

INDUSTRY UPDATE

February 18, 2010

Feb 11, 2010 - **Grocers Boost Security by Helping Economy: Speaker**

Retired Gen. Peter Pace, former head of the Joint Chiefs of Staff under President George W. Bush, said grocery store operators are doing their part to ensure the security of the United States by keeping the economy going.

Speaking here yesterday at the closing general session of the National Grocers Association's annual convention, Pace said, "We couldn't have a free nation without a good, strong military, and we couldn't have a good strong military without a strong economy. Your businesses provide livelihoods and sustenance in so many ways for so many people, and I know how much those of us who defend this nation appreciate what all of you do for the economy and for providing support to the armed forces."¹

Feb 16, 2010 — **Walmart Announces Exclusive “How to Train Your Dragon” Toys**

Walmart is scheduled to launch a new line of action figures, play sets, and role play toys in March 2010. This line is licensed for DreamWorks Animation's film, "How to Train Your Dragon." The toys range in price from USD 5 to USD 30. This is the first of several initiatives Walmart will partake in regarding the film's release on March 26, 2010.²

Feb 16, 2010 - **Supervalu Sells CT Shaw's; Is This Just The First Shoe Dropping?**

The news over the weekend ended months of speculation about Supervalu's plans for various divisions now that its new CEO, Craig Herkert, has made clear that he believes the Save-A-Lot business model - stressing reduced SKUs and a strong value proposition - is the company's retailing future.

Supervalu announced late Friday that it would be selling all 18 of its Shaw's stores in Connecticut, with five of them going to Ahold-owned Stop & Shop, and 11 of them to individual owners who are part of the voluntary cooperative that is Wakefern Food Corp. Two stores remain unsold, and the company reportedly will shutter them if it cannot find a buyer by the end of March.

"While these decisions are always difficult, given the impact on associates and customers, they ultimately allow us to operate more efficiently and effectively within a highly competitive retail environment," Pete Van Helden, Supervalu's executive vice president of retail operations, said in a statement.

Supervalu said it planned to keep operating its 176 remaining Shaw's stores in in Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.

Wakefern said that 10 of the Shaw's locations will be operated as ShopRite stores, the other one will be converted to a PriceRite unit. Currently, there are thirteen ShopRite stores and eight Price Rite stores in the state. "The Connecticut market has been very supportive of ShopRite and PriceRite over the years and the addition of these stores allows us to expand our presence in the market," said Joseph Colalillo, Chairman/CEO of Wakefern.³

¹ SN – 02/11/2010

² MVI – 02/16/2010

³ MNB – 02/16/2010

Feb 16, 2010 - Study: Customer Satisfaction With Retail “Remains Strong”

The quarterly American Customer Satisfaction Index (ACSI) is out this morning, suggesting that whatever the state of the US economy, “customer satisfaction with the goods and services that Americans buy remains strong in the fourth quarter of 2009 ... The index is largely unchanged, dipping a mere 0.1 percent from the previous quarter to 75.9 on the ACSI’s 100-point scale, and remains much higher than it was prior to the recession and also slightly higher than this time one year ago.”

Customer satisfaction with the retail sector, which includes department and discount stores, specialty retail stores, supermarkets, gas stations, and health and personal care stores, gains 1.3 percent to an ACSI score of 76.2.

Here’s what the ACSIO report had to say about food retailing:

“The supermarket category remained unchanged for a third straight year, seemingly unaffected by fluctuations in food prices, which fell 2.4% in 2009 - the first annual decline since 1961. By contrast, prices rose 5.7% in 2007 and another 6.6% in 2008, the highest single-year increases in thirty years. Six of the seven largest supermarket chains showed modest to strong improvement in customer satisfaction, with perennial industry leader Publix up 5% to 86, the highest company ACSI score ever recorded in this industry. Publix continues to parlay its success into expansion and innovation, including its Apron’s Simple Meals in-store cooking demonstrations and its GreenWise Markets with an emphasis on natural and organic items.

