

INDUSTRY UPDATE

March 4, 2010

Mar 01, 2010 - **New Study Evaluates Shopper Spending Patterns**

The New York Times has an interesting tidbit, quoting from a soon-to-be-published article in the *Journal of Consumer Research* about people's supermarket spending habits:

"The authors approached 175 people entering grocery stores, asking them what items they planned to buy and how much they planned to spend. The average shopper could name items totaling \$41.11, but reported a total budget for the trip of \$58.46, a near-perfect prediction of spending. That leaves \$17.35 that was mentally committed to the shopping trip but not put aside for any particular item."

The study concludes that when these shoppers walked down every aisle of the store, they tended to use up all or most of the reserve...but when they only visited aisles that had the products they were looking for, they walked away with money in their pockets.

Karen M. Stillely, a postdoctoral fellow at the University of Pittsburgh who helped write the study, says: "It's kind of crazy that there are people walking into the store, expecting to spend money, and the store is leaving it on the table."¹

Mar 01, 2010 - **Bashas' Reaffirms Goal To Stay Locally Owned**

The *Arizona Republic* reports that Bashas' management "sent a letter to its employees Friday reaffirming its intent to remain locally owned in the face of an unsolicited purchase offer by Albertsons LLC. The letter from also said there is no hostility between the companies and that Bashas' officials are not meeting with Albertsons or anyone else behind closed doors to discuss a sale."

Bashas' filed for bankruptcy protection last summer and has filed a reorganization plan with the courts that would pay off its \$300 million in debt. The bankruptcy court is scheduled to rule on the plan in early April.²

Mar 01, 2010 - **Publix Posts Q4 Earnings Gain; Cap-Ex to Drop**

Publix Super Markets saw net earnings increase by 14.1% in the fourth quarter despite a comparable-store sales decline of 2.5%, the company reported Monday.

Total sales rose 1% to \$6.1 billion, and net income totaled \$284.2 million. The quarter and fiscal year ended Dec. 26.

In an annual report filed with the Securities and Exchange Commission, Publix said net earnings for the full year increased to \$1.2 billion on a 1.6% sales increase, to \$24.3 billion. Comparable-store sales fell by 3.2% during the year.

Publix said deflation, the economic downturn and cannibalization from new stores contributed to the decline in comparable-store sales, while noting that improvements in costs for distribution sparked higher net earnings and improved gross profits (27.7% of sales vs. 26.9% in 2008).

Also Monday, Publix said capital expenditures would be about \$555 million in 2010, down from \$693.5 million in 2009 and \$1.3 billion in 2008. The 2010 spending would finance 34 new stores,

¹ MNB – 03/01/2010

² MNB – 03/01/2010

including six conversions of acquired Albertsons stores. Publix opened 48 net new stores in 2009 and 67 new stores in 2008.

Publix's stock, which is not publicly traded, increased its price to \$17.35 per share from \$16.30 Monday.³

Mar 01, 2010 - **Survey: Protecting Customer Data A Top Retailer Priority**

The Retail Industry Leaders Association (RILA) is out with a new survey suggesting that "more than ever before retailers are viewing the issues of privacy and security as strategic imperatives within their organizations. Privacy not only fulfills brand-promise but also allows retailers to successfully move forward with cross-channel retailing."

When it comes to the attitudes toward customer concerns, 87 percent of retailers polled said they believe that recent publicized breaches have raised consumer awareness about payment data. Seventy-two percent of winning retailers shared that privacy is a concern for their customers and retail products and services require the protection of sensitive information.

"For 47 percent of overall respondents, proactively addressing privacy and security issues enables them to move forward with an aggressive cross-channel agenda," says Steve Rowen, co-author of the report. "Customers are researching, shopping, and returning any way they please, in any channel, in any combination of channels - in ways that were not predicted even a few short years ago. Retailers know this, and for nearly half of them, there is a strong recognition that privacy and security are a prerequisite to keeping a competitive position in the game."

