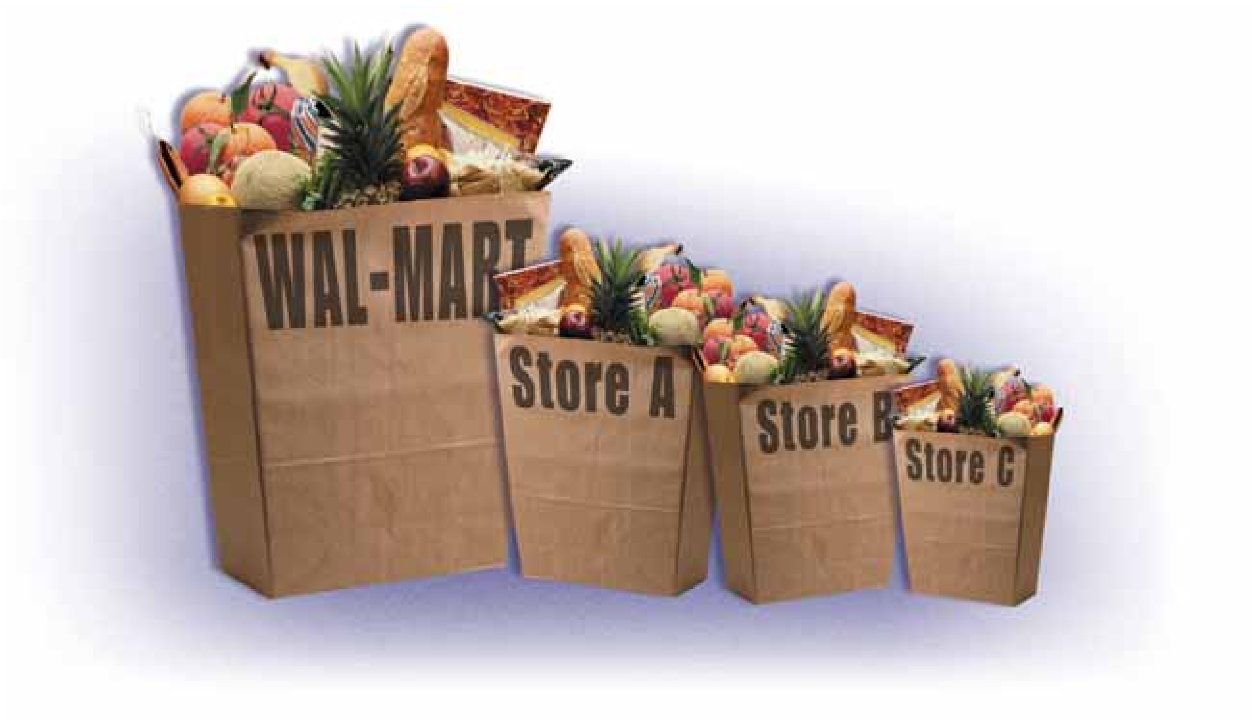
WAL-MART PRICING STUDY ROUND XVII

In LA, Wal-Mart Out-Prices Fresh & Easy And Others



In the first-round battle between Wal-Mart and Tesco on U.S. soil, the battle goes to the home team — and by a substantial margin.

BY JIM PREVOR

Einstein said, "Things should be made as simple as possible, but not simpler." And now, in the 17th iteration of our Wal-Mart Pricing Reports, we have discovered a simple answer to a complex question. For this month, we expand our pricing study to Los Angeles, and we include for the first time in our analysis a store from the U.S. division of Tesco, Fresh & Easy.

Tesco and Wal-Mart battle in markets around the globe, including in the United Kingdom, Tesco's home base where Wal-Mart operates under the ASDA banner.

