



-Week Ending 2/20/09-

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Thanks to MNB
for this selection of
articles.

7-Eleven Plots US Expansion Strategies, Tactics

The *Japan Times* reports that "despite a dramatic downturn in the economy, plans are in place to expand the number of 7-Eleven stores throughout the North American market with an eye to utilizing some successful formulas that have worked in Japan."

Masaaki Asakura, 7-Eleven Inc.'s executive vice president in charge of international operations, tells the *Times* that there is potential growth in North America that no longer exists to the same degree in Japan (which he describes as being a "dry towel" from which no more business can be wrung.) "The time has come for the U.S. market," he says. "That is why opportunity here is greater than in Japan because they are saturated in Japan — yes they can grow, but not at the speed they used to have."

The US tactics are expected to work like this:

- Seven-Eleven Japan, which owns 7-Eleven in the US, currently has 7,700 stores here, but would like to add 150-200 units over the next three or four years, and believes that greater expansion is possible beyond that.
- In addition to building new stores, the company is going to work to persuade existing independent units – convenience stores, gas stations and even small supermarkets – to convert to the 7-Eleven format.
- The company also plans to expand its fresh food sales from 10 percent of total store sales at present to 20 percent...a number more in line with performance in the company's Japanese outlets.

Assessing Recession's Impact On CPG Sales

Irene Rosenfeld, the CEO of Kraft Foods, appeared on the *PBS Nightly Business Report* earlier this week, talking about how the recession is affecting the food business. Excerpts:

- *On private label's impact:* "In an economic downturn as we're experiencing now, certainly private label will do well, but I've been very pleased with the ability of our brands to hold up relative to private label. In most of our categories, we are gaining share at about the same rate as private label and it has everything to do with the fact that we have a number of iconic brands in our portfolio. We've made significant investments over the last couple of years in terms of offering a stronger value proposition in terms of our quality and our new product pipeline and so as a consequence, I think we offer a very good value to consumers in today's difficult environment."





- *On prices:* "I feel very good about where we are price relative to our competition. The biggest focus on our part has been to ensure that we're adding enough value to our offerings. We have products like mac and cheese, Kraft singles, these are value-oriented products that provide good value to consumers in a difficult environment."
- *On eating at home:* "The most pronounced trend that we're seeing is that consumers are eating at home more and what I feel good about is that when they eat at home, they come home to Kraft. We make so many products that are staples of their pantry and that offer good value and it's been very helpful to us as we participate in this difficult economic environment ... fortunately one of the most recession-proof industries is food -- of course, people have to eat - and so we really haven't seen a significant impact on our products. What we are seeing is that more and more consumers are eating at home and that's been very helpful to our business. We offer a lot of consumer staples and a lot of products that are in their pantries and they're offering good value so that that's been a very good boon to our business."

Sansolo Speaks: Off With Their Heads!

by Michael Sansolo

"Retailers should think about just getting rid of their magazine sections and using the space for something more 21st century. (You can keep a few at checkout if you like.)" - Kevin Coupe, MNB, 2/10/09

It's rare that this column addresses topics Kevin Coupe takes on, but this issue is one that demands further comment. Here goes:

Kevin didn't go far enough.

Because, in truth, retailers should be thinking about getting rid of every section in their stores and using the space for something more 21st century. Or in some cases, more 20th century.

Here's why. There is no greater enemy to business than the status quo; no greater hurdle to be cleared than the notion that the way we did things yesterday is exactly the way we need to do them tomorrow. In fact, we should ask radical questions and we should strive to come up with the answers.

Imagine what would happen if an entire category were called into question. Suddenly, suppliers and retailer partners would be meeting with incredible urgency to determine how best to save the space. There would be discussions about product mix, marketing segmentation, improved efficiency and other issues that all too often are left untouched. We'd likely see the category reborn, better dialed into the needs of local markets and possibly refreshed and revitalized at the shelf. Or we'd see it go away.

It could happen to any category, wherever there are too many SKUs, too many incorrectly placed SKUs and too many underperforming assets. In short, it could happen to any category in the store.

We'd also see a focused analysis on the role of the category and why it matters. We'd see emphasis on its place in building sales or profits or image. In short, we'd see categories managed the way they should because one sad truth in many (if not all) categories is that there are products on the shelf that don't belong there because they were placed for the wrong reasons.

And in that regard, Kevin's suggestion to get rid of the magazine category might actually be a huge boon for business.

That said, let's try to start the discussion on magazines, the topic of Kevin's commentary. Yes, magazine sales are down, but I don't think the category is dying. Rather, I think we are at a point of change in the world of communications and many magazines will be examining how to shift their focus, their story mix, their sales mechanisms and more to deal with the basic realities of the current age. And by the current age, I'd argue that we have to look far beyond the current economic situation, which is obviously impacting everything. We have to examine the generational shift underway, the growing environmental movement and some inherent inefficiencies in the publication distribution business.



