



*-Week Ending 5/15/09-*

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Thanks to MNB  
for this selection of  
articles.

## CPG Companies Look To Define Value In Tough Times

The *New York Times* this morning reports on how major manufacturers – including Kraft, Nestle and Reckitt Benckiser – are working overtime to make "persuasive arguments" to shoppers about why they should buy their products, ranging from cookies to deli meats to condiments...an argument that remains a tough one during recessionary times.

On the one hand, manufacturers have the advantage of knowing that shoppers are eating home more and eating out less; however, these same shoppers seem more open than ever to the idea of retailer labels that are less expensive than their national brand counterparts. And so, manufacturers and their marketing agencies have to craft messages that impart the core message of "value," but do so in a way that does not diminish brand equity in the long term. They are banking, in the words of one marketer, that "value is not just cost; it's also taste, nutrition and quality."

## Stater Bros. Focuses On Customers As It Grapples With Economy

The *Desert Sun* reports on some of the efforts being used by Stater Bros. and its CEO, Jack Brown, in dealing with the tough times that consumers have been experiencing.

Examples:

- "When the economy soured, grocery store staff began to stroll through the aisles more frequently and chat with shoppers and help keep spirits up."
- Stater increased its private label penetration, offering lower-priced products to cash strapped shoppers.
- "As California parklands were devastated by wildfires, the Stater Bros. team began raising funds for reforestation and fire prevention. By April, its customers provided enough funds to plant more than 1 million new trees."
- "When capital expansion across the nation came to a grinding halt, Stater Bros. opened a new store in Carlsbad."

Brown tells the *Sun*, "Sales volume rose. Customers were buying less, but they gained in number. Wall Street jumped on me because our profits were down 66 percent by January 2009. But our point was, we held price. We didn't pass it off to the customers."





And what did that do for our year-end report for 2008? Our customer counts were up 70,000 a week across our stores — that's about a 5 percent increase. They were buying a little less, had less to spend. But our message was getting across.

"Now, six months into 2009, our customers are up 85,000 a week. When this recession is over, and it will be over, I know the message we're delivering is the right message."

## A Healthy-Mainstream Hybrid Builds LA Presence With Low Prices

The *Los Angeles Business Journal* reports that the 28-store Henry's Farmers Market chain in Southern California is expanding with a new store that "places the chain in an area that could be called 'Organic Avenue,' with a deluxe Ralphs Fresh Fare, Whole Foods Market and Trader Joe's along a two-mile stretch of Ventura Boulevard."

The goal is to use an approach that emphasizes discount prices on organic and fresh foods – as well as mainstream products – to "slice away customers" from higher-priced competition

The *Business Journal* writes, "Henry's could be viewed as a downscale, wanna-be Whole Foods. But company officials reject the comparison. They don't see themselves as downscale, they call it lower cost. And they point to the eclectic selection on their shelves: Just steps away from gluten-free products, organic vegetables and \$20 bottles of olive oil are cases of Budweiser beer, gummy worms, and a variety of Asian and Latino foods usually found at other supermarkets.

"We see ourselves as a transitional store," Janet Little, chief nutritionist for Henry's, tells the paper. "Henry's is about catering to people who want to start eating healthier but still shy away from going all vegan or organic, and still want those indulgence items like cheap candy or beer."

## Asda To Open "Virtual Store" As It Bolsters Online Business

The *Financial Times* reports this morning that Walmart-owned Asda Group plans to open what it is calling a "virtual store" this summer that it says will double the number of online customers it can serve in its Yorkshire marketing area...and thus make Asda online more competitive with Tesco.

Essentially, the virtual store is described as having shelves but no customers, and will be adjacent to an existing Asda unit. The goal is to create a layout that makes it easy for Asda employees to shop for online customers.

*FT* writes: "Asda, which saw home shopping sales rise 50 per cent in the quarter, has also begun to relaunch its website. It will be open until 10pm for next-day deliveries.

"The plans for the virtual store follow a similar move by Tesco, which two years ago opened an internet-only store in Croydon.

"Both companies are expanding aggressively online, with expectations that it will become a key way for customers to buy groceries in the future."