Although ASDA is one of Wal-Mart's more successful overseas acquisitions, Tesco has continued to grow and gain market share

How They Stack Up Against Wal-Mart Supercenter*

Region	Store	% over Wal-Mart	Store	% over Wal-Mart	Store	% over Wal-Mart
Connecticut	Super Stop & Shop	23%	Shaws	34%	Big Y	36%
Salt Lake City	Harmon's	2%	Smith's	6%	Albertson's	12%
South Florida	Super Target	22%	Publix	31%	Winn-Dixie	52%
Dallas, Texas	Albertson's	23%	Brookshires	7%	Kroger	19%
	Neighborhood Market	–1.2%	Tom Thumb	27%		
Portland, OR	Albertson's	30%	Fred Meyer	22%	Haggen	27%
	Safeway	37%				
Phoenix, AZ	Albertson's	22%	Bashas'	25%	Fry's	15%
	Safeway	17%				
Palm Springs, CA	Albertson's	19%	Jensen's	60%	Ralphs	16%
	Vons	20%				
Detroit, MI	A&P Food Basic	–17%	Farmer Jack	24%	Kroger	28%
	Meijer	3%				
St. Louis, MO	Dierbergs	22%	Schnucks	14%		
Houston, TX	HEB	15%	Kroger	30%	Fiesta Mart	–0.3%
Atlanta, GA	Harry's	18%	Ingles	16%	Kroger	25%
	Publix	13%	Target	3%		
Denver, CO	Albertsons	16%	King Sooper	21%	Safeway	25%
Portland, OR	Albertsons	32%	Fred Meyer	21%	QFC	54%
	Safeway	30%				
Los Angeles, CA	Fresh & Easy	15%	Stater Bros.	8%	Ralphs	25%
	Vons	14%				

**Editor's Note*: *The version of the* Produce Business Wal-Mart Pricing Report *that was published in the January 2008, issue, covered stores in the Sacramento, CA, market. We have discovered a data collection and computational error that made the prices published incorrect. As such, please disregard this edition of the report. We will be returning to the market shortly to publish a new, up-to-date and accurate price comparison for this market.*

during the period that Wal-Mart has owned ASDA.

Many wonder if Tesco will similarly outperform Wal-Mart on its home turf.

Now that the results of this month's *Produce Business Wal-Mart Pricing Report* are in, we can say that if Tesco does beat out Wal-Mart, it won't be based on price or assortment in the produce department.

In this chapter of the *Produce Business Wal-Mart Pricing Report*, we elected to study a cluster of stores around the Fresh & Easy Neighborhood Market store in Arcadia, CA, a suburb of Los Angeles with an upscale demographic. Though Wal-Mart's Supercenter is generally the nucleus of our studies, this time we used Fresh & Easy's more limited assortment as the base for the market basket we studied in Los Angeles, CA.

In addition to the Fresh & Easy in Arcadia, we also included:

- A Vons, which is the Safeway banner in the area, in Glendora, also an upscale demographic
- A Wal-Mart Supercenter in Rosemead, an area skewing Hispanic
- A Ralphs, which is the Kroger division in the area, also in Arcadia, just across the street from the Fresh & Easy
- A Stater Bros. store in Azusa — a middle-income demographic area

The methodology we used for this study was simple. We went to Fresh & Easy and priced the fresh produce items it had on display. Our market basket included one of whatever item was for sale. We used the package size Fresh & Easy sold as our base.

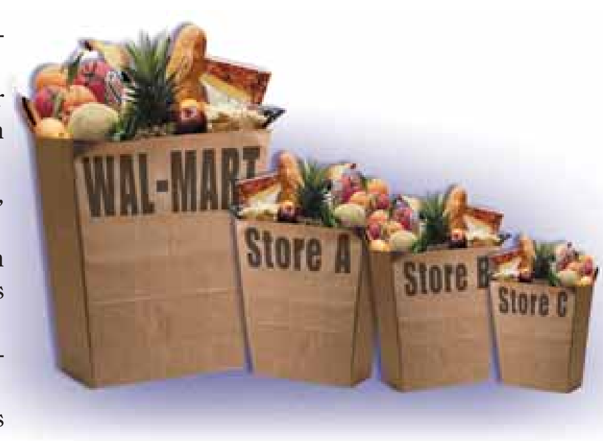
We then priced the identical items in the other stores.

As Fresh & Easy very often sells product in a fixed package of, say, a set number of apples — whereas the American-owned chains tended to sell by the pound — we then made adjustments to equalize quantity.

If Tesco does beat out Wal-Mart, it won't be based on price or assortment in the produce department.

For the purpose of this study, we excluded any ancillary items such as salad dressings or dips, soy products, juices, etc. Although we included value-added items, such as fresh-cut iceberg lettuce and romaine hearts, we did not include most value-added items because Fresh & Easy generally sells proprietary private label blends, which makes it difficult to compare to the branded value-added items.