Newspapers, magazines and books may all be facing tough times, but if the hard questions are asked, I suspect all three will survive although the industry and the products might start looking different. (The *New York Times* ran an interesting article Monday about the changing role of school librarians. And anyone who thinks reading itself is dead has never watched a child devour a Harry Potter book.)

I've also felt that media provides one great example on how an industry can re-invent itself. The example is: radio. In my parents' day, radio was the king, providing news, music, entertainment and story telling. (Woody Allen captured the power of the medium in the movie "Radio Days.") By the time my generation came along, radio lost much of its role to television, yet radio remained a taste maker, a source for new music and we listened even as we migrated to the world of FM.

But for a host of reasons that are beyond what I understand - possibly cassette players in every car, the iPod, or whatever - radio's role changed again. Now we listen for targeted shows on politics, news, sports or even specific genres of music. Radio goes on. The influence of people like Rush Limbaugh or Tom Joyner should remind us of this daily. So radio changed, connecting with an audience in a new way and moved on.

Now, radio obviously has some advantages that other categories do not. There are times radio still has us as a captive audience, like in the car, but I'd argue that if radio hadn't created a new user model none of us would be listening. (And it's instructive that the model is still experimenting and at times struggling. Consider the current perilous condition of Sirius XM.)

It's an object lesson for magazines and publications, but also for every category of every store. The consumer changes and we must react. We have to understand shifting needs, shifting technologies and simple changes in day to day life that put some products on the ascend and some on the descend. It how we understand and cope with these changes that makes all the difference.

So yes, consider getting rid of every category, if you must. Ask the tough, uncomfortable questions. And as you answer them, prepare to change.

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

Roundy's CEO Plays To His Strengths

In Minnesota, the *Star Tribune* features an interview with Robert Mariano, chairman/president/CEO of Roundy's, in which he discusses changes taking place in the business. Excerpts:

- *On shifting shopping patterns:* "I think for people who still have dual incomes, time is still of the essence. They may reduce how much they will spend at a quick-service restaurant, but they may be eating out as much as they were. So I haven't seen a lot of movement there yet. I think what we've seen in the stores is people shopping for more value. I read that people are grocery shopping like they're shopping for a car. That's true. That's at all economic levels. So they're just watching what they buy."
- *On private label growth:* "We've been on a very aggressive effort to grow our own brand presence. The company used to be a wholesaler, and now is a retailer, so we've been on an aggressive campaign to add things constantly. It kind of plays right into where the customer is at." (Mariano says that Roundy's current stocks about 4,000 own label products, and wants to grow that to about 6,000.)
- *On competition:* "I think you play to your strengths. And our strengths are in perishables and our ability to serve each neighborhood uniquely. Customers in the United States are fickle. They'll never believe you have the lowest price, they always think there's a better deal. That's just the American way, so in a respect you have to earn your stripes each and every week you go out there. We want to be the best supermarket. We're a supermarket. We're not a Wal-Mart."



Brands Try New Ways To Co-Exist With Private Label

The *Wall Street Journal* this morning reports that “brand-name manufacturers are trying to boost sales and defend their market shares in part by working with retailers to create special displays that allow name brands and store brands to share the promotional spotlight. Their strategy acknowledges that the rise of store brands has been a boon to retailers, whose overall sales have slumped and whose gross profit margins on store brands typically exceed those on branded items by 10% to 12%.

“General Mills, for example, is using in-store grocery displays to promote ‘full meal solutions’ that include its brands as well as store brands. At the Food Lion grocery chain, the company recently did a ‘taco night’ display featuring its Old El Paso brand taco shells, taco seasoning mix and refried beans, as well as Pace salsa and Food Lion rice and ground beef. A ‘pizza night’ display featured General Mills’ Pillsbury dough with the retailer’s store-brand tomato products.”

The story reflects the ongoing tension that exists as retailers become more reliant on private label products that are perceived as being more attractive to shoppers during recessionary times, and manufacturers try to work within this shifting mindset while defending their own turf.

The *Journal* notes that this tension may be on full display at Walmart in the near future, as it relaunches its Great Value own label program with improved quality and packaging. The *Journal* writes, “The plan carries some risks for Wal-Mart, which became the nation’s largest food retailer largely by offering its customers lower prices on well-known brands ... Although Wal-Mart’s Great Value line, with 5,000 products, is the largest food brand in the country, it accounts for just 16% of the retailer’s food sales. By contrast, Kroger Co.’s store brands account for 26% of that grocery chain’s sales.”

Recession Seems To Be Reducing Supermarket SKU Count

The *Chicago Sun Times* has a story saying that one of the results – and benefits – of the current economy is the path upon which a number of companies are embarking – may be clogging up the nation’s supermarkets.

According to the story, “Food companies from Sara Lee Food Corp. to H.J. Heinz Co. are trimming their offerings to focus marketing dollars on their higher-margin, best-selling brands and retain consumers, who are trading down in the recession.