## Walmart & Whole Foods Navigate Recession With Different Charts

Interesting piece in *Business Week* comparing Walmart to Whole Foods...and suggesting that the latter, despite conventional wisdom to the contrary, may be doing a good job of managing its way through the recession.

While Walmart has what is termed a "natural advantage" in an economic downturn because of its low price positioning, "Whole Foods has suffered from its reputation as an expensive place to shop for fancy food. Even as some worries about the economy have eased in recent months, that reputation is still hurting Whole Foods." However, Whole Foods has seen some turnaround by creating an in-store focus on values (which is different than being "cheap") and by cutting back on new store openings to free up cash and reduce debt from its acquisition of Wild Oats.



At Walmart, CEO Mike Duke clearly doesn't see the company's fortunes rising and falling with the recession. "When economic conditions improve, we believe customers who shop at Wal-Mart today will stay with us because of the business improvements we're making and continue to make," he said recently.

Not surprisingly, *Business Week* also makes its judgment based on stock price:

"In 2008, as the recession deepened, shares of high-end grocer Whole Foods plunged 77%, while discount retail giant Wal-Mart saw its stock jump 17%," the magazine writes. But "on May 14, in response to the release of quarterly results, Wal-Mart's shares sunk 1.9%, to 49.10, while Whole Foods' rose 2.8%, to 20.55." Walmart's earnings were up for the quarter and Whole Foods' were down...but Whole Foods' earnings were better than expectations, and that's all the market cares about.

## **Sansolo Speaks: What Were They Thinking?**

*by Michael Sansolo*

Why is that hardly a week goes by without something happening that has us all scratching our heads? In fact, it's sometimes hard to pick just one item. For instance, in the last week in the midst of strange debates throughout the business and political world how is it possible that KFC managed to issue an "exclusive" coupon through the Oprah show without having any sense that a whole lot of people were going to find it. And find it they did.

The question is: how do things go so badly off the tracks so often? Is it bad planning, bad strategy, bad execution or simply bad people? Or is it simply that companies forget to think like shoppers?

These incidents never fail to amaze me. Consider one we heard from a relative recently. Our niece got a product recall for the crib she uses for her 18-month-old, which is never a good thing. Apparently, toddlers found a way to break the slots on the crib so the recall was merited. The method, however, was as sturdy as the slats.

In order to get the recall, customers have to wait a week for the "recall kit." Then they were to take the crib apart and send back the critical parts. At this point, they were advised to wait another one or two weeks to get vouchers entitling them to buy new cribs.

Emily, our niece, put this simply: "What does my kid sleep in after I take the crib apart? For that matter, what does he sleep in right now while I wait for my recall kit to come?" For concerned parents everywhere, the company's plan probably looked like a really bad joke.

(As Emily pointed out, a toddler is in that wonderful phase where a bed won't hold him and a portable crib is a momentary hurdle. Emily decided the only option was to buy another crib prior to getting her voucher, but she admits she was lucky. She could afford to lay out the money, which many other consumers cannot do, and her local Babies R Us store told her they would refund her money once the voucher came in.)

So here's the question. How is it that the Jardine crib company, which is making its third recall of the last 12 months, got into this situation considering a key product they sell? After all, Jardine is dealing with a very concerned shopper and people like Emily are certainly going to be willing to share their story through every means possible, including their posts on Facebook.

It makes you wonder why a company like Jardine doesn't have someone in house whose job it is to think like Emily. Supermarkets started doing this in the 1960s with the formidable Esther Petersen at Giant Foods and any thought of eliminating those positions should be fought forever. A consumer advocate or ombudsman whose job it is to ask the tough but sensible questions should be essential to every company today, starting with Jardine and KFC, but certainly not stopping there.





At the same time, let's remember the power of unexpectedly good customer service and how quickly those stories are also shared in today's interconnected environment. My good friend Joy Nicholas encountered this when a recent flight ended with an emergency landing. It seems a hairspray can exploded in the luggage hold and since airborne explosions are never taken lightly, Joy's plane landed at an Air Force base in Florida.

There, quick thinking and caring individuals made all the difference. While the passengers waited for a new plane to fly in, the base commander treated his 105 sudden guests to a special dinner at the officer's club. And within 24 hours after getting the passengers to their final destinations, the carrier, Southwest Airlines, provided each one with a \$100 voucher. As Joy said, "A great experience of Southwest's (and the military's) amazing customer service. There wasn't one complaint, one scream and not one bad word was said about SWA at any time."

