million in earnings posted during the same period a year ago. The precipitous drop came as Sears was said to be considering a bid for Restoration Hardware that would cost it \$269 million.

Executive Suite

- Kraft Foods announced that that Jean-Paul Rigaudeau will replace the retiring Joachim Krawczyk as president of Kraft's European operations, effective Jan. 1.

Rigaudeau has been running Kraft's chocolate business in Europe.

- McDonald's announced that its chief marketing officer, William "Bill" Lamar Jr., will retire from the company on April 1, 2008. He will be succeeded by Neil Golden, currently vice president of marketing at McDonald's USA.