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— Page 12



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Hurricane Damages Kroger Q3

By ELLIOT ZWIEBACH

CINCINNATI — Industry analysts were generally upbeat last week about the long-range prospects for Kroger Co. here, despite a drop in third-quarter earnings resulting primarily from the impact of Hurricane Ike.

Net income for the quarter fell 6.3% to \$237.7 million, including an after-tax charge of \$15.9 million, or 3 cents a share, related to the chain's \$25 million deductible for disruption and damage caused by Hurricane Ike in September, which affected stores from Texas through the Upper Midwest. Excluding the charge, net income for the quarter rose 1.2% to \$253.6 million. *See Hurricane, Page 24*

Bright Ideas

Food retailers deploy a raft of enlightened strategies to guide them through a gloomy economy

- > RETAIL—Page 16
- > NONFOOD—Page 25
- > FRESH MARKET—Page 31
- > CENTER STORE—Page 36
- > TECHNOLOGY—Page 39

Retailers, Suppliers Grapple Over Pricing

By ELLIOT ZWIEBACH

Food retailers and manufacturers are likely to spend the next few months dancing around each other to see whether prices will go up or down, according to industry observers.

It's not a new dance, but the weakened economy and the heightened desire by retailers to offer more attractive prices to money-stressed consumers makes resolution of the issue more vital.

Steve Burd, chairman, president and chief executive officer of Pleasanton, Calif.-based Safeway, said vendors are resisting retailer pleas to lower list prices.

"There have been pretty public discussions going on among retailers and the vendor community, which has not backed off on prices despite drops in energy costs and declines in commodity costs," he said earlier this month at the chain's investor conference — "and some vendors are suggesting there will be cost increases again in 2009."

But with many shoppers switching to corporate-label products, Burd said, "I believe vendors will be so disappointed by the market-share losses [they experience] that they will have to absorb any increases. Market inflation in 2009 will be nothing like it was this year, and there may be deflation in some commodity prices.

"As they lose market share, vendors may give more allowance dollars, which is a reduction for them, but I don't think they're all that eager to lower their list prices."

Rodney McMullen, vice chairman of Cincinnati-based Kroger, said being a manufacturer of corporate brands gives his company leverage when a supplier approaches it about a cost increase — "an advantage that has become even more important

See Retailers, Page 42

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INITIATIVE 1:

Revamp Your Loyalty Program

In order to hold on to their shoppers during the economic downturn, many retailers are turning to their loyalty card programs. But Haggen, Bellingham, Wash., has another idea.

While Haggen does run a traditional card program at its 15 Haggen Food & Pharmacy stores in Washington and Oregon, the retailer is piloting a novel shopper program at four of its 17 Top Food & Drug stores in Washington. Called Top Connection, the two-month-old program offers a slew of "special benefits" to shoppers (referred to as guests) who join.

Meanwhile, Top, which does not administer a card

program, offers the same advertised prices to all of its shoppers.

Harrison Lewis, Haggen's chief information officer, described the Top Connection program as "a significant departure" from traditional loyalty card programs. "You almost have to call it something other than a loyalty program. That's why we called it Top Connection. It's about building relationships."

One difference in the program is that instead of a magnetic-stripe or bar-coded card, shoppers are provided with a 1.5-inch-square plastic RFID keychain "link." They identify themselves at the POS by tapping the link on

an RFID reader.

A detailed description of the Top Connection program, complete with a FAQ, is available at www.top-foods.com. One of the more unusual benefits is the seven-day guarantee program: If the item a shopper buys goes on sale within seven days of the purchase, the shopper automatically is credited for the difference between the regular and sale price, plus 1% of the difference.

These store-funded credits accumulate in the shopper's "personal wallet" — accessible on Top's website — over a month and can then be applied toward future purchases at a Top pilot store. Top contacts shoppers about



Shoppers tap their link on the reader.

the availability of credits via email, text message or a notice at the POS.

Another unorthodox feature of the program allows a shopper who wants to return an item to contact the Top Connection call center and have the purchase price immediately credited to the shopper's personal wallet. "No need to make a separate trip back to the store and no need to bring the item in," according to the

Top website. The pilot stores have not had a problem with shoppers taking advantage of the refund policy, according to Lewis. "Trust is an incredible thing," he said.

Lewis acknowledged that the price guarantee and return policy might be considered highly unusual in some circles. "People may ask, 'Why would a retailer do this?'" he said. "But we're looking at this from our guests' perspective, trying to anticipate their needs and make the shopping experience easier."

Lewis said he is looking for the program to convert "secondary" shoppers into "primary" shoppers, among other goals. He declined to say how many shoppers have joined the program but noted that he is pleased with the results so far.

Haggen is using technology
See Loyalty, Page 42

INITIATIVE 2:

Track Perishables Losses

In good times and bad — but especially in the latter — food retailers need to keep close tabs on their perishables.

Up until last year, Winn-Dixie, Jacksonville, Fla., which operates 521 stores in the Southeastern U.S., used a manual process to track the life cycle of its perishables products. But inaccuracies were found as employees jotted down data.

Between August and Oc-

tober of 2007 the chain replaced the manual process with a shrink management system: module 100 of Periscope, from Invatron Systems, Mississauga, Ontario. Running at Winn-Dixie's headquarters, the system tracks the disposition of all perishables, from deli to floral, that are near or beyond their freshness limit. Daily, weekly and monthly reports are generated, allowing each store, and the chain as a

whole, to understand loss trends and adjust merchandising strategies.

