



-Week Ending 10/31/08-

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Thanks to MNB
for this selection of
articles.

Beginning To Look A Lot Like Recession

Advertising Age reports on a new survey from Information Resources Inc. (IRI) saying that consumers are likely to be extremely careful about their spending during the upcoming end-of-year holiday season; while actually spending is projected to remain roughly the same as last year, the expectation is that consumers will seek out private label items, hunt relentlessly for bargains, and are more likely to use available cash than credit cards.

Among the revelations in the IRI report:

- "69% plan to spend about the same on holiday meals this year, nearly twice as many (20%) plan to spend less than more (11%)."
- A whopping 91% said they would put private-label foods on the family table, and 51% said they would use private-label products whenever possible -- numbers well above the usual 30% to 35% preference for private label in such polls," according to Thom Blischok, president-innovation and consulting for IRI.
- 94% of consumers said that spending time with family will be more important than last year, and 80 percent said holiday meals and entertaining would be a higher priority.
- "69% of shoppers saying they're more likely to make lists of needed items and 58% saying they will use newspaper coupons and seek out more in-store deals compared to last year."
- "About 21% of shoppers plan to shop earlier this year -- mainly to find better deals -- compared to 10% who plan to shop later."

According to the *Ad Age* story, "Blischok predicted big-box stores such as Wal-Mart and Costco could be the big winners this year, possibly drawing shoppers from department and specialty stores by convincing consumers they can save enough on food to cross the aisle for gifts."



Convenience Gets A Shot In The Arm

Terrific little piece in the *Boston Globe* about a new convenience-driven service being offered around the country – drive-through flu shots.

It seems that at hospitals, clinics, schools and, next week, at voting locations, people are able to drive up, get a quick flu shot without getting out of their cars, and then depart, better prepared to face the diseases that the cold weather inevitably brings.

"Forget Fast Food America," the *Globe* writes. "Try Drive-Through America. With a bumper crop of flu vaccine expected this year - more than 140 million doses - and the clock ticking to get it into people before influenza strikes, disease fighters are no longer content to rely on doctors to dispense shots in their offices."

For some things, drive-ins are an absolute match made in heaven," Robert J. Thompson, a professor of pop culture at Syracuse University, tells the *Globe*. "The drive-in fast-food operation was a perfect match. Drive-through surgery? No. Drive-through flu shots? Yes."

Tug Of War Brewing Over Food Prices

The *Wall Street Journal* reports this morning of an incipient increase in tension between food retailers and manufacturers. It lays out like this:

Because of increased commodity costs, manufacturers raised their prices. Which forced retailers to increase their prices. But now, as costs such a fuel come down, many manufacturers seem to be showing no inclination to lower their prices, which is creating some conflict with retailers that want to respond to toughened competition and an economy in decline with lower prices and deals for shoppers.

According to the story, "Some retailers are using food companies' earnings reports as leverage to reject price increases, according to industry analysts. Others are pushing for more promotional allowances -- such as buy-one-get-one-free deals -- to help move higher volumes of goods ... Traditional supermarkets are under growing pressure to compete on price with low-cost grocers such as Wal-Mart Stores Inc. and Germany-based Aldi Einkauf GmbH. Some retailers have suffered as consumers trade down to discount stores and cheaper store-brand goods."

Walmart, for one, has made its position perfectly clear.

The *Journal* reports that "during a meeting with analysts earlier this week, Eduardo Castro-Wright, chief executive of the Wal-Mart Stores division, said declining oil prices should affect the prices of store items. 'We will aggressively look for opportunities' to share cost savings with customers, he said.

"'We're always having discussions with our major suppliers about cost prices – either because they've approached us about an increase or we've approached them asking them to review their prices,' said Dominic Burch, a spokesman for Asda, the U.K. unit of Wal-Mart. 'As a retailer that is growing its volumes significantly, we also expect our suppliers to invest in that growth, sharing the economies of scale they are making with our customers'."