“Two grocery chains known for discount pricing more than quality also improved. Supervalu and Wal-Mart’s grocery business were up 4% to 77 and 71, respectively. Perhaps this will change the stock performance of these companies for the better. Both have been underperformers over the past year. The increase in customer satisfaction for Supervalu suggests that it may have succeeded in integrating its 2006 acquisition of Albertson’s, a move that nearly doubled its number of stores. Wal-Mart, on the other hand, has focused on productivity improvement through layoffs and store closings, but has nevertheless been able to improve store quality and make employees happier with bonuses and profit-sharing. These efforts have helped Wal-Mart reduce the customer satisfaction gap to its nearest supermarket competitors, but its 4% ACSI jump is still not enough to lift the retailer out of last place in the industry.

“A year ago, Safeway, the third largest grocery chain, boosted customer satisfaction on the strength of its new Lifestyle store. Now, this appears to have been a short term success or a novelty that has worn out. Safeway fell 4% to an ACSI score of 72. The conversion of existing stores to the Lifestyle format is now almost completed, but will it help? The effort has been expensive and, in view of the shaky economy, perhaps risky. As the stock market rebounded in 2009, Safeway’s stock was left behind and fell 9%.”

In addition, “the ACSI score for e-commerce is up 1.8 percent to 81.4, nearly matching its all-time high. Internet retail improves 1.2 percent to 83. Netflix leads, rising 2 percent to 87. The online video rental company has seen sizable increases in its subscriber base, revenues and stock price over the past year. Amazon (unchanged) and Newegg (down 2%) are also strong performers with very high scores of 86. Customer satisfaction with eBay is up 1 percent to 79, but the auction site hasn’t improved much over the years and eBay remains at the bottom of the list.”⁴

⁴ MNB- 02/16/2010

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Sources: MVI – Management Ventures Inc, MNB – Morning News Beat online, & SN- Supermarket News online

Feb 16, 2010 - Whole Foods Posts Q1 Profit Gain

Whole Foods Market here on Tuesday said both sales and profits were up in the fiscal first quarter as the company said it tried to strike the right balance between pricing aggressively and maintaining margins.

Net income in the 16-week quarter, which ended Jan. 17, was up about 71%, to \$55.2 million, on a 7% gain in sales, to \$2.64 billion, vs. year-ago results. Comparable-store sales were up 3.2%, excluding the effect of foreign currency exchange rates, and have been up 6.6% in the first weeks of the second quarter.

"Early last year, we made the shift from being fairly reactionary on pricing to being much more strategic. We have seen this strategy successfully play out over the last several quarters, as we have produced strong year-over-year improvement in gross margin and comparable-store sales growth," said John Mackey, chief executive officer, in a prepared statement. ⁵

Feb 16, 2010 - Winn-Dixie Posts Q2 Sales Decline

Winn-Dixie Stores here on Tuesday said cautious consumer spending pressured basket sizes in the fiscal second quarter, leading to a 2.9% decrease in identical-store sales.

Net income of \$2.1 million for the 16-week quarter, which ended Jan. 6, was down from \$16.1 million in the year-ago period, when the company reaped a net gain of \$13.8 million from an insurance settlement. Sales in the quarter fell 3.3%, to \$2.2 billion, partly due to six store closures in the last year and a \$22 million gain in storm-related sales a year ago.

"It is clear that consumers remain very cautious with their spending, which has influenced our sales across the chain, primarily with respect to overall basket size," said Peter Lynch, chairman, president and chief executive officer. "However, we increased transactions by 4.1% in our first-year offensive remodels compared to last year, and our customers are continuing to respond positively to the changes we are making."

He said the company would cut back on capital spending and "selectively remodel" a total of 60 stores in fiscal 2010 "in locations where we believe we can generate the highest return on our investment."

