



-Week Ending 2/27/09-

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Thanks to MNB
for this selection of
articles.

Safeway's Burd Challenges Manufacturers On Price

The *Wall Street Journal* reports this morning that Safeway CEO Steve Burd has told analysts that if CPG companies don't start lowering their prices, Safeway will respond by pushing its private label lines harder than ever – and that, if necessary, Safeway will “chew up” the CPG companies on price.

According to the story, Burd “told analysts in an earnings conference call that the sales growth gap between national brands and private-store brands has become ‘extraordinary’ and accused food makers of being ‘disingenuous’ with consumers by not dropping their prices to reflect declining input costs.

“Faced with the economic recession, cash-strapped consumers have been trading down to cheaper products, both dining out and dining in, with more consumers gravitating toward private-label at the grocery store.”

While Safeway and other retailers have been pushing manufacturers hard on prices, suppliers have been saying that they cannot lower prices because they are locked into higher commodity costs. But in addition to wanting to cater to economically challenged shoppers, Safeway has other reasons for pushing private label – such products earn higher margins for the retailer, and reinforces the company's brand image.

Nutritional Customization Comes To The Supermarket

CNN.com has an interesting story about how in the not too distant future, “people should be able to tailor their diets and supplements to their particular biochemistry ... In a consumer-driven food world, the industry would focus its goals on improving all aspects of the consumer's health ... People would receive dietary recommendations based on a very specific individualized health assessment, taking into account age, sex and medical history.”

The story suggests that scientists' understanding of human metabolism isn't quite there yet, and that the recommendations right now are far too general to be effective. At the present time, “the blanket recommendations are missing the mark. For example, look at omega-3 fatty acids, which may reduce the risk of coronary heart disease. Although most people don't get the recommended intake of omega-3s, found mainly in fish oils, different healthy people react very differently to these acids, meaning some need them a lot more than others.”





CNN.com writes, "Another direction that food science is taking is genomics. Researchers are looking at the genes of edible organisms to figure out what about them makes them beneficial to humans, knowledge that may enhance diets in the future.

For instance, scientists are looking into how human milk evolved. Curiously, one component of breast milk is something that infants cannot digest: oligosaccharides. Research in the last few years has shown that these oligosaccharides stimulate particular bacteria in the intestine, which is a beneficial process."

MNB's Tales Of Tesco

- Executives at Tesco's Fresh & Easy operation in the US may have conceded that they made certain miscalculations in developing their American entry, but that doesn't mean things are standing still. The company said yesterday that it has opened its third store in Bakersfield, California, building its presence in a market where it said its previous two stores – opened last December – have become "top performers."

But here's an interesting note from the official announcement that speaks to what consumers may be perceiving to be Fresh & Easy's strengths: "More than 60% of the top selling items at the Bakersfield stores have been fruit, vegetables, poultry and dairy products."

Target To Focus On Food & Necessities To Improve Bottom Line

The *Wall Street Journal* reports that "Target plans to place greater emphasis on food, health-care products, personal items and other necessities, while offering fewer discretionary items to avoid big markdowns that have hobbled its earnings." The company also is "investing in technology to improve different areas of its operations, such as its pharmacy program, and plans an aggressive drive to emphasize low prices. The retailer plans to design the majority of its new and remodeled stores in a way that draws attention to fresh foods and other consumables."

The story also says that "in its new and remodeled stores, Target will allocate more shelf space to non-discretionary categories and try to leverage its advertising and promotions to drive awareness of this merchandise," and plans an "aggressive assault" on Wal-Mart through various marketing venues.

Sansolo Speaks: Killer Apps

by Michael Sansolo

A few years back as I was leaving for a technology show, a friend asked me to keep my eyes open for the "killer application." He was convinced that in technology, finding the next big trend was usually a matter of keeping one's eyes open to the new system, new device or new solution that was quickly moving into dominance.

As I walked the show I realized he was both wrong and right. At the show, I found the killer app, but surprisingly it had nothing to do with information technology. Rather, I noticed it in the baggage storage area where for the first time it seemed like every bag was a wheelie. Today that might seem like a ridiculous observation, but it really wasn't that long ago that wheelies were a new application; and a killer app at that.



My son found a killer app for me recently in the oddest of places. We were eating in a restaurant and he came rushing out of the bathroom telling me I had to go visit it immediately. That's always a scary recommendation from an 18-year-old with a warped sense of humor. He worried me even more when he told me to bring my camera.

But he was right, although the killer app wasn't apparent until I was leaving the bathroom. There on the exit was a special handle that allowed me to open the door using my forearm instead of my hand.