In other words, someone was thinking.

Michael Sansolo can be reached via email at [msansolo@morningnewsbeat.com](mailto:msansolo@morningnewsbeat.com).

## Target Grapples With Competition & Circumstance In New Strategy

The *Wall Street Journal* reports this morning that Target, under attack for being out of synch with consumer needs, has decided to put a greater emphasis on fresh foods and groceries as a way of finding its way through tough times. The retailer plans to transform "a corner of its discount department stores into a grocery store," expanding its use of food as a differentiating strategy beyond the 245 supercenters that it operates around the country.

According to the *Journal*, the new concept will be tested in 100 stores, and if successful will be rolled out to most of Target's, 1,300 discount stores.

"The minigrocery carries a narrow selection of products from 90% of the food categories found in a larger grocery store," the paper writes. "To speed up check out, Target has removed the need to weigh or bag produce. Even individual potatoes come wrapped in plastic and stamped with a bar code."

Meanwhile, the *Minneapolis/St. Paul Business Journal* reports that Target has begun testing a price-matching program in the Twin Cities, and will "match the prices in a competitor's ad on identical items during the dates that the ad is in effect. Shoppers must bring the competitor's entire print ad with them to the customer-service desk to request a price match."

The Target program is seen as a "counterpunch" to Walmart's consistent "always low prices" strategy, which has allowed it to outperform Target during the recession.

The new initiatives by Target take place as it moves toward an end-of-the-month shareholder vote on the makeup of the company's board of directors; an alternative slate has been nominated by a dissident shareholder – and interestingly, one of the members of that slate is Jim Donald, who because of his career in senior executive positions at Walmart, Safeway, Pathmark and Starbucks is seen as one of the more compelling options by some analysts.



## FMI Issues State Of The Industry Report

The Food Marketing Institute (FMI) issued its annual State of the Industry report yesterday, highlighting the following trends:

- Supermarket industry sales increased 5.2 percent in 2008, and identical-store sales rose 4.5 percent, but these gains were offset by the 5.7 percent food-at-home inflation rate last year.
- Adjusted for inflation, sales declined 0.5 percent and identical-store sales 1.2 percent. □
- Industry net profits decreased to 1.43 percent, from 1.82 percent, as companies competed more intensely for fewer consumer dollars in a recessionary economy. Contributing to this decline were increases in the cost of goods, health insurance and credit card interchange fees, among other expenses.
- Independent retailers (companies with 1-10 stores) posted the highest net profits and identical-store sales increases at 1.90 percent and 5.11 percent, respectively. □

Asked to rank issues in terms of importance, retailers pointed first to the economy, followed by "competition from other retailers," "healthcare costs," "credit/debit card interchange costs," "food safety," and "local, state and federal regulations."

However, even in a recessionary economy, retailers continued to focus on fresh foods as a way of differentiating themselves and finding a competitive advantage, with more than two-third of retailers saying that they were focusing on "consumer wellness and family health" as a competitive strategy.

The FMI State of the Industry report is generally presented at the trade association's May conference. However, the meeting was cancelled this year because of concerns about the swine flu and a possible global pandemic; FMI chose to release the study yesterday at the same time as it announced that the conference has been rescheduled for mid-October 2009.

## FMI Sets New Date For Future Connect Conference

Two and a half weeks after postponing its Future Connect and MarkeTechnics conferences because of concerns about swine flu and what was being described by health officials as the possibility of a global pandemic, the Food Marketing Institute (FMI) has rescheduled Future Connect for October 12-14 in Dallas, Texas.

The MarkeTechnics technology conference, however, has been cancelled for 2009. It will be revived in concert with the FMI Show scheduled for Las Vegas on May 10-13, 2010.

It is expected that the October Future Connect will strongly resemble the agenda planned for May, with three educational tracks – operations, executive and senior executive. However, it seems likely that not all the original speakers will be able to appear in October, and so some shifts and substitutions are probable.

