

## - Retail Industry News from IRI for Week Ending 12/7/07-

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Thanks to MNB  
for this selection of  
articles.

### Getting A Firm Grip On Fresh & Easy

Lots of continuing coverage of Tesco's US operations, as the British media attempts to get a sense of how Fresh & Easy Neighborhood Markets will influence the growth and profile of the UK's most dominant retailer.

In the *Telegraph*, there is a profile of Tim Mason, the CEO of Tesco's US-based operations, who predicts that "China could be transformational for Tesco - but it is a very, very long haul. The US has the opportunity to be transformational within a decade."

At the same time, the *Observer* reports that Mason has said that Fresh & Easy could grow to be the "fastest growing retailer in the world. And, Mason says, "When you have no market share in a country the size of America you don't need to be inventing formats. You just need to find a winning application then to apply it."

Mason also says that Fresh & Easy plans to expand its non-foods presence in 2008.

And, the *Telegraph* has this interesting passage:

"Mason has certainly adapted to the Californian way of life ... The former Tesco marketing director ... is even dressing like a Californian. Worn jeans and brown loafers are standard issue and Mason even has a check shirt - which is of course Fresh & Easy's corporate green. He even has a green friendship bracelet.

"But it's not just his wardrobe that has changed - US portion sizes appear to have taken their toll. The formerly svelte 50-year-old triathlete has - how do I put this? - put on a few pounds while he

has been in the US. Perhaps not surprisingly Mason has struggled to find time to work out in recent months having spent the last two years masterminding Tesco's US invasion."

### **MNB's Tales Of Tesco**

- The *Sacramento Bee* reports that Tesco has announced plans to open one of its Fresh & Easy stores in Fairfield, California, about 50 miles northeast of San Francisco. And, Tesco is saying that it is looking at a number of locations in Sacramento, which is about 40 miles northeast of Fairfield.

According to the *Bee*, "That signals Northern California's tumultuous grocery industry is in for more shake-ups with what will likely be dozens of nonunion Fresh & Easy stores reaching for shoppers who buy food at traditional supermarkets and big box stores."

Tesco is saying that it will open stores in underserved neighborhoods in Sacramento, just as it has pledged to do in Southern California. However, Tesco has come in for some criticism in Los Angeles as some community groups have questioned both its commitment to such neighborhoods and what is perceived as lack of speed in opening such units.

Meanwhile, the *Washington Post* reports that Fresh & Easy CEO Tim Mason is saying that the company plans to open a warehouse facility near Stockton, which, like the company's first distribution center in Los Angeles, will be able to serve 500 stores.

And, Mason says, "We want the stores to be no more than two miles apart so no one has to travel more than a mile to get to a Fresh & Easy."

- The *Times* of London reports on how UK businesses are responding to a new Climate Change bill that has set some specific and ambitious goals – "to reduce CO2 emissions by at least 60% by 2050, and 26%-32% by 2020, compared with 1990 levels."

According to the piece, "Sir Terry Leahy, the Tesco chief executive, knows in which direction he has to take the supermarket chain.

"At Tesco, we know that going green is not just a desirable way forward. Increasingly, it's becoming a business imperative as customers look to retailers to help them lead a greener lifestyle,' he said.

"Leahy has greeted the Climate Change Bill warmly, but calls for co-operation in helping achieve its objectives. 'Government and business need to work together to cut carbon emissions, so I welcome anything that helps move us all in the right direction. It's important that the government helps businesses to play their part by removing planning bottlenecks and other impediments to renewable technology and by providing incentives,' he said."

And, the *Times* reports, in 2008 Tesco "will be two years early in meeting its target to halve the energy consumption per square foot of its UK stores compared with the year 2000. Tesco also has a target to halve carbon emissions per square foot across its entire global estate by 2020."

## ***Sansolo Speaks: Greener Grass***

***by Michael Sansolo***

There are parts of life so ordinary to most of us that we forget how extraordinary they are to those who go without. Take for example the widespread story this week about Ahold's Giant Foods opening a new store in Washington, DC. Although I probably live only 15 miles from this neighborhood, it's a place I have never been and am not likely to visit soon. It is one of the poorer and more dangerous neighborhoods in the nation's capitol.

It's also home for a lot of folks. As the *Washington Post* reported this weekend, the opening of the store--the first to open in that section of the city in a decade—is being greeted with cheers and prayers by the local population. For many, the trip to the next closest neighborhood has become an hours long nightmare of bus trips and walking time. This isn't just another store opening; it's the return of a community.

We forget sometimes just how important supermarkets are to our overall community. In many ways, they remain the closest thing our sprawling suburbs have to compare with the village square of past years. It's the one place to get the products you need and have the rare opportunity to run into a friend or neighbor. As one person reminded me recently, where else do you find the Girl Scouts, the Salvation Army bell ringers and the plastic bag recycling station.

Most of the time, the analysis of the food industry focuses on the shortcomings. But there is another side to the story and it can be told without hyperbole and boosterism. In short it is this: supermarkets have actually done a wonderful job continually changing with the times and community needs. In many ways, the supermarkets of today are better than anything else this industry has ever run. And they are getting better all the time.

