-Week Ending 10/1/10-

Below is the list of articles you will find for the week ending 10/1/10 edition of Retail Industry News.

Thanks to MNB for this selection of articles.

Walgreens Offering Fresh & Packaged Meals In Two-City Test

The *New York Times* reports on how Walgreens is piloting the sale of fresh foods in some of its Chicago and New York stores, "selling fruit, vegetables and packaged meals ... Now, a trip to drugstores can include everything from mangoes and yogurt parfait to spicy tuna rolls and salsa-making kits."

"We launched this pilot to provide fresh foods for customers who are looking to save time or possibly eliminate time from sitting down in a restaurant,'' said Tiffani Washington, a Walgreens spokeswoman, "or even something fast to prepare for dinner that night."

Target Aims At Urban Markets With Small Store Format

While Walmart may be getting much of the media attention with its stated intention to develop a small-store format that will be appropriate for urban locations that previously have been unavailable to it. Target is aiming to open its first urban store in Seattle in 2012...and it already is looking at 10 other US cities for additional sites.

"The new urban stores are expected to take up some 80,000 square feet of space, making them approximately one third larger than an average supermarket, but only about half the size of a typical Target store," writes *DailyFinance.com*. "They're intended to help Target gain market share both from supermarkets and from Wal-Mart Stores, its larger competitor."

"By opening these smaller stores and then doing that across the country, Target's declaring war on the supermarket sector," Burt P. Flickinger III, managing director of New-York based retail consultant Strategic Resource Group, tells *DailyFinance*. "Instead of getting shoppers to go to Target once a month, they're looking to get them once a week."

Sansolo Speaks: "Not All Lessons Are Created Equal"
by Michael Sansolo

In the hunt to build our message with customers, we all love to reach for an example that helps explain our case. Heck, we do that constantly here at MNB. The problem, of course, is that some lessons are far better than others. Let me explain…

I love magazines and their ongoing business struggles concern me. Well-crafted magazines can present a depth of information and understanding that is unparalleled by other forms of media. And certainly there are some magazines still flourishing, but the overall combination of short attention spans and reduced advertising budgets are walloping most of the publishing industry these days.

So the magazine industry is responding with eye-catching ads designed to tout the strength of its products. One ad looked like a ransom note, using magazine titles to form the sentences. Another featured a provocative photo (is there any other kind) of Lady Gaga. And now there is one asking a simple question: Will the Internet kill magazines? Did instant coffee kill coffee?

That last one got me thinking and with a little searching, I found that the better lesson on coffee is the very opposite of what the ad promised. Rather, it's a lesson about what can happen to a product when its core offering is attacked and instant varieties weren't the cause. In the early 1960s, the average American drank three cups of coffee each day and nearly all was fresh brewed. Twenty years later, instant had grown but coffee consumption was down nearly one cup a day overall. These days (another 20 years down the road), consumption is even lower, with "gourmet" coffee having basically replaced only some of the lost cups.

According to coffee industry websites, most of the decline was caused by crop problems in Brazil in the early 1970s, not to the growth of instant products. The problems drove up prices and drove down supplies of the best tasting coffee. In essence the product cost more and tasted weaker and the result was a movement of drinkers away from coffee. Despite all the Starbucks on all the street corners, coffee consumption remains historically low.

Interestingly, there are parallels for magazines and supermarkets (and many other products). While both industries arguably have better products and services than ever, they are facing consumers who don't get it or want to get it. Today's younger generations grew up finding information from easy sources like television and now the internet, much as they grew up getting simple meals from fast food providers. Cooking and reading…that seems hard. Only both can and should be very enjoyable.

I thought about a presentation I did recently with Calvin Mayne of Dorothy Lane Markets in Dayton, OH. Calvin's stores are anything but typical, but no one should lightly dismiss what makes them work. It's the passion for food that runs through the Mayne family, the DLM staff and even the customers. DLM uses education to teach shoppers about new products, recipes and tastes. Calvin explains how education and creative merchandising made a product like Manchego cheese essential, when years before no one knew it existed. A little education and a little merchandising excitement can change the value equation and in turn breathe life back into products and categories.

You can think of other examples like it. An educated consumer becomes a better customer because they better understand the value they receive and appreciate it more.

