

- Retail Industry News from IRI for Week Ending 12/14/07-

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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."

Bay State To Consider Ban On In-Store Medical Clinics

The *Boston Globe* reports that the Massachusetts Public Health Council is scheduled to vote later this week on whether retailers in the state should be allowed to pen up in-store medical clinics. CVS reportedly wants to open between 20 and 30 such clinics, but has met resistance – including from Boston Mayor Thomas Menino.

Menino tells the *Globe* that he is concerned that such clinics will create another layer in the health care business that will not serve consumers' best interests. "This is another major corporation trying to take over the business of health care. Is CVS going to have a record of your past medical history? Are they going to know if you're allergic to a drug?"

New Napa Market Is A Business With A Food-Driven Mission

The *Los Angeles Times* this morning reports about the opening of the new Oxbow Public Market in the city of Napa, California, which is designed to "do nothing less than redefine fine food shopping in the United States."

That sounds like a big order, but the developer of the project, Steve Carlin, believes in it to the point where he is talking to other municipalities about bringing the concept there. He sees the Oxbow development not just as a business venture, but as the beginning of a movement.

The *Times* describes the project this way:

"The butcher shop will be run by the Bay Area charcuterie stars of the Fatted Calf. The bread baking will be done by St. Helena's beloved Model Bakery. And the winery will be run by Michael Mondavi.

"Though construction will be completed this week and about half of the tenants will be open, it will be early spring before the market is fully operational.

"The \$11-million structure rises on the banks of the Napa River, looking like some postmodern barn, all metal roof and struts and light-filled inside. Along one exterior wall are 10 small (12- by 6-foot) "farm stands" that will be occupied by local growers on both long-term and short-term leases -- like a seven-day-a-week farmers market with a rotating cast of characters.

"The interior of the main building is divided into 18 stalls, each from 250 to 400 square feet. This is where you'll find Mondavi's Folio Enoteca and Winery, which will initially sell only wines made locally and eventually only wines made at the market, as well as the Olive Press of Sonoma, which will offer six locally produced oils you can tap from giant metal cans, just like in Italy.

"There will be Five Dot Ranch's sustainably raised California beef; the Oxbow Cheese Shop, run by Kate Arding, who helped start Cowgirl Creamery; Whole Spice, a direct importer of dried herbs and spices; and Tillerman Tea, which finds and imports its own specialty teas. Carlin is negotiating a lease

with a fishmonger, who will specialize in locally caught seafood.

“There will also be a rotisserie cooker, a Venezuelan *arepa* stand, a bookstore, a culinary antiques collection, a store selling plates and linens, a separate, general wine shop, and an ice cream shop. A restaurant, a coffee bar and an oyster bar are still under negotiation.

“In separate buildings adjacent to the main market will be the Fatted Calf's full-service butcher shop, Model Bakery and a third outlet of St. Helena's ever-popular hamburger stand Taylor's Automatic Refresher.”

But this won't be just a market that takes tenants and expects them to survive. Carlin tells the *Times* that he knows “how difficult the transition can be from creating an artisanal product to running a retail business.”

Carlin says, “Right now, the way the system is set up, retailers and middlemen make all the money, and that's what we're trying to change. To do that, we have to work at teaching these producers a new trade and that is retail.

“One of the most important things we have to do is teach our merchants how to make money. These are all small-business men, and a lot of them don't make much money yet. These are not your typical AAA credit tenants. But these are people who are fully committed to their products.”

Shell Game

Interesting announcement by Giant of Carlisle this week that it will begin selling eggs under its own brand and the Nature's Promise label that have freshness dates and tracking codes etched onto their shells.

“Food safety is becoming a national priority and this partnership is one more way that Giant can provide important food safety information to our customers,” Steve Fanion, VP Dairy, said in a statement. “We are committed to providing our customers with freshness everyday. The introduction of freshness dates and tracking codes eliminates the guesswork and easily informs customers if the eggs in their refrigerator are fresh.”

The etching technology – which places a permanent groove on the surface of the eggshell using laser light - has been developed by a company called EggFusion. In coming months, Giant plans to offer additional messages on its eggs, ranging from the store logo to pitches for specific charities.

Spanish Language Skills Proving Advantageous For Business

The *Arizona Republic* reports that “more employers, and many of their English speaking workers, are showing an interest in learning Spanish customized to specific jobs, to help them communicate with Hispanic customers, suppliers or assistants.”

The trend reflects a demographic reality – according to the US Census Bureau, there are 32 million people in the US older than five who speak Spanish at home, and almost 16 million of these people say they don't speak English very well.

However, as is to be expected in a nation where immigration is a hot political topic, the trend toward learning Spanish is somewhat controversial. The *Republic* notes that “English-only proponents say it slows the assimilation of immigrants from Mexico and elsewhere. But others say teaching at least rudimentary workplace-Spanish skills is a necessity in some industries and reflects the reality that many immigrants, including some of those here legally, don’t have a good grasp of English.”

The paper writes that “community colleges have taken a lead in teaching Spanish tailored to the workplace. For example, Phoenix College offers classes for workers in more than a dozen fields, including nursing, banking, firefighting and corrections. The college has added more classes in recent years and has shifted the scope toward oral communication, faster results and more specific applications.” Among the Arizona companies that have sent employees to take courses there – Bashas’ Supermarkets.

