

# MEAT & DELI RETAILER

ADDING VALUE TO THE MEAT AND DELI CASE

## Safeway Adds Life To Perishables

**Safeway Inc. is seeking to become a stronger deli and meat destination by emphasizing prepared foods and proprietary brands.** By Richard Mitchell, Editor

It is getting to be relatively easy for shoppers to recognize supermarkets operated by Safeway Inc. By spending hundreds of millions of dollars to renovate and build so-called Lifestyle outlets—which feature a multitude of food stations and prepared offerings in the deli—and heavily marketing private-label proteins, Safeway is following a multi-regional blueprint that gives the perishables areas a similar look with an emphasis on freshness, quality and convenience.

The initiative is indicative of the steps being taken by major chains to revise operating models to better withstand the onslaught of new competitors and respond to changing shopper lifestyles and food preferences.

The nation's fifth-largest supermarket operator, Pleasanton, Calif.-based Safeway in November opened its 1,000th Lifestyle concept store and over four years has transformed nearly 60 percent of its approximately 1,775 locations to the Lifestyle format.

Lifestyle outlets, which were first launched in late 2003, are intended to showcase Safeway's commitment to excellence—particularly in the perishables departments—by offering high-quality fresh meat, seafood, produce and floral items, the company states.

Among the elements are wide arrays of prepared foods, natural and organic selections and dry grocery items tailored to local preferences. Stores also feature an earth-tone décor that is intended to be warm and inviting with special lighting to highlight products and departments, custom flooring and unique display features, the company notes.

Each Safeway Inc. division has Lifestyle locations, including such banners as Safeway, Vons, Pavilions, Dominick's, Randalls, Tom Thumb, Genuardi's and Carrs/Safeway.

Safeway reports that it plans to spend approximately \$1.70 to \$1.75 billion in cash capital expenditures in 2008 that will result in the completion of about 20 to 25 new Lifestyle stores and the remodeling of approximately 250 additional outlets into the Lifestyle format.

Last year Safeway announced that it was planning to spend \$2.7 billion in capital expenditures and to open approximately 25 new Lifestyle stores with about 275 Lifestyle remodels.

Elements within each Lifestyle location can vary in accordance with the size of the outlet and local shopper demographics.

Karen Short, senior vice president and equity research analyst in the New York office of Arlington, Va.-based Friedman, Billings, Ramsey & Co. Inc., notes that there are four types of Lifestyle formats: Light, Core, Plus and Elite.

Elite features the widest array of products and stations, such as a hot food bar, elaborate sushi bar, gelato station and expansive bakery.

The more than 700 Core locations have fewer bells and whistles but maintain a strong emphasis on prepared foods, Short notes.

She says that many of the Lifestyle remodels are intended to help the outlets better compete with Austin, Texas-based Whole Foods Market Inc. and other chains that offer high-quality prepared foods.

"A Safeway store might take a five- or ten-percent sales hit from a new competitor, but with remodeling it might only result in a three-percent hit," Short states.

Safeway also is working to differentiate its offerings by merchandising a host of private-label items. Brands include the Primo Taglio line of premium deli meats and cheeses, and the Signature line of soups, sandwiches, salads, side dishes and pre-cooked meats, including meatloaf, roasted chicken, turkey breast and rosemary pork loin.

Meat departments market beef under the proprietary Rancher's Reserve brand, and also carry O Organics-branded chicken. The O Organics line was launched in December 2005 and has expanded to include about 300 USDA-certified food and beverage products.

Short notes that O Organics enables Safeway to generate strong revenues from health-conscious consumers with minimal capital expenditures.

The company recently announced that it also plans to sell O Organics products through distribution partnerships in Latin America and Asia. Indeed, O Organics items already are reportedly being sold at stores in Taiwan operated by Paris-based Carrefour Group, one of the world's largest retailers.

Safeway also has reportedly reached an agreement with Houston-based food distributor SYSCO Corp. to market the line to restaurants in Northern California.

Mark Wiltamurth, an analyst with New York-based Morgan Stanley, says private-label products can be major growth vehicles for Safeway.

"If the company is successful with the O Organic offering, we see potential for the company's health-oriented brand, Eating Right, to follow a similar path," he states. Eating Right is a line of ready-to-eat products.

Dennis Whalen, vice president of marketing for Philippe Becker Design, a San Francisco-based branding design agency, says his firm created the O Organics logo to attract shoppers who might otherwise purchase organic items from specialty stores.