According to RILA, "The report concludes that there is no strategic advantage to addressing the data security and privacy imperative, there is only strategic disadvantage if these challenges are not addressed. Customer data has strategic importance to the company's ability to execute on its brand promise, and systems that create, retrieve, update, and delete that data, must comply with corporate policies regarding privacy and data security. Retailers acknowledge that the ability to ensure consumer privacy and data security is vital to the brand promise and the inability to do so would impede successful execution of a cross-channel strategy."

The survey was done in partnership with Retail Systems Research (RSR).⁴

Mar 02, 2010 - **C&S to Supply Ukrop's; Supervalu to Cut Jobs**

The 25 Ukrop's stores in greater Richmond, Va., recently acquired by Giant-Carlisle will be switching suppliers, the company said Tuesday.

Giant said it has engaged C&S Wholesale Grocers, Keene, N.H., as the primary supplier for the stores and will phase out its current supplier, Minneapolis-based Supervalu. That company on Tuesday said that the loss of business would cost 80 jobs at its distribution center in Mechanicsville, Va.

As previously reported, Giant is converting the Ukrop's stores to its Martin's banner. Giant/Martin's said the appointment of C&S, with which it has had a longstanding relationship, would help bring better prices to the Richmond market. About 40 full-time and part-time drivers will be retained, Giant added.⁵

³ SN - 03/01/2010

⁴ MNB - 03/02/2010

⁵ SN - 03/02/2010

Mar 03, 2010 — Annual Health-Related Cost Of Food-Borne Illnesses Said To Be \$152 Billion

The *Los Angeles Times* reports that a new report sponsored by the Produce Safety Project at Georgetown University says that “the health-related costs of food-borne illnesses total \$152 billion a year, including the costs of medical bills, lost wages and lost productivity. That total is more than four times that of earlier estimates calculated by the US Department of Agriculture.

“The findings come as regulatory efforts to patrol the country's food sector are growing amid reports of a string of costly - and sometimes fatal - outbreaks of food-borne illness involving peanuts, jalapeno peppers, spinach, beef and other foods.”

Previous research, according to the *Times*, “looked at the fallout from only a handful of food-borne pathogens and didn't include as many long-term effects from such illnesses, including how they can affect a person's quality of life.” The new report looked at some 27 pathogens, some of which, “such as norovirus or salmonella, are responsible for making a million or more Americans sick each year; others, such as botulism, sicken far fewer people.”

The problem is that while the US House of Representatives has passed a bill that would create far greater safety-related oversight of the nation's food industry, and a version of this bill has passed a US Senate Committee, it is going nowhere in the full Senate, which is preoccupied, ironically, on health care legislation meant to address the high cost of health care.⁶

Mar 03, 2010 — Safeway Releases 2010 Guidance

Safeway has provided its guidance for fiscal year 2010 at this year's Investors Conference. For fiscal 2010:

- Non-fuel identical store (ID) sales: flat to positive 1%
- Capex: approximately USD 900 million to USD 1 billion
- Free cash: approximately USD 900 million to USD 1.1 billion
- Operating profit margin: negative 10 basis points (bp) to positive 5 bp⁷

Mar 03, 2010 — Supervalu Launches New Private Label Line of Pet Food and Supplies

Supervalu has debuted its WholeCare Pet line of private label pet food and supplies. The assortment comprises approximately 100 SKUs and provides savings of approximately 15%-30% over comparable branded items while offering equal or superior quality. An integrated marketing campaign consisting of in-store, circular-based, and direct mail advertising is accompanying the launch.

The Whole Care Pet line replaces Supervalu's existing private label pet product lines, Happy Trails and NutriPlan, and joins the retailer's array of existing private label brands including Baby Basics, Culinary Circle, Equaline, Homelife, Java Delight, Shoppers Value, Stockman & Dakota, Stone Ridge Creamery, and Wild Harvest.⁸

⁶ MNB – 03/103/2010

⁷ MVI – 03/03/2010

⁸ MVI – 03/03/2010

Mar 03, 2010 — Safeway Sees Momentum Building, Deflation Abating

Safeway here believes it is well positioned to benefit from an improvement in the economy, given its newly achieved price parity with other conventional chains, its distinct points of differentiation and the condition of its asset base, Steve Burd, chairman, president and chief executive officer, told an investors conference here Wednesday today.