CVS Cuts Rx Prices

The *Los Angeles Times* reports that CVS Caremark has announced that “it would sell 90-day supplies of more than 400 medications for \$9.99 and offer discounts for cash-paying patients at its in-store medical clinics ... In order to get the \$9.99 generic deal, customers must enroll in the program by paying an annual fee of \$10. Members paying cash can save 10% on visits to the retailer's in-store MinuteClinics. The \$9.99 CVS offer is just a penny less than Wal-Mart's \$10 charge for a 90-day supply.”

The program is a response to similar cuts initiated by Walmart a few years ago.

“The price competition makes generic drugs just about the only healthcare bill that isn't escalating,” the *Times* writes. “The lower prices provide a measure of relief to consumers who are struggling with rising health insurance premiums and other out-of-pocket expenses or have lost coverage altogether.”

Walgreen Lays Out New Strategy

The *Wall Street Journal* reports that “Walgreen Co. plans to cut costs, overhaul stores and change the way it fills prescriptions as it shifts gears to respond to rising competition and slowing drug sales.”

According to the story, Walgreen is counting on “an ambitious plan to fill one-third of its prescriptions at central facilities, shipping them back to stores the next day. The chain wants to rout its insurance processing and nearly all its phone calls through call centers rather than stores. It says the moves will save money and give pharmacists more time to spend with patients.

“The new process is in place in 150 Florida stores, and Walgreen expects it to cover all stores in the state, which equals 10% of its roughly 6,500 U.S. locations, by the end of next year. The company said it still has to persuade legislators and boards of pharmacy in other states to approve the changes.”

HEB Plus Store Designed To Compete With Big Box Stores

The *Express News* reports that HE Butt has opened a new H-E-B Plus store in San Antonio, Texas, the largest in the company, “a combination food and general merchandise emporium that seems to leave no shopper unforgotten. It offers everything from fresh and organic foods to furniture, prepared meals for harried shoppers and the largest selection of baby items in any H-E-B.

“And the \$40 million store also includes elements that seem designed to compete with many rivals, ranging from Wal-Mart and Super Target to Whole Foods and big-box linen-and-bath retailers.”



FastNewsBeat

- *Barrons* has a story saying that some supermarkets and drugstores may be impacted by the credit crisis: "Drugstores and supermarkets are defensive, but many companies carry a fair amount of leverage and some are more susceptible to a weak consumer than others. Tight credit markets could likely force each company to rethink their capital structure, use of free cash flow, and possible even capital-expenditure plans."

"Liquidity is a bigger issue than covenants. An analysis of our retailers indicates that covenant constraints are unlikely to be a large concern over the next year given the defensive nature of the group and current flexibility. The highest-risk companies in our space Supervalu and Whole Foods Market would still need a 19% to 41% drop in earnings before interest, taxes, depreciation and amortization to violate a covenant."

- *Marketing Daily* reports on the continuing trend toward "functional foods," especially in the weight loss segment, noting that food and beverage companies - including Kellogg's, Unilever, Coca-Cola, Nestle, and PepsiCo - are looking to address consumers' desire for products that will solve various health problems and promise specific benefits.

- The *Wall Street Journal* reports that Starbucks CEO Howard Schultz told journalists this week that the company is seeing improvement in its same-store sales figures, and believes that the iconic coffee company may have hit bottom in September.

The *Journal* also notes that Starbucks "has formed a partnership with Product (Red), an effort co-founded by U2 frontman Bono to fight AIDS in Africa. During the holiday season, Starbucks plans to donate a nickel to the organization whenever customers buy one of three Starbucks holiday drinks. The company expects that will generate millions of dollars for the organization, said Michelle Gass, a Starbucks senior vice president."

- The *Los Angeles Times* reports that "an executive of the Kroger Co. supermarket chain and three former managers with its Southern California subsidiary Ralphs pleaded not guilty Monday to federal labor fraud charges linked to the 2003-04 supermarket strike and lockout." The indictment "accuses the defendants of conspiring to rehire locked-out workers using fake Social Security numbers and identification during the strike."

- The Coca-Cola Co. has released its fifth annual Sustainability Review, which it says "profiles its commitment to growing its business in an economically, environmentally and socially sustainable way."