It strikes me that provocative photos of Lady Gaga aren't special and certainly don't make a great argument for buying a magazine. Somehow the publishing industry has to figure out how to outflank the immediacy and mostly shallow nature of internet news. (Maybe they should read MNB.) Likewise, supermarkets have to understand that an endless parade of price merchandising doesn't drive additional supermarket consumption. Yes, we have to serve what the shopper values, but we also have teach them what they might aspire to value and serve that too.

That strikes me as a more winning example.

Michael Sansolo can be reached via email at msansolo@morningnewsbeat.com. His new book, "THE BIG PICTURE: Essential Business Lessons From The Movies," co-authored with Kevin Coupe, is available by clicking here.

Dominick's Gets Personal With New Discount Program

Crain's Chicago Business reports that Safeway-owned Dominick's has a "new digital discount program (that) could be the grocer's most powerful weapon yet in a brutal pricing war with its mass-merchant and club-store rivals." The program, "dubbed Just for U, offers shoppers personalized savings on items they've purchased in the past." It "also is giving hyper-competitive discounts on items customers are likely buying elsewhere from a growing list of competitors such Target, Wal-Mart and Jewel-Osco stores.

"Dominick's can analyze purchases made with the chain's loyalty card and

-Week Ending 10/1/10-

spot missed sales opportunities. For example, a regular shopper might buy baby food and formula, but not diapers. The system will assume that the shopper is getting diapers elsewhere and will automatically offer a deal that beats the competition."

These discounts are instant, and kick in when the shopper uses his or her frequent shopper card.

"We'll sacrifice a bit of gross margin on certain items to bring those people in our stores, but the additional sales will more than offset that," division president Don Keprta tells *Crain's*. "There's a selfish motive here. We want to continue to grow our business. We want to expand our base in Chicago."

The goal, he says, is simple: "To get a competitive advantage against everybody in the marketplace."

Fruits, Vegetables Taking It On Chin From Consumers

The *New York Times* takes note of a new study sounding a familiar refrain: that Americans don't eat enough fruits and vegetables.

"Despite two decades of public health initiatives, stricter government dietary guidelines, record growth of farmers' markets and the ease of products like salad in a bag, Americans still aren't eating enough vegetables.

"This month, the Centers for Disease Control and Prevention issued a comprehensive nationwide behavioral study of fruit and vegetable consumption. Only 26 percent of the nation's adults eat vegetables three or more times a day, it concluded. (And no, that does not include French fries).

"These results fell far short of health objectives set by the federal government a decade ago. The amount of vegetables Americans eat is less than half of what public health officials had hoped. Worse, it has barely budged since 2000."

The problem is that nobody seems to know how to solve it. There has been a dearth of new stories, TV commercials, promotional campaigns, convenience packaging and new approaches to fruits and veggies - none of which seem to have worked.

"Before we want health, we want taste, we want convenience and we want low cost," says Harry Balzer of the NPD Group. Fresh produce rarely is seen as fitting this bill.

Kroger Looks To The Future

There are several stories this morning that look at various facets of the Kroger Co. and how it is strategizing about its future.

• The *Wall Street Journal* reports on an interview with CEO Dave Dillon in which he says, in essence, that if CPG companies want to raise their prices, that's up to them - and that Kroger will simply pass those increases along to the consumer, which will in turn make the company's private brand alternatives more attractive.

"I don't see [rising manufacturers' prices] as a problem for us. It is a problem for them," Dillon tells the *Journal*. "Each national vendor must make a choice."

And, the *Journal* writes, "'We are not opposed to having higher gross margins,' Mr. Dillon jokingly told investors. But fattening profits could cost Kroger shoppers and 'dissipate brand equity,' Mr. Dillon said. He expects Kroger will benefit from those shoppers' loyalty as the economy improves."

• *Reuters* reports that Kroger is interested in making acquisitions, and has specifically been targeting manufacturing companies that could add both capacity and innovation to its private brand segment, but that to this point targeted companies have been asking for too much money.

-Week Ending 10/1/10-

"People who are selling still have some idea of a big multiple in their head," Kroger Chairman and Chief Executive David Dillon said on Wednesday at the company's investor conference.