“Those top brands are more likely to hold their own, and getting rid of lesser-performing brands helps companies showcase top products as retailers cut inventory.”

Examples cited in the story:

- “Heinz aims to remove two items for each one it introduces.”
- “Sara Lee hopes to cut its offerings 8 percent this fiscal year.”
- “Kraft Foods ... will no longer sell Handi-Snacks pudding to retail customers. At the same time, it’s pushing new flavors of its more lucrative Jell-O pudding.”

Some companies are selling off less profitable lines that are not considered part of their “core businesses,” while others are trimming sizes, flavors and styles of products that less popular with consumers. It isn’t an easy process – consumer research can take up to a year in some cases. But experts say that the overarching goal – saving money during an extended recessionary period that doesn’t seem to be close to ending – makes the effort worthwhile.



FastNewsBeat

- The *New York Times* this morning reports that “demand at food banks across the country increased by 30 percent in 2008 from the previous year, according to a survey by Feeding America, which distributes more than two billion pounds of food every year. And instead of their usual drop in customers after the holidays, many pantries in upscale suburbs this year are seeing the opposite.

The *Wall Street Journal* reports that while pricing has become a contentious issue between retailers and manufacturers, CEOs at companies such as Procter & Gamble, Clorox, Nestle and Kimberly-Clark believe that they can make the increased prices of 2008 stick even as the economy continues to tumble.

- Another symbol of the times – Westfield Group, which operates 55 shopping malls all over the US, has decided to reduce opening hours at most of them, either opening 30 minutes later or closing 30 minutes earlier...or both, depending on the location.
- *Tulsa World* reports that Harps has opened its first store in the Tulsa, Oklahoma, market, with the remodeling of a 37,000 square foot former Albertsons store there.

According to the story, “Harps has 62 stores in Arkansas, Missouri and Oklahoma, but most stores in Oklahoma are in small towns.”

The competition is tough – there is a Walmart neighborhood Market virtually next door.

The MNB Wal-Mart Watch

- In Arkansas, the *Morning News* reports that Walmart has reached a \$49 million settlement agreement with employees in South Carolina, who have been engaged in a six-year lawsuit that claimed the company had forced them to work off the books.

According to the story, “Wal-Mart announced late Dec. 23 it was settling 63 of 73 pending wage and hour class action lawsuits nationwide. The South Carolina lawsuit is included in the 63 suits the retailer previously announced it would settle. The settlements were pending court approval, but could cost up to \$640 million.”

- Wal-Mart de Mexico said yesterday that it plans to increase its capital expanding by four percent this year, to the equivalent of \$805 million (US), and open 252 new stores that will be added to its current fleet of 1,205 stores.

The Balance Sheet

- Loblaw reports that its fourth quarter profit was the equivalent of \$149.2 million (US), up from \$31.7 million (US) during the same period a year ago. Q4 revenue was up 11.2 percent to \$6.2 billion (US), with same-store sales up 10.6 percent.

The company said that it likely would not be able to repeat the profit increase in 2009 because of investments it has to make in upgrading an “archaic” computer system.

- CVS Caremark reports that its fourth quarter earnings rose to \$949.3 million, from \$811.2 million during the same period a year earlier. Q4 sales rose 10 percent to \$24.1 billion at CVS, on same-store sales that were up 3.6 percent.
- Whole Foods yesterday said that its first quarter net income was down 17 percent to \$32.3 million, from \$39.1 million during the same period a year ago. Q1 sales were even at \$2.5 billion, on same-store sales that were down four percent.



- Walmart said yesterday that its fourth-quarter profit fell 7.4 percent to \$3.79 billion, from \$4.096 billion during the same period a year earlier. The company said its profits were affected by exchange rates and the cost of settling a series of lawsuits during the fiscal period.

Total sales rose to \$109.12 billion from \$107.34 billion, on same-store sales that were up 2.8 percent.

Wal-Mart's U.S. sales rose six percent during the quarter, while business at its Sam's Club warehouse division was flat. International sales fell 8.4 percent but a constant currency basis, international sales actually rose nine percent, the company said.

Executive Suite

- Bi-Lo has named Michael Byars to be its new president and chief executive, replacing interim CEO Randall Onstead. Byars most recently was president and CEO of Minyard Food Stores in the Dallas/Fort Worth area.

Onstead has been interim CEO since November 2008, in addition to serving as chairman of the board. He replaced Brian Hotarek, who retired after more than 30 years in the grocery retail industry.

- In the UK, *Retail Week* reports that Andy Clarke, retail director at Walmart-owned Asda Group, has been promoted to be the company's new COO.

It also is reported that group trading director Darren Blackhurst has been named chief merchandising officer, and marketing director Rick Bendel has chief marketing officer – new titles that bring Asda into line with Walmart's overall management structure.

- Cott Corp. has named Jerry Fowden, who has been running the company's international operations, as its new CEO. He replaces interim CEO David Gibbons, who replaced Brent Willis a year ago.

Fowden is Cott's fifth CEO in six years.