We also excluded from the comparison any items that were not common in all the



Wal-Mart Supercenter vs 4 Chains APRIL

Produce Item	Wal-Mart Supercenter	F&E	% Over Wal-Mart	Stater Bros.	% Over Wal-Mart	Ralphs	% Over Wal-Mart	Vons	% Over Wal-Mart
Apples-Fuji - 4 count	$1.77	$1.95	10.17%	$1.96	10.73%	$2.40	35.59%	$2.16	22.03%
Apples-Gala - 4 count	$1.70	$1.95	14.71%	$1.30	-23.53%	$3.75	120.59%	$3.90	129.41%
Apples-Granny Smith - 10 count	$3.49	$3.90	11.75%	$3.47	-0.57%	$4.30	23.21%	$3.47	-0.57%
Apples-Pink Lady - 4 count	$2.80	$4.11	46.79%	$2.45	-12.50%	$2.75	-1.79%	$2.75	-1.79%
Apples-Red Delicious - 10 count	$2.49	$3.90	56.63%	$4.40	76.71%	$4.00	60.64%	$4.00	60.64%
Artichoke	$1.50	$3.15	110.00%	$1.99	32.67%	$1.40	-6.67%	$2.98	98.67%
Asparagus	$1.79	$3.66	104.47%	$0.57	-68.16%	$1.69	-5.59%	$1.12	-37.43%
Avocados	$2.72	$3.27	20.22%	$3.96	45.59%	$2.40	-11.76%	$3.70	36.03%
Bananas-each	$0.19	$0.18	-5.26%	$0.24	26.32%	$0.33	73.68%	$0.26	36.84%
Bean sprouts	$0.79	$2.09	164.56%	$0.59	-25.32%	$0.79	0.00%	$0.75	-5.06%
Blueberry	$2.99	$3.07	2.68%	$4.07	36.12%	$1.44	-51.84%	$4.09	36.79%
Broccoli crowns	$0.60	$1.58	163.33%	$0.24	-60.00%	$0.60	0.00%	$0.75	25.00%
Cabbage-green	$1.90	$1.68	-11.58%	$0.90	-52.63%	$1.60	-15.79%	$1.30	-31.58%
Cabbage-red	$1.63	$1.51	-7.36%	$1.65	1.23%	$1.40	-14.11%	$1.50	-7.98%
Cantaloupe	$2.38	$2.48	4.20%	$1.90	-20.17%	$2.00	-15.97%	$1.50	-36.97%
Carrots Baby-Organic-1#	$1.58	$1.38	-12.66%	$1.69	6.96%	$1.99	25.95%	$1.49	-5.70%
Carrots-Regular Organic - 16 oz.	$0.79	$1.03	30.38%	$0.99	25.32%	$0.98	24.05%	$0.99	25.32%
Cauliflower-each	$2.64	$2.48	-6.06%	$2.99	13.26%	$5.05	91.29%	$3.60	36.36%
Cilantro	$0.25	$0.99	296.00%	$0.89	256.00%	$0.69	176.00%	$0.59	136.00%
Celery	$1.38	$1.38	0.00%	$1.19	-13.77%	$1.19	-13.77%	$1.20	-13.04%
Clementines	$5.59	$5.99	7.16%	$4.79	-14.31%	$7.19	28.62%	$7.99	42.93%
Cucumbers	$1.76	$1.55	-11.93%	$1.98	12.50%	$2.00	13.64%	$1.58	-10.23%
Cucumbers-Hot House	$1.88	$1.98	5.32%	$1.99	5.85%	$1.99	5.85%	$1.99	5.85%
Eggplant	$1.99	$1.66	-16.58%	$1.50	-24.62%	$2.52	26.63%	$1.70	-14.57%
Grapefruit-Texas - 3-pack	$1.80	$2.19	21.67%	$1.90	5.56%	$2.20	22.22%	$1.47	-18.33%
Grapes-Green Seedless	$1.78	$2.38	33.71%	$2.99	67.98%	$2.99	67.98%	$2.99	67.98%
Grapes-Red Seedless	$1.78	$2.38	33.71%	$1.50	-15.73%	$2.99	67.98%	$2.99	67.98%
Green beans	$1.49	$2.99	100.67%	$2.99	100.67%	$2.99	100.67%	$1.49	0.00%
Green leaf	$1.48	$1.49	0.68%	$1.49	0.68%	$1.79	20.95%	$1.49	0.68%
Green Onions	$0.99	$1.05	6.06%	$1.17	18.18%	$0.99	0.00%	$0.99	0.00%
Herbs-Organic	$2.96	$1.98	-33.11%	$1.99	-32.77%	$1.99	-32.77%	$1.99	-32.77%
Honeydew	$3.99	$3.28	-17.79%	$4.00	0.25%	$3.99	0.00%	$4.00	0.25%
Iceberg-each	$1.38	$0.99	-28.26%	$1.59	15.22%	$1.00	-27.54%	$1.49	7.97%
Iceberg-Value Added	$1.12	$3.03	170.54%	$1.79	59.82%	$1.99	77.68%	$1.99	77.68%
Jicama	$0.59	$0.60	1.69%	$0.79	33.90%	$0.99	67.80%	$0.69	16.95%
Lemons	$3.54	$3.37	-4.80%	$3.90	10.17%	$4.34	22.60%	$3.14	-11.30%
Limes	$1.50	$1.98	32.00%	$3.00	100.00%	$3.00	100.00%	$3.00	100.00%
Limes-Key	$2.49	$1.28	-48.59%	$2.99	20.08%	$3.99	60.24%	$1.99	-20.08%
Mango - 2 pack	$1.26	$2.45	94.44%	$2.00	58.73%	$2.00	58.73%	$1.98	57.14%
Mushrooms-Brown - 8 oz	$2.78	$2.49	-10.43%	$2.29	-17.63%	$2.99	7.55%	$2.69	-3.24%

