



-Week Ending 6/5/09-

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Thanks to MNB
for this selection of
articles.

Basic Consumables Seen As Growth Engine In Tough Times

Good piece in *USA Today* about why more and more retailers – from Target to Toys R Us – are stocking grocery products and other basic consumables.

The reason can be summed up in one word: Walmart.

Here is the rationale, in a nutshell:

“Consumables weren't seen as a growth engine before,” *USA Today* writes, because “profit margins are much thinner in food than apparel or home furnishings.” But now, learning from Walmart's success in an economic downturn that threatens to have long-term repercussions in terms of consumer spending habits, “merchants are realizing that if shoppers are going to keep spending less, stores need them to come in more frequently. Offering a greater range of necessities will help.”

The big question – and it is one that probably cannot be answered with any certainty until the recession is over and some level of prosperity has returned – is whether in good times Walmart can keep the customers it has lured into its stores during hard times.

That's one of the challenges facing Walmart's new CEO, Mike Duke, who has to find ways to retain upscale customers – something that has always been hard for the company to do. Forays into fashion apparel have been less than successful, but Walmart has done a better job in areas such as flat screen televisions; *Business Week* reports this week that it is expected that Duke will push Walmart into an expanded presence in computers and other high end electronics via alliances with companies such as Apple and Dell.

Insiders, *Business Week* writes, say that Duke is “taking a big hand in moving Walmart upscale while continuing to emphasize its low-price mantra. Aisles are being widened, lighting improved, and shelves lowered to give the stores a more sophisticated feel. Even the well-trafficked corridor known as ‘Action Alley’ is no longer packed with pallets of random merchandise.”



In-store Health Clinics Begin To Expand Their Portfolios

The *Los Angeles Times* reports this morning that “amid the economic downturn and slow growth for retail and outpatient medical care services, pharmacy giants Walgreen Co. and CVS Caremark Corp. are rolling out new specialized services at their in-store clinics, going beyond treatment of routine maladies.”

The two retailers appear to be doubling down on their bets that in-store health clinics can be an effective and profitable way to address shortcomings that are seen in the nation’s healthcare system, making certain kinds of basic care both more affordable and accessible.

According to the story, “retail clinic operators now are training nurses to do specialized injections for such chronic conditions as osteoporosis and asthma. In addition, they are offering treatments for advanced skin conditions that include removal of warts and skin tags or closing minor wounds. Care for minor ‘sprains and strains’ also is being offered at some retailers, and pilot projects are underway for breathing treatments and special infusions of drugs derived from biotechnology.”

Managing & Stimulating Innovation

Excellent piece in *Business Week* by G. Michael Maddock and Raphael Louis Vitón, about four trends that “are shaping innovation in the near term” and how “companies that take advantage of these trends give themselves an almost unfair advantage over the slow-footed or unaware.”

1. “What some companies call departments and partners are too often emblems of inefficiency ... small, cross-functional teams are the key to driving industry-changing products, services, and new business models to market whether you work in a big company or a small one. To ensure that silos are not an issue, some companies are even putting these teams in another building and saying, ‘you have one year to change our world—go!’”
2. “Open innovation” is key to corporate success – because it acknowledges that sometimes the best ideas come from outside an organization. One example – Procter & Gamble CEO AG Lafley, who realized that “50% of their innovation must come through R&D, not from R&D. By doing this, he was helping create a culture of learners instead of knowers. He was pointing out that his people were often too close to a challenge to see opportunity. He was giving them permission to find expertise outside the company. This declaration resulted in an increased success rate, lower costs, and greater speed to market.”
3. Social media can stimulate innovation: “Innovation is about insights, ideas, and communication. Online communities are often a perfect place to find and test insights. Online influencers are redefining the focus group ... Here’s the kicker: The emergence of social-media tracking tools give researchers and marketers alike a bevy of instant information to optimize targeting, messaging, and new product ideas.”
4. “What would happen if you paid a team of really smart people who knew virtually nothing about your industry to take an objective crack at building a product, service, or business model that would rock your world? What if these people used a rigorous innovation process and had access to all research and direct contact with every department head?” The result, in all probability, would be a kind of “war game” that could create revolutionary change within an organization, rather than by a competitor that could put a company out of business.