Among the items mentioned in the review: the company "launched more than 150 low- and no-calorie drinks in 2007, increasing its portfolio of low- and no-calorie beverages to more than 700 beverage products"; "spent \$366 million with diverse suppliers ... in 2007, a 23-percent increase over 2006"; "invested \$40 million to build the world's largest PET bottle-to-bottle recycling plant," and "achieved a 2 percent improvement in water use efficiency."

- At its 2008 leadership conference in New Orleans, Starbucks yesterday "announced thirteen measurable goals, to be achieved by 2015, as part of Starbucks Shared Planet. As part of this commitment, 100 percent of the company's coffee will be responsibly grown and ethically traded; 100 percent of Starbucks cups will be reusable or recyclable; the company will significantly reduce its environmental footprint through energy and water conservation, recycling and green construction; and contribute one million community service hours per year."

According to the announcement, "Starbucks is taking a major step this week towards meeting the community involvement goal by kicking off its 10,000 partner (employee) strong Leadership Conference, where participants will take part in community service projects to help rebuild the areas hardest hit by Hurricanes Katrina and Rita."



The MNB Wal-Mart Watch

- The *Chicago Tribune* reports that on Wednesday Walmart “unveiled its new design for remodeled stores — a look that ties each section of the store together with a fresh use of light and color. Gone are the high shelves stuffed with so much it was hard for shoppers to find what they sought. Now, Wal-Mart Stores Inc. is showing softer colors, understated shelving and employing a design intended to keep customers from having to dart all over a tremendous store to gather their purchases ... The bright design fits with the company’s economic-downturn strategy of offering affordable fun — from DVDs to prepared meals — that families are opting for instead of eating out and going to the movies.”
- Walmart reportedly is testing yet another new format – Mas Club, a Hispanic version of its Sam’s Club membership warehouse stores. The first Mas Club is slated to open in Houston during the first half of 2009.

According to the Reuters story, “Sam’s Club said it is designing new signs and a Mas Club logo. It also said that existing Sam’s Club members who want to shop at Mas Club will need to purchase a separate membership.”

“Our objective is to create an additional shopping choice that provides currently unavailable value for families, restaurant owners, convenience stores and more,” Doug McMillon, president and chief executive of Sam’s Club, said in a prepared statement.

- The Hartford Courant reports that Connecticut Attorney General Richard Blumenthal has ordered Walmart to bring itself into compliance with state tax laws, saying that the retailer has been denying consumers a refund of state taxes when they make returns and has been charging state sales tax on even exchanges.
- The Wall Street Journal reports this morning that Walmart is cutting the price of some of its MP3 downloads, charging just 74 cents for Top 20 songs...a marked financial advantage over the 99 cents charged on Apple’s iTunes site.

The Balance Sheet

- Ruddick Corporation, parent company of Harris Teeter, reported that consolidated sales for fiscal 2008 increased by 9.7% to \$3.99 billion from \$3.64 billion in fiscal 2007, as consolidated sales for the fiscal fourth quarter ended September 28, 2008 increased by 8.8% to \$1.03 billion from \$0.94 billion in the fourth quarter of fiscal 2007.

The company reported consolidated net income of \$96.8 million, an increase of 19.9% from the \$80.7 million reported for fiscal 2007. Consolidated net income for the fiscal fourth quarter was \$24.8 million, an increase of 17.2% from the \$21.2 million reported in the fourth quarter of fiscal 2007.

Harris Teeter sales for fiscal 2008 increased by 11.1% to \$3.66 billion from \$3.30 billion in fiscal 2007. Sales for the fourth quarter of fiscal 2008 were \$948.8 million, an increase of 10.2% from the \$861.1 million in the fourth quarter of fiscal 2007. The increase in sales was attributable to incremental new stores and comparable store sales increases of 2.86% for the year and 2.16% for the fourth quarter.

- Winn-Dixie said that its first quarter losses were \$2.3 million, compared to an \$800,000 loss reported during the same period a year ago. Total sales for the quarter grew 3.4 percent to \$55 million, on same-store sales that also were up three percent.

Executive Suite

- Procter & Gamble announced that its CFO, Clayton C. Daley Jr. will leave his post on Jan. 1 and retire next September. He will be succeeded by Jon R. Moeller, currently P&G’s vice president and treasurer.