This point came through clearly in two separate incidents last week. The first was a public one, the annual release of FMI's report of industry financial data. That net profits rose significantly isn't a sign of competition disappearing or prices spiraling out of control. Instead it's the logical residue of constant improvement that has made the survivors of change in this industry stronger performers than ever.

The second incident came in a private meeting I had with retailers visiting the US from Europe. What struck these retailers was simply how good American stores had become.

They were stunned at the ability of retailers to find different ways to stand out from the pack and, in short, to compete in ways that made them viable side-by-side with Wal-Mart. They were taken by the incredible efficiency of the US supply chain that allows stores to feature far more SKUs than are found in many countries (and arguably, far more than anyone really needs). And they were stunned at how retailers do this and keep out of stocks to a minimum. They were most taken though by the incredible passion they saw in store employees and their personal commitment to their jobs and companies.

That last point came home in virtually every store these retailers visited, from the cart collector who greeted them at Target to the Bloom front-end manager who proudly demonstrated the new kiosks in his store. The main question the Europeans asked was how they could possibly get their

employees to feel the same.

In one of his better moments, President Bill Clinton reminded us that "there is nothing wrong with America that can't be fixed by what's right with America." It applies to our industry as well. Yes, there is so much work to be done each and every day. Yes, there are strides that must be made. Yes, there are problems to address better than ever.

But in a poor neighborhood in Washington this week, local residents are getting a reminder this week about just how great it is to have a supermarket. Every so often, we have to remember that the grass may really be greener here. And then we have to move past it and get working again.

### **Winn-Dixie To Focus On Private Label**

The *Orlando Business Journal* reports that Winn-Dixie "plans to relaunch all 3,000 of its private label products and add premium items over the next two years," phasing out most of 58 different own-label lines and leaving just three: Winn & Lovett for premium products, Winn-Dixie for national brand equivalents and Thrifty Maid for value products.

"The better people feel about our products, the better they're going to feel about Winn-Dixie," Don Breen, vice president of manufacturing and corporate brands, tells the *Journal*.

The big change is the Winn & Lovett brand name, which dates back to 1939, when the chain was known as Winn & Lovett; the chain changed its name to Winn-Dixie when it merged with Dixie Homes stores in 1955. The retailer plans to have some 300 up market products using that label, including baked goods, coffees, ice creams and olive oils.

### **Ahold Sale Of Tops Completed**

Published reports say that Ahold has completed its sale of Tops Markets to Morgan Stanley Private Equity for \$310 million. The company's former CEO, Frank Curci, has rejoined the company in that same role under the new owners.

### **A&P Closes On Pathmark Deal**

The Great Atlantic & Pacific Tea Co. (A&P) said yesterday that it has closed on its \$665 million acquisition of Pathmark Stores.

The new, combined company has about 450 stores doing about \$9.4 billion in annual sales.

### **Consumer Reports Gives Bloom High Marks**

*Consumer Reports* has a piece in which it concludes that "supermarkets everywhere could learn from Bloom," the format created by Food Lion to be a "convenient, hassle-free, and novel shopping experience" that lets "shoppers get in and out fast, navigate easily, and sidestep long lines."

The magazine lauds the format for being convenient, easy to shop and check out of, technology-savvy, and intuitive in the way it is designed and laid out.

### **Wal-Mart Now Owns 95 Percent Of Japan's Seiyu**

Wal-Mart said yesterday that it has completed its \$849 million (US) buy out of almost all the minority shareholders in Japanese retailer Seiyu, leaving it with 95 percent ownership in the company.

"This successful result paves the way to achieve our stated goal of full ownership of Seiyu, which will enable Seiyu and Wal-Mart together to accelerate the delivery of long-term benefits to our customers, the communities we serve, our associates and our business partners," said Wal-Mart vice chairman Mike Duke in a prepared statement.

### **New Tops Ownership To Focus On Investment, Not Divestment**

The *Buffalo News* reports that under its new ownership, Tops Markets plans to open new stores, upgrade existing units and increase its payroll.

CEO Frank Curci, who has returned to the company's executive suite with the \$310 million sale of the company by Ahold to Morgan Stanley Private Equity, tells the paper that a prime goal will be to restore a local focus to the company's operations as it ramps up to better compete with the likes of Wegmans, Wal-Mart, Sav-A-Lot and Aldi.

"The best way to compete with any of the chains, whether it be Wal-Mart or Wegmans, is to be different, to be something that resonates with customers that's a little different," Curci said.

Tops "will hire about 100 people for corporate jobs in merchandising, marketing, finance and information technology," according to Curci, who says that "those are the functions that will best enable us to serve our customers better. If we had one weakness in the past couple of years, it was in the centralized organization's lack of focus on individual customers."

### **FastNewsBeat**

- *USA Today* reports on how probiotics are "spreading like germs on grocery store shelves and in supermarket dairy cases," and how they generally come with "vague health claims of 'regulating your digestive health' or 'strengthening your body's defenses'. Experts say probiotics are generally safe, and in some cases might be helpful. More research is needed, and it's a hot new area, reflecting a growing understanding of the role that naturally occurring intestinal bacteria play in health."