I don't remember when we all became germaphobes, but my casual observations in public restrooms suggest that the world is divided into two groups. The first somehow has no need to wash their hands. The second, including me, figures out strange ways to avoid touching anything that might have been used by the first group. Opening the exit door is usually the biggest problem.

With that reality in mind, the forearm-operated door opener seems like sheer genius. In short, it's a killer app. (In case you are wondering, I did take a picture. It was the first and last picture I have ever taken in a public restroom and I plan to keep that record intact.)

The question is, why aren't there more? The basic principle of a killer app after all is pretty simple: find a widespread problem and solve it, though usually it is used in the IT world for a new bit of hardware or software wizardry that changes the basic value of the technology itself. I'd argue that while Microsoft did this by simplifying operating systems or Apple with the iPod, the killer app designation belongs to the genius who figured out we'd be better served pulling suitcases on wheels with telescoping handles. To my mind, killer apps come in all shapes and sizes.

But where are they? For instance, when I was walking the aisles of my local supermarket this weekend, I was still struck at the missing killer app in the peanut butter aisle. Every shopper in America knows about the Peanut Corporation of America and its trail of tainted products. So why can't my store have a little sign in the peanut butter aisle reminding us that jarred peanut butter isn't impacted. I'm betting a lot of shoppers might find that a killer app at the moment.

I've written before about some of the brilliant ads run by Walmart during the current economic hardships. These ads educate shoppers on the incredible savings they realize by cooking a pizza at home each week instead of ordering in; or having breakfast cereal instead of a quick serve restaurant offering. (My mother tells me in Florida Walmart now touts the savings of having a big special meal at home instead of going to the expense of eating at a sit-down restaurant.)

Those ads aren't quite killer apps. But when supermarkets give me recipes that clearly lay out how to make a simple, healthy and economical meals—that is a killer app.

The possibilities are all around us, the problem is we need to look at the situation slightly differently to find them. Putting wheels on suitcases, with telescoping handles seems so simple now, but it wasn't always that way. It requires curiosity, creativity and maybe just a bit of inspiration. And that is what all of us should be looking for every day.

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

Common Threads In The Fabric Of Retailing Success





Good piece in *Advertising Age* about retailers that are “flourishing” or “floundering” during the current economic upheaval, looking for “common threads” that lead to higher sales: “keep spending, target your marketing and look for ways to offer value.”

Among the companies cited in the piece:

- Kroger, which “managed a 6% increase in stores open at least a year during the third quarter, and analysts said the grocer has narrowed the pricing gap with Walmart to less than 10%. Last year Kroger offered consumers 10% off if they spent their tax rebates at the chain, and it offered gas discounts and free groceries in exchange for points earned through its loyalty-card program. The retailer is also using a lot of direct marketing. For example, data from its loyalty-card program are being used to send unique coupon offerings to specific households.”
- While CVS has lowered its broader marketing spending, the company points out to *Ad Age* that its loyalty marketing program is not tracked: “That program, which counts more than 50 million cardholders, has spawned more targeted marketing efforts, with promotional offers at the register, coupons, e-mail and direct mail.” And that program allows CVS to try to have personalized “conversations” with those cardholders.
- *Ad Age* suggests that Whole Foods, but cutting “its already meager advertising budget, may be exacerbating its problems with slowing sales, though the company argues that it “is benefiting from the trend toward more meals at home.”

Tesco Exec Says Company “Got It Wrong” In US With Fresh & Easy

In the UK, the *Times* reports that Tim Mason, who is running Tesco’s Fresh & Easy operation in the United States, says in an interview that the company “got it wrong” in the US despite its much vaunted market research.

“We may have assumed that certain elements of the Fresh & Easy brand would do the work for us and we would not have to go down and dirty on price. That may have been a mistake,” Mason says.

Mason and Simon Uwins, Fresh & Easy’s marketing director, tell the *Times* that they misjudged the importance of price to US customers, that while they “went into people’s houses, talked to them about food and food shopping (and) went into their kitchens and poked round pantries,” they never went into their garages and basements, where they would have found “huge freezer chests bulging with stockpiled meat bought on special offer.”

“There’s less loyalty in the American market,” says Mason. “A Brit has to hear it a few times before you accept that people make up their mind where to go each week when they check out the special offers round the kitchen table.”

The *Times* notes that consumer focus on price has gotten even more intense with the recession, which has slowed Fresh & Easy’s expansion: “There are 113 Fresh & Easy outlets and plans to have 200 branches have been put back at least six months.”