"FMI appreciates the support and positive reinforcement we have received from the industry as we addressed the myriad issues resulting from the postponement of two events due to the influenza outbreak," said Leslie G. Sarasin, FMI's president/CEO. "We are thrilled to announce new plans to provide the industry with the essential education and insight provided by these events."

According to the trade association, original registrations for the May event will be transferred over to the October confab, with companies allowed to make substitutions as necessary.



## FastNewsBeat

- Published reports say that Kmart plans to open its first in-store medical clinic inside a store in Rehoboth Beach, Delaware. It will be run by the local Beebe Medical Center, and according to one report in the local press, “will have two exam rooms and be located in the front of the store next to the existing pizza restaurant.”

- Safeway Inc. yesterday issued its annual Corporate Social Responsibility (CSR) Report, pointing to a number of activities undertaken by the company over the past year.

Some examples: The company raised more than \$32 million for breast cancer and prostate cancer research in 2008 alone, and gave more than \$175 million in food to local food banks last year. Safeway also said that it “is one of the largest retail purchasers of wind energy, using 90,000 megawatt hours of wind energy, enough to power all 303 Safeway retail fuel stations, all stores in San Francisco, California and Boulder, Colorado, as well as all of the company headquarters and all corporate offices in Northern California.”

And, company pointed to its development of a healthcare plan for employees focused on prevention and behavior incentives, and its creation of organic and environmentally friendly as indicative of its broad definition of social responsibility.

- Sprouts Farmers Market announced that it is opening a new 25,000 square foot store in Coppell, Texas, right in the middle of the DFW Metroplex. The store is the eighth Sprouts unit in Texas, and continues the company’s marketing strategy of pitching high-quality natural and organic foods with lower prices than might be charged at higher end natural/organic supermarkets. The opening date is scheduled to be May 22.

## The MNB Wal-Mart Watch

- The *New York Times* this morning that Eduardo Castro-Wright, vice chairman of Wal-Mart’s United States operations, said in a conference call with analysts yesterday that during the most recent fiscal quarter “about 17 percent of Wal-Mart’s customer traffic came from new customers and that they spent 40 percent more on a shopping trip than Wal-Mart’s average — evidence that shoppers were trading down.”

And, the *Times* writes, “Bob Drbul, a retailing analyst with Barclay’s Capital, estimated that 27 percent of Wal-Mart’s sales growth in February came from new households. And Wal-Mart intends to keep them coming back.”

## The Balance Sheet

- Walmart said that its first quarter income was \$3.02 billion, roughly flat compared to the same period a year ago. Sales were off 0.6 percent to \$93.47 billion.

- Whole Foods reported yesterday that its second quarter profit was down 32 percent to \$27.3 million, from \$40 million during the same period a year ago. Q2 sales were down 0.5 percent to \$1.86 billion,, on a 4.8 percent drop in same-store sales.

- Unified Grocers said that its second quarter net sales were \$951.7 million, down from \$991.9 million during the same period a year ago. Operating income for the 2009 period was \$6.8 million, compared to \$8.9 million for the 2008 period.

- The Great Atlantic & Pacific Tea Co. (A&P) reports that its fourth quarter sales were \$2.3 billion, compared to \$2.2 billion in the prior year, on same-store sales that were down 1.3 percent. For the 13-week fourth quarter, reported loss from continuing operations was \$83.4 million compared to a loss of \$44.6 million for last year’s 12-week quarter.

## Retail Industry News from IRI



Sales for the 53-week full year were \$9.5 billion versus \$6.4 billion for the 52-week fiscal 2007. Same-store sales increased 2.0% for A&P and increased 0.8 % for the just-acquired Pathmark. Reported loss from continuing operations for the fiscal year was \$86.2 million compared to income from continuing operations of \$87.0 million for the 52-week fiscal 2007, which included a gain of \$184.5 million from the sale of Metro Inc. shares.

A&P CEO Eric Claus said in a statement, "This year we once again saw our Fresh, Gourmet and Discount businesses grow top and bottom line while attaining our synergy targets and completing the integration of the Pathmark business. Our Price Impact or Pathmark stores were a challenge for the year ... "this year we once again saw our Fresh, Gourmet and Discount businesses grow top and bottom line while attaining our synergy targets and completing the integration of the Pathmark business. Our Price Impact or Pathmark stores were a challenge for the year."