Through the first two quarters, the company posted a loss of about \$6 million, vs. net income of \$13.8 million a year ago. Sales were off about 2.8%, to \$3.8 billion, and identical-store sales fell 2.3%. ⁶

Feb 16, 2010 — Supervalu Sells Shaw's Locations in Connecticut

Supervalu has announced that it is selling all of its 18 Shaw's locations in Connecticut. Five stores will be acquired by Ahold US banner Stop & Shop in the following locations:

- Darien, Connecticut
- East Hampton, Connecticut
- New Fairfield, Connecticut
- Newington, Connecticut
- Vernon, Connecticut

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Wakefern will purchase 11 stores in the following locations, 10 of which will be rebannered as ShopRites and one as a PriceRite:

- Canton, Connecticut

⁵ SN – 02/16/2010

⁶ MNB – 02/16/2010

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Sources: MVI – Management Ventures Inc, MNB – Morning News Beat online, & SN- Supermarket News online

- Clinton, Connecticut
- East Hartford, Connecticut
- Enfield, Connecticut
- Fairfield, Connecticut
- Hamden, Connecticut
- Southbury, Connecticut
- Stratford, Connecticut
- Wallingford, Connecticut
- West Hartford, Connecticut
- Willimantic, Connecticut

Supervalu is still looking for a buyer for its remaining two Shaw's stores. The deal is expected to be finalized in March 2010.⁷



Source: Hartford Courant

Feb 17, 2010 - **BREAKING NEWS: WALGREEN BUYS NY'S DUANE READE FOR \$1 BILLION**

Crain's Chicago Business reports that Walgreen Co. will acquire New York City-based Duane Reade Holdings for \$1.07 billion, giving it 257 stores in the New York metropolitan area and add annual sales of around \$1.8 billion to its bottom line.

The story says that the Duane Reade stores are likely to keep their brand name, though Walgreen will look for available efficiencies.

"Walgreens expects to retain Duane Reade's store, pharmacy and distribution center employees and many members of Duane Reade's senior management team following the acquisition," the release says. "Over time, consolidation of core functions at the corporate offices will occur."

Walgreen already has 70 stores in Duane Reade's market area, according to *Crain's*, so this acquisition is a significant move for the Chicago-based company.⁸

Feb 17, 2010 — **Kroger and Shell Team Up on Fuel Savings Program**

Kroger has partnered with Shell to launch an exclusive fuel savings program for Kroger loyalty cardholders. Shoppers can accumulate points when they purchase Kroger private label items at Kroger or Ralphs stores. Shoppers can earn one Fuel Point when purchasing prescriptions and gift cards as well. For every 100 points earned, shoppers can save at least USD 0.10 per gallon, up to 35 gallons.

The program is initially available in Cincinnati and Dayton, Ohio; Knoxville and Nashville, Tennessee; and San Diego, California.⁹

⁷ MVI – 02/16/2010

⁸ MNB- 02/17/2010

⁹ MVI – 02/17/2010

Feb 17, 2010 - Walmart Puts Another Notch On Its Belt

The *Charlotte Observer* reports that Walmart has become the dominant grocer in that market, with a 29 percent market share. "That's up from 25.7 percent a year earlier, and way up from 16.2 percent in 2004," the paper writes. "Harris Teeter, the previous No. 1, ranked second, with 26.5 percent, down from 29 percent in 2008, according to market and consumer research firm the Nielsen Company. Food Lion remained third, with 19.7 percent." According to the story, "The shift makes Charlotte the latest market to join a tide that has swept across much of the nation's grocery terrain during the last decade, with mainstream supermarkets losing share to discount stores and other nontraditional food sellers. Leading the charge has been Walmart, whose estimated U.S. supermarket sales are about equal to those generated by the next three largest U.S. food retailers, combined."