The company is "continuing to build momentum" through the first quarter, he added, with eight of its nine U.S. divisions showing "a measurable response" to the chain's lower-everyday-pricing program. Burd declined to name the division that is not responding, and company officials declined to indicate if he was referring to the Denver division, which had been mired in a labor dispute that was not settled until early February.

Burd said he anticipates inflation on price per item of 0.4% for the year, compared with an industry average of about 3% in a more usual, non-recessionary economy. Broken out by quarter, he said he expects 1% negative inflation in the first quarter; positive 0.5% in the second; positive 0.7% in the third; and positive 1% in the fourth.

"The economy has already begun to improve, with consumers starting to feel a bit better," Burd added. ⁹

Mar 03, 2010 — BJ's Posts Q4 Gains

BJ's Wholesale Club here on Wednesday said strong fourth-quarter unit sales in perishables helped compensate for deflation in the category as the company posted gains in both net income and sales for the period.

Comparable-store sales of all food items were up about 3.7% in the quarter, which ended Jan. 30, while general merchandise comps were flat. Net income was up 4.6%, to \$55.1 million, on a 9.4% revenue gain, to \$2.56 billion.

The company said it expects perishables deflation — which held perishable comps to 3% in the quarter — to begin to compare more favorably with year-ago numbers in the second quarter of this year. Perishables comps declined sequentially throughout 2009.

In the fourth quarter, BJ's reported net income of \$132.1 million, a 2.4% decline from year-ago results, while revenues were up 1.6%, to \$10.2 billion. ¹⁰

Mar 04, 2010 — FDA Takes Aim At CPG Companies For Misleading Labels

The *New York Times* reports that the US Food and Drug Administration (FDA) "released 17 warning letters to food manufacturers, making good on a vow to crack down on misleading labels on food packages. The agency accused the companies of pumping up the nutritional claims of their products or masking contents like unhealthy fats. The letters went out to the makers of a broad array of products, including Gerber baby food, Juicy Juice, Dreyer's ice cream, POM pomegranate juice and Gorton's fish fillets."

The Grocery Manufacturers Association(GMA) issued the following statement regarding the letter, which was sent by FDA Commissioner Margaret Hamburg:

"The food and beverage industry is committed to providing consumers with the products and information they need to achieve and maintain a healthy lifestyle. GMA agrees with and supports federal laws requiring food labels to be truthful and non-misleading. As Commissioner Hamburg noted, the examples cited are not indicative of the food industry as a whole. Separately, GMA and its member companies support, and are working with, the

⁹ SN – 03/03/2010

¹⁰ SN – 03/03/2010

Industry Update

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

FDA to enhance our ability to convey nutrition information clearly and consistently to consumers.”¹¹

Mar 04, 2010 — **Costco CFO Appraises The Club Business Model**

There is an interesting interview in *CFO Magazine* with Costco CFO Richard Galanti, in which he makes a number of salient observations about the membership warehouse club. Some excerpts:

- “There were two questions for us at the beginning of the downturn. One, were customers still willing to pay a fee to shop? Two, would they still come to Costco, which is a little farther away from the local supermarket, discount store, or drugstore? In fact, the one thing that increased dramatically over the last 12 or 14 months was the frequency of shoppers. Were people spending less? Yes. Were they more discriminating in terms of what they were buying? Yes. Were categories like jewelry, home furnishings, and bigger-ticket discretionary items the weakest? Absolutely. But whatever the level of sales decline, it was less than it was for traditional retailers.”
- “Years ago, when we stubbed our toe and announced that we were going to miss earnings for a quarter, an analyst put out a report on Costco with the subtitle, ‘It's better to be an employee or a customer than a shareholder.’ [Laughs] Wal-Mart is a great company and gets picked on more than it deserves. Certainly it has a lower wage structure and lower benefits, but that's improved some. We have a different [business] model. It's based on high volume, catering to businesses and more-affluent customers. We've figured out an efficient way that we can pay our people more and still drive down expenses as a percent of sales.”
- “Our average hourly wage in the United States is a little over \$19 an hour. Our lowest starting wage in the U.S. is \$11. If you're a full-timer, you hit the top of the scale by the end of your fifth year ... If you provide a living wage and affordable, quality health care, you'll get the best employees, which in the long term makes business sense as well.”
- “I doubt if we will ever be in all 50 states, at least not in the next five years ... There are some states that are smaller, where if somebody else is already there, there's not a whole lot of opportunity left. We're not rushing to go to Arkansas, where Wal-Mart is headquartered. That being said, we think there are still a lot of possibilities to increase penetration in many of the markets that we're in, and we will probably be in two or three more states over the next few years.”¹²