Sansolo Speaks: Sorting & Unsorting

by Michael Sansolo

While I like to believe that ideas for our discussions at *MorningNewsBeat* can come from anywhere, I have to admit that this week's was a surprise. And that only proved once again the challenges of diversity in our society.

My daughter, Sarah, usually amazes me with her intellect and her knowledge of far-flung topics. So I was somewhat stunned when she handed me the Sunday comics and asked to explain what could possibly be funny about one particular strip. I should explain that Sarah is no slouch, having just graduated from college with enough honors to make me wonder how exactly I helped produce her. But this time, she was stumped.

It quickly became clear why. The cartoon, while not especially clever, required knowledge she couldn't possibly have: the last names of the original Three Stooges. Sarah may be Phi Beta Kappa, but I know Moe, Larry and Curly way better.

It brought me back to thinking about last week's column in *MNB* on "The Big Sort" and how Americans are separating into like-minded communities. Our problem isn't just living around people who agree with us, it's learning to understand those who don't.

For instance, this Sunday's *Washington Post* magazine featured an article about Brandon Hardesty, who became incredibly famous by acting out movie scenes in his parents' basement and posting those short videos on YouTube.com. In case you are wondering how that fame pays off, his videos were getting viewed in such stunning numbers that YouTube itself even noticed and struck a deal with the young man to build advertising revenue off of him. Now Hardesty is off to make real movies.

I never heard of Brandon Hardesty; Sarah didn't know the Stooges' last names were Howard, Fine and Howard. What a world.

Only here's where it gets interesting. I doubt there is a single company out there who can boast a level of success with employees watching training videos that equals what Hardesty produced in his basement. Wouldn't it have been amazing if Weis Supermarkets, Hardesty's employer (until recently), could have used his video talents in a productive way. I'm betting most of his managers at Weis were as clueless as I was about Hardesty's talents.

So the problem isn't that we are sorting. Birds of a feather in some ways have always flocked together. The difference is today we can do it so much more easily. And today, more than ever, we need to keep an eye on those different from us to find out what they know, how they live and why different doesn't mean wrong.

In complex times and in a complex society, we have no choice. We have to understand these divides and find ways to breach them time and again...or we lose.

We should also remember that at times we aren't different at all. Sarah and I capped off our weekend by visiting Arlington National Cemetery, something we have long neglected to do despite living so near to Washington, DC. We never should have waited as it's a trip everyone should make at some point, simply to be awed by the human cost of war that we should never easily forget.

I was moved by the changing of the guard at the Tomb of the Unknown. I was stirred by personal memories at the memorials to the crews of both space shuttle disasters and the failed 1980 rescue mission in Iran. But what struck me most were the rows of seemingly endless markers for soldier after soldier and war after war.

There is shockingly little sorting at Arlington. I'm not sure that matters much to us in business, but sometimes it isn't all about business.

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Fresh, Direct...& Finally Profitable

Crain's New York Business reports that FreshDirect, the New York City-based pure play online grocer, has undergone a financial turnaround, spending "the past year honing its technology and developing loyalty programs that have helped it become solidly profitable for the first time in its six-year history. The company even plans to hand out year-end bonuses to salaried employees."

CNYB notes that "the grocer's journey from a wobbly startup launched after the dot-com bust to an established business employing 1,800 was nearly derailed last year. Fifteen months ago, the federal government launched an investigation into FreshDirect's hiring practices, looking at whether it employed undocumented workers. At the same time, the company was being targeted by unions, which tried to organize its 925 warehouse workers, claiming that they were underpaid."

CEO Richard Braddock, according to the story, "has focused on cultivating stronger relationships with FreshDirect's core customers. This group, which totals just 35,000, uses the service about once a week and spends as much as \$160 each time. FreshDirect now generates 60% of its revenues from its ardent fans, up from 25% a year ago ... He also homed in on reducing the number of complaints about everything from late deliveries to missing or broken items. A year ago, 30% of orders had problems. Today that number is 15%."