Tesco Identifies San Francisco Site For Fresh & Easy Location

The *San Francisco Business Times* reports that “Tesco has signed a deal to open a Fresh & Easy Neighborhood Store on Third Street in the Bayview, the first Bay Area deal in the British company’s \$2 billion investment into the United States.

“Fresh & Easy will occupy about 15,000 square feet on the ground floor of a 360-unit condo project,” according to the story, which says that “the deal is a major boost for the southeast corner of the city, which has struggled to attract and retain grocery stores selling fresh produce and healthy food. In a recent survey by the Southeast Sector Food Access Working Group, over half of those surveyed said they left the neighborhood to shop for groceries.”

The Bayview is located neat Candlestick Park, and is accessible to downtown San Francisco via light rail. From all reports, it seems to be an area going through a process of gentrification...though it also appears to have a long way to go.

Safeway Plans To Sell “O” Products Through Outside Venues

The *Wall Street Journal* reports that Safeway is developing partnerships with outside companies that will enable it to sell its “O” line of organic foods and beverages in places other than its own stores. The report days that Safeway has already made a deal with Sysco to sell the “O” products in foodservice locations, and the company confirmed that it is striking new partnerships in Asia and South America.

“We’re in the process of monetizing that brand,” Safeway CEO Steve Burd told an investors conference yesterday.

According to the *Journal*, “Since its launch, O Organics has grown to 300 items, including milk, chicken, entree and juice products. Safeway estimates O Organic sales will reach \$300 million in 2007, up from \$164 million last year.”

Burd also confirmed reports that Safeway plans to test a new small store format, and said that the company also was developing a new business – based on its own health care initiatives - that would seek to help other companies reduce health care costs,

At the investors conference, Burd also addressed rumors that Safeway might spin off its Blackhawk gift card business, which is expected to earn a pretax profit of \$100 million this year.

"If you want to invest in Blackhawk, invest in Safeway," he told the investors.

FastNewsBeat

- Published reports say that Safeway is looking for 20,000 square foot sites that could be used for a new, small store format that it is said to be developing as a direct response to the Tesco-owned Fresh & Easy Neighborhood Markets in Southern California. The company is not commenting on the rumors, but the company's CEO, Steve Burd, said several months ago that the company would consider such a format once it saw what Tesco was planning and judged its efficacy.
- There are reports in Europe that Tesco is close to completing a deal that will have it acquiring Tengelmann-owned Plus discount stores in the Czech Republic for the equivalent of \$277.6 million (US).
- The Great Atlantic & Pacific Tea Co. (A&P), having just spent \$665 million in cash and stock to acquire Pathmark Stores, has announced that it plans to offer \$380 million senior convertible notes to help repay debt related to that acquisition.
- Published reports say that Ahold-owned ICA in Sweden is grappling with a food safety scandal, having been shown on national television there as changing the packaging on meat products so that sell-by dates have been extended. The scandal has gotten to the point where the retailer has pulled all its Christmas advertising.
- The Canadian press reports that Safeway employees in Alberta are taking a strike vote this week, following the collapse of negotiations for a new contract. However, reports suggest that no strike is expected to happen before the end-of-year holidays.
- Giant of Carlisle announced that it is opening its first gas station in a location other than one of its stores' parking lots – though the unit is across the street from one of its stores, in Camp Hill, Pennsylvania.
- Ahold-owned Giant of Landover has announced that all of its pharmacies now offer consumers the option of Spanish language prescription labels and information.

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.

- The *Wall Street Journal* reports that a three-judge Ninth Circuit Court of Appeals panel has ruled that a 2001 class action gender discrimination suit against Wal-Mart can proceed. However, the panel also ruled that between 75,000 and 250,000 former employees who were originally part of the 1.6 million women represented in the class action must now be excluded because they "left the company before the case became effective and could not benefit from changes to the company's pay and promotion rules."

Wal-Mart is being charged with paying women less than men in similar positions, and with overlooking women in line for promotions.

The retailer denies the charges, and plans to appeal the panel's ruling.

The Balance Sheet

- Kroger Co. reports that its third quarter profit was \$253.8 million, up from \$214.7 million a year earlier. Q3 sales rose 9.8 percent to \$16.14 billion, with same-store sales (excluding fuel) up 5.7 percent.
- Costco Wholesale Corp. reports that its first quarter net income was up 11 percent to \$262 million, from \$236.9 million during the same period a year earlier. Q1 revenue increased 12 percent to \$15.8 billion. Total same-store sales rose eight percent during the quarter, while US same-store sales grew 5 percent; international same-store sales were up 17 percent on favorable currency exchange rates.

Executive Suite

- Wal-Mart Canada announced yesterday that its president/CEO, Mario Pilozzi, will retire effective January 31, 2008. He will be succeeded by David Cheesewright, who has been serving as COO of Wal-Mart-owned Asda Group in the UK.
- Big Y Foods has promoted Bruce W. Bailly to be its director of IRT (information resources and technologies) infrastructure, a new position. Bailly will report to Michael A. Tami, vice president of information resources and technologies.