According to the story, this year alone "more than 150 probiotic and prebiotic commercial food products have been introduced in the U.S., compared with about 100 last year and just 40 in 2005."

- Responding to Wal-Mart's recent decision to open more of its Canadian stores for 24 hours-a-day through the end-of-year holiday season, Loblaws announced last week that 19 of its Real Canadian Superstores will do precisely the same thing.
- The *Wall Street Journal* has an interesting story about Safeway's Blackhawk gift card business, which will contribute \$100 million to the company's bottom line this year.

According to the story, Safeway CEO Steve Burd "is bullish on Blackhawk, saying there are many opportunities for the business to grow. He says Safeway may eventually consider selling part of the unit if it determines Wall Street isn't assigning enough value to Blackhawk through Safeway's stock price. 'As far as the eye can see, this business will grow faster than the supermarket business,' he says."

- The *Wall Street Journal* reports that a Pennsylvania woman named Mary Bach has won \$100 plus court costs in a lawsuit she filed against Kmart, charging that the retailer illegally taxed a 12-pack of toilet paper she bought there. According to the story, Kmart offered to settle the lawsuit, but Bach refused – because he settlement would have required her to sign a confidentiality agreement. So the suit went forward, she won, and now is talking about it...which apparently is something that she's been doing for 15 years as a "longtime consumer advocate" specializing in scanner errors.

### **The MNB Wal-Mart Watch**

- *Bloomberg* reports that while two years ago Wal-Mart decided to pretty much abandon the word "Christmas" during the end-of-year shopping season, preferring to use the word "holiday" as a way of being less specific, the retailer has changed its tune this year. The new approach has the retailer having Santa Claus visiting its stores, setting up Christmas shops in select locations, and (as previously reported here on *MNB*), featuring an overtly Christian-oriented concert on its internal TV network.
- Published reports say that Wal-Mart plans to expand its China business at the rate of better than 30 percent per year. The company has invested \$230 million (US) in the country since 1996, and currently has 94 stores open there, 24 of which have been opened this year alone.
- *Dow Jones* reports this morning that the Japanese company Sumitomo Corp. has decided to sell its 6.37 percent stake in Seiyu, the Japanese retailer, to Wal-Mart, which already owns 50.9 percent in Seiyu.
- *Bloomberg* reports that protestors have been picketing a Wal-Mart store in Mexico City, looking to force the company to allow its workers to unionize.

However, Wal-Mart de Mexico shows no sign of being receptive. "They're missing the point," Antonio Ocaranza, communications director for Wal-Mart de Mexico, tells the news service. "We create jobs, we pay taxes, we compensate our workers better than average."

## The Balance Sheet

- Wal-Mart de Mexico, commonly known as Walmex, announced that its November sales were up 7.3 percent to the equivalent of \$1.79 billion (US), with same-store sales that were up 1.4 percent.
- PriceSmart, which operates membership club stores in Central America and the Caribbean, said that its November sales increased 24.5% to \$86.9 million from \$69.7 million in November a year earlier, with same-store sales that were up 21.1 percent. For the three months ended November 30, 2007, net sales increased 23.8% to \$245.2 million from \$198.1 million in the same period a year ago, with same-store sales up 22.4 percent.
- Smithfield Foods reports second quarter net income of \$17.4 million, down 61 percent compared to the \$44.7 million in profits it had during the same period a year earlier. Revenue rose about 24 percent to \$3.46 billion from \$2.80 billion in the second quarter of 2007.
- Longs Drug Stores reports that its November sales were up 1.8 percent to \$362 million compared to last year, with same-store sales down 0.6 percent.
- Ingles Markets says that its fourth quarter net income was up 23 percent to \$14.2 million, from \$11.5 million during the same period a year ago. Sales were up three percent to \$746 million, with same-store sales up 9.3 percent.
- Walgreen Co. reported that its November sales rose 9.5 percent to \$4.77 billion from \$4.35 billion in the year-ago period, with same-store sales up 4.4 percent.
- Costco reports that its November sales were \$5.72 billion, up 13 percent compared to the same period a year ago. Same-store sales were up nine percent.
- New Jersey-based Village Super Markets reported that its fiscal first quarter revenue was up five percent to \$263.6 million, with same-store sales up 3.6 percent. Q1 profit was up two percent to \$4.3 million.
- BJ's Wholesale Club says that its November sales rose to \$746.3 million from \$668.2 million in the comparable period a year earlier, with same-store sales up 7.7 percent.

## Executive Suite

- Published reports say that Jones Soda founder/chairman/CEO Peter van Stolk plans to leave the company, saying that it needs new leadership as it continues to grow.

A search is underway for a permanent successor, and van Stolk reportedly plans to remain on the board of directors and provide strategic leadership on marketing initiatives.

- In Canada, Alain Brisebois, senior vice president of Metro's Ontario division, and Robert Sawyer, senior vice president of Metro's Quebec division, are switching jobs, according to reports in the local media there.