The story also suggests that Kroger could be looking at some of the retail assets that the Great Atlantic & Pacific Tea Co. (A&P) reportedly wants to sell.

• The *Cincinnati Enquirer* has a fascinating story about the two Advantage Checkout machines that exist in the world, both of which are being used in Kroger's Hebron Marketplace store.

According to the piece, "The machines use a patented technology designed by the grocer's four-year-old research and development team. They're aimed to save customers time at checkout and to save the company operating costs and manpower ... Customers place items on the machine's quick-moving conveyor belt. Those items enter a tunnel lined with high-powered cameras to capture images of products and scan UPC barcodes. Items exit on another conveyor belt and are quickly bagged by Kroger employees. During bagging, customers visit one of four separate pay stations where they can scan coupons and pay for their goods.

"The machine can read about 90 percent of items in the tunnel. Kroger continues to test the device and seek feedback from customers. It has yet to determine the optimal configuration in a store to remove all bottlenecks during the checkout process.

"It also has installed Pro Scale machines in the Hebron produce section that let customers weigh and label items with printed barcodes while they shop. That also helps to ease congestion in the checkout line."

Kmart Broadens Private Brand Presence

Kmart announced yesterday that it will expand its private brand strategy "with the introduction of the Smart Sense line, its new Kmart brand that includes a wide range of items including everything from snacks and beverages, to oral care, paper products, household cleaners and over-the-counter medications. The quality of the Smart Sense line is comparable to that of national name brands, and on average costs 20 percent less."

Walmart Prices At "Highest Level" In Almost Two Years, Report Shows

Bloomberg reports on a study by J.P. Morgan Securities saying that Walmart's prices "rose in September to the highest level in at least 21 months ... The cost of a 31-item basket of goods at a Wal-Mart in Virginia was $95.75, a 2.7 percent increase from August and a 5 percent gain from the start of 2010 ... The price is the most since the New York-based analyst began the survey in January 2009."

According to the story, " Prices for produce climbed as Wal-Mart offered almost no discounts on food last month ... Price cuts on items such as cereal and ketchup failed to attract as many consumers as Wal-Mart anticipated, dragging down sales in the latest quarter, U.S. stores chief William Simon said last month.

"Produce accounted for 7 of the 31 items in the basket, with prices 10 percent higher in September than the previous month. Prices for dairy products rose 2 percent, and meat was unchanged."

While *Bloomberg* notes that "Wal-Mart's prices came in below a similar basket of goods bought at stores operated by Kroger Co. and Safeway Inc.," it also showed that the gap "between Wal-Mart and the traditional grocers narrowed in September."

Couche-Tard Strikes Out In Casey's Bid

The *Des Moines Register* reports this morning that Canadian c-store giant Alimentation Couche-Tard has thrown in the towel on its hostile bid to acquire Iowa-based Casey's General Stores. Yesterday, Couche-Tard said that it has allowed its $38.50-per-share offer to expire, saying that “we have decided not to continue to pursue our offer given the Casey's board's repeated refusal to negotiate with us.”

Casey’s has continually said that the offer was too low, and responded to the Couche-Tard approach by opening negotiations with 7-Eleven, which offered $40-per-share. At the company’s annual meeting last week, shareholders supported Casey’s management, refusing to elect an alternative slate put up by Couche-Tard.

According to the *Register*, “Analysts peg the stock's real future value at $46 to $49, depending on whether Casey's decides to remain independent or sell part of the company to another firm.”

Harris Teeter Introduces Two New Health-Related Programs

The *Business Journal of the Greater Triad Area* reports that Harris Teeter “has launched two new programs to help customers pare down health care costs. The company’s updated Generic Prescription Savings Club program offers shoppers a 30-day supply of generic medications for $3.99.

Harris Teeter also has launched its new ‘yourwellness’ Savings Card to provides consumers with savings on everything from eyeglasses and contact lenses to dental cleanings, X-rays and prescriptions. The cost to enroll is $3.95.”

FastNewsBeat

• The Food Marketing Institute (FMI) announced that it is teaming up with the National Retail Federation (NRF) and eBay to tackle the growing problem of organized retail crime. This relationship strengthens the partnership and provides for even greater collaboration and information sharing in an ongoing effort to support the investigative efforts of the Federal Bureau of Investigation as well as state and local law enforcement agencies working in partnership with grocery loss prevention professionals.
• Somebody appears to be expecting a good holiday season. The *Los Angeles Times* reports that Toys R Us plans to “bulk up its workforce by hiring about 45,000 seasonal workers nationwide, more than it has hired during each of the last three Christmas seasons.”