Profitability, efficiency and effectiveness have combined to give FreshDirect the ambition to grow beyond the New York metropolitan area, perhaps to a major city on the east coast such as Boston or Philadelphia.

"This will be a lessons-learned expansion," Braddock tells *Crain's*.

FastNewsBeat

- The *Wall Street Journal* reports that during the current economic downturn, "grocery-anchored shopping centers hold up well compared with other property types," at least when it comes to real estate values. The reason: people may stop or curtail their shopping at upper end department stores that traditionally have anchored shopping centers, but they still have to eat...which means that centers featuring supermarkets are getting more traffic than those without.

- Published reports from Australia say that Costco is going to postpone the opening of its first warehouse club store there by a few weeks because the building just isn't ready yet. However, it needs to be noted that construction of the facility was actually *five months ahead of schedule* - a situation that must be unique to the Australian construction business. Originally the Melbourne store was going to open in December, and then was on track to open in July...but now it looks like it won't be until August.

Costco reportedly plans to open as many as 30 stores Down Under; the next one is slated to be built in Sydney.

- Starbucks reportedly won't have to pay \$86 million in restitution to make up for store supervisors who had been sharing in tips.

The California Court of Appeals said this week that when the trial court said that the sharing in tips by store managers violated state law, it was mistaken. However, the attorneys representing the plaintiffs in the case say they will appeal to the California Supreme Court.



The MNB Wal-Mart Watch

- Walmart announced yesterday that as it opens 150 new stores this year, it will also generate some 22,000 new jobs – a notable statement with political implications that comes at a time of economic tumult when so many businesses and industries are retrenching and eliminating jobs.
- Walmart reportedly has decided to stop reporting its monthly sales figures, joining a number of other retailers – including CVS and Home Depot – that want Wall Street to be more focused on long-term sales and profits.

One report notes that according to Retail Forward, five years ago there were 87 companies that reported monthly sales ... and today there are just 34.

- The *Washington Post* reports that the United Food and Commercial Workers (UFCW) says that it is holding numerous organizing meetings at various Walmart stores this week, which it claims is a response to requests from store employees.

"They see their company actually being a rare success story in this tight economy, and they rightfully are asking where do they fit in to all that," UFCW Local 400 spokesman Mark Federici tells the *Post*.

The organization efforts also come as Walmart holds its annual shareholders meeting in Bentonville, Arkansas, this week.

The Balance Sheet

- BJ's Wholesale Club said that its May sales were up four percent to \$783 million, but that same store sales were off by 6.8 percent.
- Target Corp. said that its May sales were down 2.3 percent to \$4.46 billion, on same-store sales that were down 6.1 percent.
- Rite Aid reports that its total first quarter sales decreased 1.2 percent to \$6.506 billion compared to \$6.586 billion during the same period a year ago; same-store sales were down 0.6 percent.

During May, Rite Aid said, total store sales decreased 1.3 percent to \$2.507 billion compared to \$2.539 billion a year ago, on same-store sales that were up 0.6 percent.

- Village Super Market said that its third quarter net income was \$6.252 million, up 27 percent from the same period a year ago. Q3 sales were \$293 million, up 7.3 percent, on same-store sales that also were up 7.3 percent.
- Costco Wholesale reports that its May sales were down five percent to \$52.15 billion, on same-store sales that were down seven percent (including fuel sales).
- Walmart de Mexico said that its May sales were up 10.5 percent to the equivalent of \$1.65 billion, on same-store sales that were up 3.2 percent.
- Dollar General said that its first quarter net income was \$83 million, up considerably from the \$5.9 million in profits during the same period a year ago. Q1 sales were up 15.7 percent to \$2.78 billion, on same-store sales that were up 13.3 percent.
- Walgreen Co. said that its May sales were up 6.1 percent to \$5.37 billion, on same-store sales that were up one percent.

Executive Suite

- Price Chopper Supermarkets/Golub Corporation announced that Paul White, a former executive with Office Depot and Cingular Wireless, has been hired for the position of Director of Talent Acquisition.