FastNewsBeat

- The *Wall Street Journal* reports this morning that “makers of household goods and food are paying more attention to the ‘paycheck cycle’ as cash-strapped consumers are showing a tendency to make their largest purchases when their salaries first come in and to cut back as that money runs out. With more consumers living from paycheck to paycheck, some companies have looked at ways to time their promotions around periods when consumers’ wallets are likely to be well cushioned.”

This is the second time this week that a “paycheck cycle” strategy has been mentioned in the news; previously, Tesco said it would adopt a similar approach in its UK stores as it wrestles with the fiscal implications of recession.

- *MSNBC* reports that Wegmans “has announced a new program that will lower the cost of nearly 390 select generic maintenance drugs and those used to treat acute conditions. The list is comprised of the most-commonly prescribed generic prescription drugs filled at Wegmans. The new prices go into effect Sunday, March 1.”

- In Boise, *KIVI TV News* reports that the Albertsons stores there have seen demand for non-disposable shopping bags has been growing “exponentially,” with a wide variety of sizes and colors being offered and “poised to replace plastic and paper as our primary grocery tote.”

- The *Tribune-Review* reports that Giant Eagle has unveiled a new store design in Pine Township, Pennsylvania, that at 87,500 square feet is 13,000 square feet larger than its typical stores. According to the story, the unit features “freshness and an open design” and has “expanded produce, bakery and prepared foods areas, and a sushi bar, international grocery aisle and organic foods department.”

- The *Chicago Tribune* reports that Roundy’s Supermarkets has “signed a lease to open a two-level, 55,000-square-foot grocery store at the southwest corner of the Lakeshore East development near Millennium Park.” This is the second Chicago-related announcement made by Roundy’s in a week – last week it said that it would open a store in the city’s Bronzeville section.

- Pennsylvania-based Weis Markets announced that it has “added 50 generic prescription drugs and antibiotics to its 90-Day, \$9.99 prescription plan, expanding the program’s overall total to over 400 medications.” The program originally was rolled out last October and is currently available in all 119 Weis Markets in-store pharmacies.

- *Crain’s Chicago Business* reports that Supervalu plans to spend as much as \$125 million over the coming year to remodel 25 Jewel stores in the Windy City, “betting that new, shiny displays and bigger meat, produce and deli departments will stem the loss of customers to Wal-Mart, which offers groceries for as much as 15% less.” This is part of an ongoing effort, according to the story: “Including those remodeled over the past year, about a third of Supervalu’s 186 Jewel stores will have gotten a face-lift and expanded offerings by the time the effort concludes.”



The MNB Wal-Mart Watch

- In Arkansas, the *Morning News* reports that Walmart is making some logistical changes, altering “how it distributes merchandise as customers change shopping habits and frequent different channels.”

Johnnie Dobbs, executive vice president of logistics and supply chain for the retailer, said that A customer may buy everyday groceries at Wal-Mart, make occasional purchases at Sam's Club and go online to the retailer's website order gifts, and that the company's logistical strategies have to reflect these various consumer options.

"We needed to adapt our process. That (Web) site to store channel did not exist two years ago," Dobbs said. "If you don't adapt, then you lose those growth opportunities."

And, he said, built into new processes have to be the ability to adapt to changing circumstances, since no one knows that is going to happen next month or next year.

Dobbs also said that “the company also is trying to save diesel and increase distribution center employees' productivity with technology that increases order-filling accuracy.

The Balance Sheet

- Safeway said yesterday that its Q4 income was \$338 million, up 12 percent from the \$301.1 million reported during the same period a year ago. Q4 revenue was 13.8 billion from \$13.4 billion a year ago, on same-store sales that were up 0.4 percent.

Income for the 2008 fiscal year was 965.3 million, up 11 percent from \$888.4 million in 2007. Annual sales were \$44.1 billion, up from \$42.3 billion in 2007., with same-store sales up 0.8 percent.

- Dollar Tree Inc. said that its fourth quarter profit was \$105.2 million, up 11 percent from the same period a year ago. The company previously posted Q4 sales that were up almost seven percent to \$1.39 billion, on same-store sales that were up 2.2 percent.

The company said that said it will open 210 new stores this year and will add more freezers and coolers to attract new money-conscious shoppers.

- Target Corp. said that its Q4 profit was down more than 40 percent to \$609 million, from \$1.03 billion during the same period a year ago. Q4 sales declined 1.6 percent to \$19 billion from \$19.3 billion a year ago. Same-store sales dropped 5.9 percent.

The company has said that it is cutting jobs, eliminating bonuses and trimming inventories as ways to be more efficient.