stores surveyed. Some of the American chains, for example, weren't carrying late-season Chilean tree fruit, so that item is not included in the numbers.

We also did not include any coupons, whether provided by the product marketer or the store. Presumably on a promotional basis, as part of its launch Fresh & Easy has been giving out its own coupon for $5 off of a $20 purchase excluding alcohol and dairy products. Fresh & Easy does not accept manufacturers' coupons.

In the end, we wound up with a diversified market basket of 85 items on which we thought a reasonable comparison could be made. Of course, no comparison is perfect. In general, Fresh & Easy stocks smaller sizes than its Los Angeles competitors — its apples, pears, melons, onions, tomatoes on the vine, peppers, potatoes, pineapple and bananas were consistently sold in smaller sizes.

The bananas Fresh & Easy sold were smaller sized Bonita brand bananas as opposed to the Chiquita and Del Monte brands sold in the other stores. These smaller bananas typically bring lower prices on the wholesale market.

Also Fresh & Easy produce is typically sold under its own brand, so popular brands, such as Dole, Chiquita, Del Monte, Sunkist, Driscoll's and others that often bring a premium at FOB or on the wholesale market are not available at Fresh &

Price Comparison — Los Angeles, California 2008

Produce Item	Wal-Mart Supercenter	F&E	% Over Wal-Mart	Stater Bros.	% Over Wal-Mart	Ralphs	% Over Wal-Mart	Vons	% Over Wal-Mart
Mushrooms-Portobello - 2 pack	$2.99	$2.79	-6.69%	$3.99	33.44%	$3.99	33.44%	$3.99	33.44%
Mushrooms-sliced - 8 oz	$1.98	$1.76	-11.11%	$2.19	10.61%	$2.99	51.01%	$2.99	51.01%
Mushrooms-whole - 8 oz	$1.88	$1.47	-21.81%	$2.69	43.09%	$2.99	59.04%	$2.99	59.04%
Onions-Red - 3 count	$2.62	$2.53	-3.44%	$3.80	45.04%	$3.20	22.14%	$3.82	45.80%
Onions-White - 3#	$2.62	$2.99	14.12%	$2.72	3.82%	$3.75	43.13%	$2.70	3.05%
Onions-Yellow - 4 count	$2.58	$1.78	-31.01%	$2.16	-16.28%	$2.97	15.12%	$2.14	-17.05%
Oranges-Navel - 5 count	$2.10	$3.17	50.95%	$2.20	4.76%	$2.50	19.05%	$2.40	14.29%
Papaya	$2.99	$2.96	-1.00%	$2.91	-2.68%	$3.99	33.44%	$2.99	0.00%
Parsley	$0.99	$1.98	100.00%	$0.79	-20.20%	$0.69	-30.30%	$0.69	-30.30%
Pears-Anjou - 4 count	$2.92	$2.00	-31.51%	$2.80	-4.11%	$2.70	-7.53%	$2.70	-7.53%