To provide the system with data, store employees scan and record quantities of items designated to be marked down or discarded, using RF handheld terminals. They do this on a daily basis, and the accumulated data is transmitted to headquarters each night. The terminals are linked to printers that generate price-reduction stickers for

the marked-down items.

The system gives Winn-Dixie "full visibility" into its perishables losses and markdowns, said Cheryl Forehand, the chain's former vice president of retail operations, who was promoted last month to regional vice president of its Jacksonville division.

Winn-Dixie's procurement and merchandising executives are able to use the reports to adjust order quantities, as well as determine the "exit strategy" for items that are designated for markdowns — "or even whether we need to carry those items at all," said Forehand.

At the store level, if, for example, bananas are the second-largest loss item in a given month, "a manager can say, 'I need to take a look at my ordering,'" said Forehand. "We have a tool that puts this in front of us, instead of 28 pieces of paper." By matching actual shrink vs. markdowns and discards, stores are also able to uncover variances that point to theft.

To encourage use of the system, stores are asked to focus on accuracy and not be concerned with the amount of loss or markdowns they are tracking, Forehand noted.

— Michael Garry

INITIATIVE 3:

Take Your Food's Temperature

With the growing national concern over food safety and the prevention of food-borne illnesses, retailers have been taking a closer look at the temperature of their refrigerated perishables.

The U.S. Food and Drug Administration requires retailers to keep the internal temperature of these products at 41 degrees Fahrenheit or less. But the thermometers

used in stores typically take the temperature of the ambient air inside the cases, not of the food itself.

Associated Food Stores, Salt Lake City, recently ran a test of a special thermometer — the EndoTherm Thermometer, from Refrigerator-Saver, Draper, Utah — that purports to be the only device that takes the internal temperature of perishable food in a case without touch-

ing the food. The thermometer, which contains silicone gel, sits in a refrigerated case and "mimics" the internal temperature of the products in the case.

Testing the thermometer in a variety of refrigerated cases, including produce, dairy, bakery and meat, at one of the independent retailers supported by Associated, Travis Waller, Associated's food safety manager, found that it

"gives a better indication of food temperature than ambient air temperature does."

Ordinarily, when store employees find that the ambient temperature in a case is even moderately high, they remove the packaging from a product to take its internal temperature. The EndoTherm device, by contrast, obviates the need to handle the product, preventing shrink and saving time, Waller noted. Making it easier for employees to read internal food temperature is also likely to increase compliance with the FDA food code, he added.



Device mimics a food's temperature.

By tracking internal food temperature, the thermometer could allow a store to raise

See Food, Page 42

Retailers, Suppliers Grapple

Continued from Page 1
in an inflationary economy," he said during the chain's third-quarter financial conference call last week.

"While prices of some commodities have leveled off or dropped, we continue to receive cost increases from several of our product suppliers. We are discussing pricing issues with many of our vendors to make sure the price they charge Kroger reflects the appropriate input costs.

"Kroger's manufacturing business and corporate-brands portfolio gives us additional leverage in these discussions," he said.

That knowledge of corporate-brand costs and the declines that are occurring prompted Wegmans Food Markets, Rochester, N.Y., to make the move in Novem-

ber to lower some prices in anticipation of future vendor reductions.

Most of the reductions came on Wegmans-branded items, "[where] we have better access to detailed information on the factors that determine costs for those items," Mary Ellen Burris, the chain's senior vice president of consumer affairs, said in a published column.

She also pointed out that suppliers locked themselves into contracts earlier in the year at existing cost levels in anticipation of further price hikes on commodities such as wheat, corn and soybeans, making immediate cost reductions unlikely.

Dick King, vice president, Associated Food Stores, Salt Lake City, said he sees valid arguments on both sides of the

vendor-retailer pricing issue.

"As a wholesaler, we expect manufacturers to give us the lowest price based on their contracts, but as a private-label manufacturer, we know where commodity prices are, and if we don't see those declines reflected in the national-brand price, then we talk with the suppliers.

"But they're stuck trying to absorb some of the losses they incurred early on, and we understand that, because on commodities like sugar and flour, the cost can go up 1 cent or 2 cents per hundred-weight and we don't raise the retail price to our customers — we absorb and accumulate those small increases till we can take a reasonable increase in price at the tail end of the process."

Continued on Page 43

Loyalty Program

Continued from Page 40
from several vendors to support the program, but key elements are provided via software-as-a-service by Accelitec/Interact, also of Bellingham. Hagggen is Accelitec's first grocery retail pilot, and the vendor's technology is also being used by The Woods

Coffee, Lynden, Wash. Hagggen has only begun to leverage the capabilities of the Top Connection program, noted Lewis. Other possibilities include personalized offers and allowing the shopper to pay electronically with the RFID link.

— Michael Garry

Food Temperature

Continued from Page 40
case temperatures, thereby cutting energy costs, according to Spencer Freedman, managing partner, RefrigeratorSaver.

Associated plans to continue testing the thermometer in other stores, but Waller said he would recommend the thermometer to Associated's independent retailers,

who would be responsible for purchasing it.

Freedman said the device, which was brought to the U.S. in July, is used by retailers in the United Kingdom. The average store uses 100 to 200 of the thermometers, spending a total of about \$1,500, he said.

— Michael Garry

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