Mar 04, 2010 — **Costco February 2010 Comps Excluding Gas, FX Up 4%**

Costco reported sales of USD 5.61 billion for the four-week period ended February 28, 2010, up 11% from the same four-week period a year ago.

- Comparable club sales (comps) were up 5% in the US and 26% internationally, for a total company increase of 9%.
 - Excluding foreign currencies and gas inflation, comps would have increased 2% in the US and 10% internationally for a total company increase of 4%.
- Average transaction size was up 5%, while traffic was up 4%.

¹¹ MNB- 03/04/2010

¹² MNB- 03/04/2010

Industry Update

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- In the US, the strongest performing regions were the Midwest and Southeast, followed by the Northwest. California improved slightly. The weakest regions were the Northeast due in part to snow.
- Internationally, Canada increased in the high single-digits in local currency; the remainder of the countries posted, on average, mid-teen comp gains.

On March 3, 2010, Costco operated 413 warehouses in the US and Puerto Rico, 77 in Canada, 21 in the UK, 7 in Korea, 6 in Taiwan, 9 in Japan, 32 in Mexico, and 1 in Australia.¹³

Mar 04, 2010 — **Stop & Shop Posts Q4 Profit Gains**

Ahold here said Thursday that fourth-quarter operating income at the company's Quincy, Mass.-based Stop & Shop/Giant-Landover division rose 15%, to \$238 million, and full-year operating income at the division rose 24%, to \$869 million. As previously reported, sales for the year were up 4.6% at the division, to \$17.9 billion, including an extra week of sales in the most recent fiscal year. Adjusted sales rose 2.6%.

At Giant-Carlisle, strong competitive pressures in the weak economy helped drive operating income down 10% to \$54 million for the fourth quarter, after restructuring and related charges of \$1 million. Operating income for the year was \$218 million, down 6.4% compared with the preceding year.

Giant-Carlisle also plans to launch a second Giant To Go convenience-focused store in 2010, Ahold executives said during a conference call discussing the year-end results, although they stressed that while they are approaching the rollout of a small-format concept seriously, they are also proceeding slowly.

"The first [Giant To Go] has been as much a laboratory as it has been a sort of proposition on its own," said John Rishton, chief executive officer. "We learned an enormous amount from it. We still think that the whole convenience segment for some of our customers' needs is a significant one and an important one, and we'll continue to try to figure out ways to create a format that works."¹⁴

Mar 04, 2010 — **Kroger Tests Nutritional Initiative**

The "Health Matters at Kroger" initiative is currently being tested at 23 stores in central Kentucky. The initiative consists of several components:

- A shelf tag system based on the NuVal program, which uses a proprietary algorithm to rate items on a 1-100 scale according to their nutritional value.
- A health station that allows shoppers to check such health indicators as blood oxygen, blood pressure, body mass index, pulse, and weight. Shoppers can track their progress at a dedicated website as well.
- Store tours conducted by registered dietitians.
- Monthly events such as "Healthier Meal Maker" and "Cruising the Aisles with Kroger" to educate shoppers.

Kroger has not set a time table for the program but has stated that if it is successful, it could be implemented across the retailer.¹⁵

Mar 05, 2010 — **Bringing Sustainability & Social Responsibility To Business Schools**

¹³ MVI – 03/04/2010

¹⁴ SN – 03/04/2010

¹⁵ MVI – 03/04/2010

The *Wall Street Journal* reports that a number of companies are working with some business schools to develop courses of study in the areas of sustainability and social responsibility. According to the story, these courses look to go beyond case studies and be more hands-on and practical.