The recession, of course, has played a role in Walmart's ascension. "A new frugality has put higher-end chains on the defensive. Matthews-based Harris Teeter, for instance, wooed shoppers and led in local market share through most of the past decade by bringing upscale stores to affluent, often fast-growing areas in south Charlotte and Union County. But recently, the chain has focused more of its advertising and in-store signage on highlighting low prices and discounts. Walmart, meanwhile, has been working to repair its image after being battered by criticism over its business practices. And it has continued to increase its presence at a time when many traditional grocers are adding few stores, if any." ¹⁰

Feb 17, 2010 - Raley's Hires Hoffman/Lewis as Ad Agency

Raley's here said Wednesday it has hired Hoffman/Lewis, an advertising agency based in San Francisco, to handle its creative and media advertising business. The agency's responsibilities will include television, radio, print and interactive campaigns, with its first efforts scheduled to debut in the spring, Raley's said.

According to Michelle Cervantez, chief marketing officer, "We chose Hoffman/Lewis because they presented us with a strategy that we feel will create a foundation for the long-term growth of our business; plus, it has a compelling record of success with retailers and outstanding creative capabilities."

Hoffman/Lewis, which also has offices in St. Louis, counts among its West Coast clients Toyota, McDonald's, Horizon Organic Dairy, Bank of the West and BevMo.

Raley's operates 134 stores in Northern California and Northern Nevada, with sales estimated at \$3.4 billion. ¹¹

Feb 17, 2010 - Safeway Selects Energy Management Tool

Safeway here has selected energy management software provider Hara, Redwood City, Calif., to help it identify and implement economic measures to reduce its energy usage and carbon footprint.

Safeway is in the initial stages of deploying Hara's Environmental and Energy Management (EEM) program to consolidate energy and environmental data onto a single platform and establish an environmental system of record. The system will collect, monitor and manage energy costs, greenhouse gas emissions, forecasting, modeling and market information across Safeway's stores, manufacturing distribution centers and fuel stations. It will also help the company achieve a consolidated view of its companywide utility spending on an automated basis.

¹⁰ MNB – 02/17/2010

¹¹ SN – 02/17/2010

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"Hara adds value by giving us not only reliable insight into the size and makeup of our energy usage and carbon footprint, but also a solid roadmap for achieving further cost reductions and better carbon management," said Joe Pettus, senior vice president of fuel and energy at Safeway.¹²

Feb 11 - 17, 2010 - **Financial Update**

- PepsiCo says that its fourth quarter earnings almost doubled to \$1.43 billion, on Q4 sales that increased 4.5 percent to \$13.3 billion from \$12.74 billion. Annual sales for the company were pretty much flat at \$43.2 billion, on profit of \$5.95 billion, up from \$5.14 billion a year ago.
- Coinstar, which among other things owns and operates the Redbox DVD rental kiosks, reported a fourth quarter profit of \$5.5 million, up from \$4.2 million during the same period a year earlier. Q4 sales were up 44 percent to \$328 million. For 2009, Coinstar reported a full-year profit of \$55.8 million on revenue of \$1.1 billion, up from \$14.1 million and \$761.7 million, respectively.
- Whole Foods reports that its first quarter sales were up seven percent to \$2.6 billion, on same-store sales that were up 3.5 percent. Q1 profits were \$49.7 million, up 79 percent compared with \$27.8 million during the same period a year ago - an increase that the company suggests points to the success of its strategy of lowering prices and becoming more focused than ever on natural foods.
- Winn-Dixie reported that its second quarter net income dropped 87 percent to \$2.1 million, from \$16.1 million during the same period a year ago. Q2 sales dropped three percent to \$2.2 billion, on same-store sales that were down almost three percent.
"The challenging economic environment and deflationary pressures continue to impact sales for the entire supermarket industry," said Winn-Dixie's chairman, CEO and president, Peter Lynch. "It is clear that consumers remain very cautious with their spending, which has influenced our sales across the chain, primarily with respect to overall basket size. However, we increased transactions by 4.1 percent in our first-year offensive remodels compared to last year, and our customers are continuing to respond positively to the changes we are making."
- Kraft Foods announced that its fourth quarter profit more than tripled, to \$710 million from \$178 million during the same period a year earlier. Q4 sales rose three percent, to \$11.03 billion from \$10.68 billion.¹³

¹² SN – 02/17/2010

¹³ MNB – 02/11/2010- 02/17/2010

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