



-Week Ending 12/12/08-

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Thanks to MNB
for this selection of
articles.

The Priceless Impact Of Private Label

The *Wall Street Journal* has an interesting piece in which it reports that "as shoppers pack their carts with more lower-priced private-label products, grocery stores may wind up picking up an ancillary benefit of having stronger in-house brands: a bit of leverage in talks with suppliers that make branded goods ... Private-label gains come as some name brands lose market share, a shift that industry experts say could benefit grocers on several fronts in their dealing with suppliers. To help further promote their brands, branded consumer goods companies may have to kick in more to a retailer's marketing fund to pay for discounts, two-for-one offers or prime placement in supermarket circulars. Retailers may also get juicier rebate offers from their suppliers, as incentive to help push sales of branded products.

"Grocery stores can also use their knowledge of producing their private-label products to push back on price increases from branded products if they think they go too far."

Dollar General Adopts In-Store Technology For Blind

Dollar General said this week that "it has begun installing new point of sale equipment that will protect the privacy of Dollar General shoppers with visual impairments. The new devices have tactile keys arranged like a standard telephone keypad. They will allow Dollar General shoppers who have difficulty reading information on a touch screen to privately and independently enter their PIN and other confidential information.

"Dollar General has installed the first tactile devices at several stores in Texas. The new equipment will be installed in all of Dollar General's 8,300 stores in the United States in less than eighteen months."





The Impact Of The Recession On Organic Sales

The *Boston Globe* reports that the recession is having an impact on the sale of organic foods, and that "sales figures show that shoppers are having second thoughts about the value of organic foods, particularly fruits, vegetables and meats. But they're not giving up entirely on these products ... Market research firm NPD Group said the number of people who reported buying organic products fell 4 percent in August, compared with a year earlier. While more than one in five surveyed in the latest figures available from NPD purchased organic products, the August data represented the first customer losses for the sector since February 2006 -- a decline that is expected to accelerate in the months ahead."

One thing that is happening is that consumers are making choices depending on priorities – picking categories and products that they feel are worth splurging on, with different consumers making different choices.

Another result of the changed environment is that organic producers are investing more than usual in promotions, coupons and advertising.

The extent of the recession's impact depends on who you talk to. The *Globe* reports that "despite the challenges, the Organic Trade Association forecasts sales of organic foods will rise by 18 percent a year, on average, through 2010. The association expects its customer base to grow on the assumption that prices will drop and mainstream retailers will stock a wider variety of products ... Organic sales – not including store brands or bulk sales -- were forecast to grow by 14 percent in 2008, compared with increases of 16 percent in 2007, 22 percent in 2006 and 21 percent in 2005, according to market research firm Mintel International."

Aldi Plans Multiple Stores For Lone Star State

The *Dallas Morning News* reports that discount retailer Aldi has confirmed its plans to open at least 25 stores in the Dallas-Fort Worth marketplace.

The units will be opened in spring 2010 and, according to the *News*, the list "includes new construction, space in existing shopping centers that it will convert and former free-standing Albertson's and Super 1 Foods stores."

The *News* goes on: "Over the past five years, Aldi stepped up its expansion plans and said it would move into Florida and Texas, both major strongholds of Wal-Mart Stores Inc. Originally, it had planned to open stores in Texas in 2009; it opened its first stores in Florida in September.

"It started opening stores in Oklahoma in the early 2000s and now has 13 stores there. Last summer, it began building a \$40 million, 500,000-square-foot distribution center in Denton to support stores in Texas and Oklahoma. It will be Aldi's first distribution center in the Southwest."

GMA Gets New CEO

The Grocery Manufacturers of America (GMA) announced yesterday that it has hired Pamela G. Bailey to be its new president/CEO.

Bailey has for the past two years served as president/CEO of the Personal Care Products Council (PCPC), and also served in that same role at the Advanced Medical Technology Association. She also worked in the Reagan White House.



Sansolo Speaks: It Depends...

by Michael Sansolo

A few weeks back I had one of those good news/bad news calls; sadly it was from my financial adviser. My portfolio (much as it is) is down significantly this year. But that was both the good and bad news because my losses were actually smaller than the market as a whole. So at that point I was actually ahead.

It's that way with the news all around us these days. Day after day we see endless stories of malfeasance, incompetence, arrogance and more in the headlines and we start feeling superior. After all, there aren't any food company executives getting grilled in front of Congress as they ask for bailouts, bridge loans or do-overs. Around the business there is, no doubt, some measure of self-satisfaction about this.

After all, this is an industry based on pitched competition and a daily battle for consumer love and attention, which makes it more agile, innovative, efficient and less likely to get caught building Hummers in the time of the Prius (metaphorically speaking, of course.) Or is it?

The pace of change in the industry today is probably unlike anything anyone has experienced at any time in their careers, maybe in their lives. It's almost impossible to reflect with any accuracy on just how much the world has changed in the past 12 months. We've gone from one storm to another, from rising gas prices to ethanol battles to financial disasters to staggering job losses. We've gone from woes of spiraling inflation to debates about potential price declines.

Sadly, there is no way of knowing what's coming next beyond the potential for more change and more anxiety. (That is, unless something really good is about to unexpectedly happen, which we also can't possibly predict.) So, we have to resort to remembering the basics and hope they carry us through.

Remember that what matters to the shopper is what must always matter to us. Right now the shopper is scared and they want to see that someone cares. If your marketing plans haven't been changed a dozen times during the events of 2008 you better get going or you might be selling Hummers.