“This new push is part of a larger effort among corporations to integrate social concerns beyond donations and once-a-year volunteering,” the *Journal* writes. “The effort is being met with both gratitude and skepticism from business schools, which say that despite the emphasis on integrating these hot-button topics into the curriculum, it’s business as usual at recruiting time. Few hiring managers, they say, ask students about corporate-responsibility training or indicate it’s a priority.

“Still, for their part, companies say that working with business schools is important to ensure a new generation of workers sees corporate responsibility as a bottom-line booster, not just something to feel good about.”

The companies being most aggressive in this area, the *Journal* notes, are the ones that have seen a bottom-line impact of sustainability efforts and understand that “green” has a double meaning. One example: Dave Stangis, “who heads up efforts on Campbell’s impact on childhood obesity and sets metrics around sustainable agriculture, spends a few days a week with professors and students at business schools like the University of Pennsylvania Wharton School, Columbia Business School, and Drexel University’s LeBow College of Business. He’s working with Wharton students to produce a study on sustainable agriculture, packaging, and employee engagement based on an internal Campbell report.”¹⁶

Mar 05, 2010 — **Using Nutrition Labeling To Fight Obesity & Competition**

The *Dallas Morning News* reports that Lubbock, Texas-based Market Street supermarket chain has adopted the NuVal nutritional labeling system, which assigns a number between 1 and 100 based on a proprietary algorithm.

The story notes that while the system is designed to address obesity issues, it is being adopted to help Market Street cope with heightened competition - Aldi plans to open at least 27 Dallas-area stores this year, Walmart dominates the region, and Kroger, Tom Thumb and Whole Foods all have a significant presence there.¹⁷

Mar 01 - 05, 2010 — **Financial Update**

- Publix Super Markets reports that its annual sales for 2009 were up 1.6 percent to \$24.3 billion, compared with \$23.9 billion in 2008. Same-store sales were down 3.2 percent, while new-store sales were up 4.8 percent. The retailer’s net earnings were \$1.16 million, compared with \$1.09 million in 2008.
- Costco Wholesale said this morning that its second quarter profit was \$299 million, up from \$239 million during the same period a year ago. Q2 sales were up 11 percent to \$18.36 billion, excluding membership fees, which rose about 9 percent to \$386 million. Same-store sales in the quarter increased 9 percent.
- United Natural Foods said yesterday that its second quarter earnings were up 15 percent to \$15.7 million, up from \$13.6 million during the same period a year ago. Q2 revenue increased six percent to \$898 million.

¹⁶ MNB- 03/05/2010

¹⁷ MNB – 03/05/2010

Industry Update

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

- Dutch-owned Royal Ahold says that its fourth quarter net profit was the equivalent of \$365 million (US), down 8.2 percent from the same period a year ago. Q4 sales were up 3.3 percent to the equivalent of \$9.3 billion (US). The company said that Q4 sales were down one percent to \$5.73 billion in the United States.
- Village Super Market, Inc. reports that its second quarter net income was \$6.7 million, down 15 percent from the same period a year ago. Q2 sales were \$315.3 million, up 0.8 percent from a year ago, on same-store sales that were down 1.7 percent.
- BJ's Wholesale Club reports that its February sales were up 12.8 percent to \$755.2 million, from \$669.6 million during the same period a year ago, on same-store sales that were up 7.7 percent.
- Walgreen Co. said that its February sales reached \$5.31 billion, up 3.2 percent from \$5.14 billion during the same month in 2009, with same-store sales up 0.4 percent.
- Rite Aid reports that its february sales dropped 4.5 percent to \$2.4 billion, on same-store sales that were down 3.2 percent.
- Target Corp. said that its February sales were \$4.6 billion, up six percent from \$4.3 billion during the same month a year ago. Same-store sales were up 2.4 percent.
- Wal-Mart de Mexico reports that its February sales were the equivalent of \$1.64 billion, up 11 percent from the same month a year earlier, on same-store sales that were up 4.5 percent.¹⁸

¹⁸ MNB- 03/01 – 03/05/2010