Pears-Bosc - 4 count	$3.20	$2.00	-37.50%	$3.00	-6.25%	$3.30	3.12%	$3.00	-6.25%
Peppers-Anaheim - 2 pk	$0.40	$0.99	147.50%	$0.77	92.50%	$0.88	120.00%	$0.45	12.50%
Peppers-Green	$0.65	$1.98	204.62%	$2.97	356.92%	$5.97	818.46%	$4.50	592.31%
Peppers-Jalapeño - 1#	$1.49	$1.57	5.37%	$1.99	33.56%	$2.99	100.67%	$1.99	33.56%
Peppers-Jalapeño - 16 oz	$1.29	$2.15	66.67%	$1.99	54.26%	$1.99	54.26%	$1.99	54.26%
Peppers-Poblano - 4 pk	$2.00	$2.15	7.50%	$2.20	10.00%	$2.80	40.00%	$2.20	10.00%
Peppers-Red	$3.00	$2.80	-6.67%	$1.20	-60.00%	$1.46	-51.33%	$2.00	-33.33%
Peppers-Serrano - 8 oz	$0.75	$1.25	66.67%	$0.98	30.67%	$1.48	97.33%	$0.98	30.67%
Pineapple	$2.97	$2.99	0.67%	$3.00	1.01%	$4.50	51.52%	$2.99	0.67%
Potatoes-Red - 3#	$1.49	$2.39	60.40%	$1.79	20.13%	$2.40	61.07%	$1.79	20.13%
Potatoes-Russet - 2 pack	$1.24	$1.62	30.65%	$1.20	-3.23%	$1.00	-19.35%	$0.44	-64.52%
Potatoes-Russet - 5# bag	$2.47	$2.92	18.22%	$2.99	21.05%	$2.99	21.05%	$2.99	21.05%
Potatoes-White - 1.5 #	$1.94	$1.78	-8.25%	$1.98	2.06%	$1.98	2.06%	$1.98	2.06%
Radishes	$1.68	$1.66	-1.19%	$0.88	-47.62%	$1.80	7.14%	$0.74	-55.95%
Red leaf	$1.48	$1.49	0.68%	$1.49	0.68%	$1.59	7.43%	$1.49	0.68%
Romaine	$1.58	$1.49	-5.70%	$1.59	0.63%	$1.59	0.63%	$1.49	-5.70%
Romaine Hearts	$1.53	$1.88	22.88%	$1.67	9.15%	$1.99	30.07%	$1.99	30.07%
Squash-Italian	$1.06	$2.09	97.17%	$0.91	-14.15%	$2.24	111.32%	$1.50	41.51%
Squash-Yellow	$1.00	$1.42	42.00%	$0.94	-6.00%	$1.56	56.00%	$0.80	-20.00%
Strawberry	$1.99	$2.49	25.13%	$1.99	0.00%	$1.25	-37.19%	$2.99	50.25%
Tomatillo - 32 oz	$1.98	$2.66	34.34%	$2.99	51.01%	$3.98	101.01%	$1.99	0.51%
Tomatoes	$1.49	$1.97	32.21%	$1.99	33.56%	$1.89	26.85%	$1.99	33.56%
Tomatoes on the Vine	$2.81	$3.53	25.62%	$2.99	6.41%	$0.80	-71.53%	$3.10	10.32%
Tomatoes-Extra Large	$3.09	$2.98	-3.40%	$2.70	-12.48%	$3.40	10.21%	$1.00	-67.59%
Tomatoes-Roma	$1.02	$1.98	94.12%	$1.98	94.12%	$2.10	105.88%	$2.10	105.88%
Tomatoes-Grape	$3.52	$2.45	-30.40%	$3.99	13.35%	$6.39	81.53%	$5.90	67.61%
Watercress	$3.14	$3.14	0.00%	$0.69	-78.03%	$0.69	-78.03%	$0.69	-78.03%
Yams - 2 pack	$0.68	$2.99	339.71%	$0.66	-2.94%	$0.59	-13.24%	$0.56	-17.65%
TOTAL MARKET BASKET	**$152.14**	**$175.09**	**15.09%**	**$163.85**	**7.70%**	**$190.05**	**24.92%**	**$172.78**	**13.57%**

Easy but are often sold at its American competitors.