Remember that economic pressures always change the food industry. Pick any recession and you'll see the results from the emergence of generics in the 1970s to the explosion of Walmart in the 1990s. In fact, the entire supermarket format itself was basically born of the Great Depression. Economic downturns have a way of shaking up this business. Get thinking about what you need to change before it changes you. (Don't forget that economic good times change us too and that innovations like Whole Foods have come from new companies, not from within.)

Remember that even in tough times, shoppers want decent treatment. The emphasis may be on price, but don't neglect to treat people like people. Be their friend in times of need and they'll remember you.

Lastly, don't misread the signals. Sure, supermarkets are doing well right now, with meals and shoppers returning in solid numbers, but problems still remain.

Just last week, Harris Interactive released a broad consumer poll of industries that consumers trust and, conversely, industries they feel need more regulation. It's no shock that banking, health care and energy companies are all seen as needing the most regulation, with the banks' negative numbers skyrocketing. And it's delightful to see that supermarkets rank just after hospitals as the most trusted.





But the entire picture of the study presents some areas of concern. Supermarkets and food manufacturers also saw some of the largest declines in trust since 2003, likely due to issues like food safety, health and wellness and our slipping overall connection with the consumer. So yes, celebrate the good news, but don't let it blind you.

Times are tough and the job ahead of all of us is harder than ever. In short, that's both the good news and the bad news.

Michael Sansolo can be reached via email at msansolo@morningnewsbeat.com.

Safeway Establishes New Real Estate Business

The *Chicago Sun-Times* reports that Safeway "has created a real estate development business that has reviewed 36 projects for possible development and is working actively on a handful of the projects ... One example of a project would be Safeway developing a shopping center where it operates a grocery store, and leasing or selling the retail space surrounding its store. Safeway would retain ownership of its grocery store in that center."

According to Safeway CEO Steve Burd, "The opportunities [to develop undervalued real estate] are pretty extraordinary right now for people who can step up to the table."

Carrefour To Test New C-Store Format

The *Financial Times* reports that France-based Carrefour, the world's second biggest retailer, plans to test a new convenience store format that would be appropriate for smaller markets and neighborhoods.

One version, called Carrefour Contact, will be used in small towns and villages, while another, called Carrefour City, could be used in urban neighborhoods.

Carrefour already has a number of c-store brands that it mostly franchises, but if this new format works, those could be brought under the new brand umbrella.

FastNewsBeat

- The *Toronto Globe and Mail* reports that there is widespread speculation in Canada that Loblaw Cos. is about to be taken private, with parent company George Weston preparing to buy out minority investors. There have been reports that Weston is looking to sell its US bakery operations to a Mexican food company, Grupo Bimbo, and will use the proceeds to at least partially fund the privatization.

- The *Pittsburgh Business Times* reports that Giant Eagle has debuted a new store concept, Valu King, positioned as a discount food store featuring Giant Eagle's Valu Time private label. The story notes that "it isn't tied in to the main Giant Eagle brand, and it has no gas pumps and no advantage card incentive program."



The MNB Wal-Mart Watch

- *Dow Jones* reports that Andy Bond, CEO of Walmart-owned Asda Group in the UK, is suggesting that “gimmicky promotions” won’t help retailers grow their businesses during a recession...and seems to be pointing the criticism at Tesco, which announced this week that it was cutting prices on about a thousand items by 50 percent in advance of the end-of-year holidays.

Bond said that such promotions end up being “vastly costly” and tend to cause long-term problems for the retailers that adopt them.

- Walmart has confirmed that it has decided to temporarily suspend its stock buyback program, saying that the current recessionary economy and credit instability made such a move a wise course for the moment. The stock also has gotten more expensive – up 19 percent since the beginning of the year.

The Balance Sheet

- Costco this morning reported that its first quarter earnings were \$262.5 million, compared with \$262 million in the year-earlier period. Q1 net sales were \$16.04 billion from \$15.47 billion. Total revenue, including membership fees, rose 3.7 percent to \$16.39 billion from \$15.81 billion. Same-store sales were up one percent.

- The Kroger Co. today reported that it had Q3 total sales of \$17.6 billion, an increase of nine percent over the same period last year, on same-store sales that were up 5.6 percent without fuel and 7.8 percent including fuel.

Net earnings in the third quarter totaled \$237.7 million, compared to \$253.8 million during the same period a year ago. Kroger noted that this year’s earnings results “include an after-tax charge of \$15.9 million ... related to Kroger’s \$25 million insurance deductible for disruption and damage caused by Hurricane Ike. Excluding this charge from Hurricane Ike, third quarter net earnings were \$253.6 million.”

- PriceSmart Inc., which operates membership club stores in Central America and the Caribbean, announced that its November sales were up 21.5 percent to \$105.6 million, from \$86.9 million during the same period a year ago, on same-store sales that were up 12.4 percent.

For the quarter ending November 30, net sales increased 21.7% to \$298.5 million from \$245.2 million in the same period last year, with same-store sales up 14.3 percent.

Executive Suite

- Bob Ling, executive vice president of Unified Grocers, Inc., has been elected 2008 2009 Chairman of the California Grocers Association.

- CHEP, the pallet and container pooling services company, has named Brian Malloy as its new Chief Customer Officer of CHEP USA. Malloy remains in his current position as Senior Vice President of Sales & Marketing for the US operation.