The company said that “35,000 of this year's seasonal hires would staff the company's 587 traditional Toys R Us stores and that 10,000 of the temporary employees would work at the Toys R Us Express pop-up locations,” according to the *Times*. “Seasonal workers will also be hired to work in the company's nine distribution centers across the country.”

• The *Pittsburgh Tribune-Review* reports that Giant Eagle Supermarkets’ “3-year-old experiment in operating its own plant to bottle water and iced teas will come to an end Friday when the company closes its Latrobe bottling facility. Talks are progressing with a possible buyer. The Chestnut Ridge Beverage Co. is closing the former LeNature's Inc. bottling plant to cut costs, Giant Eagle said in a statement. Giant Eagle is the minority owner in Chestnut Ridge, with the other unidentified investors.

• Pennsylvania-based Weis Markets announced that the U.S. Environmental Protection Agency’s GreenChill Partnership recently presented it with three 2010 Environmental Achievement Awards. The Company received GreenChill’s “Most Improved Emissions Rate Award,” the “Superior Environmental Achievement Award,” and the “Exceptional Environmental Achievement Award.”

The awards recognize the Weis’s efforts “to reduce the refrigerant discharged from the systems used to refrigerate the displays and frozen food cases in its 164 stores,” the company said. “These refrigerant emissions harm the earth’s ozone layer and contribute to climate change.”

The MNB Wal-Mart Watch

• Walmart yesterday announced that it has made a $4.6 billion (U.S.) bid to acquire the South African wholesaler Massmart Holdings, and that the two companies have entered into negotiations in the hope of making a deal.

-Week Ending 10/1/10-

Published reports note that Massmart has a variety of store formats and brands throughout the sub-Saharan region; Walmart reportedly has been looking for a platform on the continent that will allow it to expand elsewhere in Africa.

• *Dow Jones* this morning quotes M. Susan Chambers, executive vice president of Walmart's people division, as saying that she expects that the company will employ three million people around the world by 2015, compared to the 2.2 million it currently employs. Most of those jobs, she said, will be outside the US.

Executive Suite

• Walmart announced yet another change in its senior executive team, as CFO Tom Schoewe said he will retire on January 31, 2011. Schoewe will be succeeded by Charles Holley, currently the company's treasurer and executive vice president of finance.

Schoewe is 57. Holley is 54. According to the *Reuters* coverage, "a Walmart spokesman declined to provide details on Schoewe's future plans or say why he was retiring."

• *Bloomberg* reports that Ahold CEO John Rishton is leaving the company to CEO of Rolls-Royce Group Plc, and will be succeeded by Dick Boer, who has been serving as the company's COO in Europe.

In turn, Boer will be replaced by Sander van der Laan, who runs Albert Heijn. Carl Schlicker, currently head of Ahold's U.S. retail operations, has been appointed chief operating officer of the U.S., succeeding Larry Benjamin, who will retire in early 2011.

Early reaction from analysts suggests that Boer is likely to be more acquisition-focused - or, as one analyst put it, "empire building" - than Rishton, who was more focused on improving the balance sheet and restoring morale in a company that had been rocked by an accounting scandal.

• The Food Marketing Institute (FMI) announced the appointment of Carol Abel as Vice President, Education and Research. Abel will be responsible for the development and execution of FMI's education programs and research initiatives.

Abel comes to FMI from the American Pharmacists Association where she most recently served as Senior Director of Education Strategy and Compliance Officer.

• Walgreens announced that it has hired Jeffrey Berkowitz, most recently senior vice president of global market access for Merck & Company, to be its new senior vice president of pharmaceutical development and market access, responsible for "the overall pharmacy contracting strategy for the company, both on the pharmaceutical manufacturing side and on the retail payer side. As a member of the senior management team, he will assume leadership for identifying and cultivating strategic external relationships and will oversee key initiatives with pharmaceutical manufacturers that will add to the company's growth."

SymphonyIRI Group