THE FRESH & EASY DISCONNECT

Now with smaller sizes and no top-line brands, one might expect Fresh & Easy to easily under-price the market, and the company has made clear that the design and organization of its stores is focused on providing good prices. Here are a couple of quotes Fresh & Easy has made available regarding its focus on low prices:

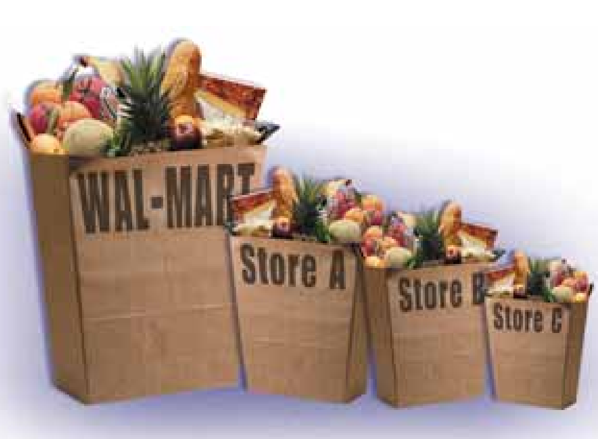
"We've kept Fresh & Easy Neighborhood Market simple to make it easy for our customers and to keep our prices low for everyone. Our stores are 10,000 square feet, much smaller than a typical supermarket, with easy-to-shop aisles for a quick and easy shopping experience. And by carefully selecting our assortment of products, we simplify our operation and reduce our costs, which mean lower prices for customers."

— Bryan Pugh
Chief Operations Officer

"There's no need for product coupons or loyalty cards; our prices are low everyday for everyone."

— John Burry
Chief Commercial Officer

Yet, despite this focus on providing everyday low prices, we found that, aside



Los Angeles Area Retailer Produce SKU Count Comparison					
SKU Item	**Wal-Mart**	**F&E**	**Staters**	**Ralphs**	**Vons**
Dry/Tables	85	55	90	95	147
Wet Rack	87	57	169	191	199
Value Added Vegetables	38	11	40	33	44
Value Added Salads	37	17	74	56	58
Value Added Cut Fruit	22	15	26	54	48
Dressings/Dips	37	19	60	55	68
Soy Products	38	18	22	24	36
Juices	6	23	33	89	88
Dry Items/Dried Fruits/Nuts/etc	129	0	141	180	254
TOTAL	**479**	**215**	**655**	**777**	**942**

from Ralphs, which — coming in at almost 25 percent over Wal-Mart — proved it deserves its reputation for being pricey, Fresh & Easy was the most expensive store of those surveyed, with produce prices 15.09 percent over Wal-Mart.

Tesco's Fresh & Easy was beaten cold by Stater Bros. This regional chain was the only local retailer within striking distance of Wal-Mart, coming in at 7.7 percent over Wal-Mart's pricing.

Vons came it a 13.57 percent over Wal-Mart's pricing.

Wal-Mart remains the undisputed king of low prices in this market.

If Tesco's Fresh & Easy won't win the battle on grounds of price, what about variety? There Fresh & Easy performs even worse, coming in dead last among the surveyed stores.

Whereas Vons titillates with almost a thousand SKUs in produce, Fresh & Easy presents less than half the SKUs that Wal-Mart offers the public. Part of this is because Fresh & Easy sells no nuts or dried fruit in produce. Even excluding this category, Fresh & Easy still offers less assortment than even Wal-Mart, and it is crushed by the supermarkets.

The small-footprint store may appeal to certain consumers. But Tesco's focus on driving costs out of the system by avoiding loyalty cards, reducing assortment and not accepting manufacturer's coupons has not served to make it a "Wal-Mart beater" price-wise.

So in the first-round battle between Wal-Mart and Tesco on U.S. soil, the battle goes to the home team — and by a substantial margin. Will Tesco react? Is it serious about providing a price-point competitive with Wal-Mart? Look for future editions of the *Produce Business Wal-Mart Pricing Report* to find out. **pb**