He states that O Organics is comparable to national brands in terms of price and quality.

"Safeway wants the primary shopper in families to buy everything at its stores rather than going to Trader Joe's, Costco or other supermarkets," Whalen states.

Safeway also heavily supports its Rancher's Reserve line of beef by marketing the proteins at both full-service and self-service cases. The brand is spotlighted on package stickers, price signs in display cases and on placards that hang from ceilings.

The company reports that Rancher's Reserve steaks and roasts are processed under strict guidelines to ensure tenderness, juiciness and flavor. Steps include a Verified Tender process that includes grain feeding, hand-selected and hand-trimmed products, and middle meat cuts that are aged 14 days.

"Rancher's Reserve is a differentiator that is associated with quality and carries higher margins (than supplier-branded items)," Short states. "Safeway realized that it needed to upgrade the beef to compete with foodservice locations."

Short notes that Safeway also is making a bigger push into "restaurant meal replacement."

Some stores, she states, are set to offer packaged entrées in the prepared foods area that can be microwaved at in-store kiosks. The items will be merchandised in containers that are designed to lock-in moisture during heating, she says.

Such deli enhancements are making the department a more appealing prepared foods destination with outlets marketing wide arrays of hot and cold items, Short adds.

A Dominick's Lifestyle store in Glenview, Ill., for instance, has separate stations in its deli for fresh baked pizza, sandwiches and sushi, and a hot case with fried chicken, potatoes and macaroni & cheese.

Fully cooked entrées included Signature branded 32-ounce Whole Roasted Chicken for \$6.99, 18-ounce Meatloaf for \$6.99 and 24-ounce Roasted Turkey Breast for \$8.99

The full-service deli case has about 32 selections. Along with a host of salads and side dishes are such entrées as Grilled Chicken Breast.

Forty-eight types of bulk meats also are merchandised in the deli with the Primo Taglio moniker most prominent. Other brands include The Deli Counter, Krakus, Certified Angus Beef, Usinger's, Hormel, Eckrich, Busch, Best's Kosher, Applegate Farms, Vienna Beef, Sara Lee and Butterball.

Primo Taglio also is most prevalent among the 15 selections of bulk cheese. Other cheese brands include The Deli Counter, Land O' Lakes and Alpine Lace.

The Glenview store's meat department features about 28 varieties of fresh items in the full-service case. The selections, which are priced by the pound, include four types of sausage for \$3.99, 90-percent-lean Certified Angus Beef Ground Beef for \$5.29 and 91-percent lean Ground Beef Patties for \$5.59.

Among the value-added choices are Marinated Rotisserie Wings for \$5.99, Stuffed Pork Loin Chops for \$6.49, three types of chicken for \$6.99—Cordon Bleu, Kiev and Florentine—Chicken Breast with Asparagus for \$5.99, Stuffed Bell Peppers and Stuffed Meatballs, each for \$5.99, and Beef Pinwheels for \$7.99.

To emphasize convenience, many of the items have tags stating, "ready in 30 minutes."

Also behind the glass is O Organics Boneless/Skinless Chicken Breast for \$8.99, Certified Angus Beef Skirt Steak for \$7.99, five types of Rancher's Reserve beef—New York Steak for \$4.97, Filet Mignon for \$13.99, Flank Steak for \$8.99, Round London Broil for \$1.97 and Rib Boneless Ribeye for \$10.49.

Brands in the self-service meat case include Rancher's Reserve, O Organics, Perdue, Farmland, Chiappetti, Laura's Lean, Coleman Organic, John Morrell, Hormel, Smithfield, Butterball, Jennie-O and Tyson.

A Safeway store close to the University of Colorado campus in Boulder, meanwhile, which an associate says was remodeled about two years ago, features about 60 fresh meat items behind the glass. They include many natural and organic selections and such brands as Coleman All Natural and Maverick Ranch.

Brands in the self-service case include Rancher's Reserve, Great Range, Jennie-O, Moran's, Farmland, Sanderson Farms, Cook's and Redbird.

The Boulder deli also has more offerings than many other Lifestyle outlets. Among the elements is an "Olive Orchard" bar with 14 items for \$7.99 a pound, and a "Bamboo Bay Asian Cuisine" bar featuring a dozen items for \$6.99 a pound.

The opposite side of the buffets contains about 16 hot non-Asian selections for \$6.99 a pound, such as Chicken Marsala, Scalloped Apples, Scalloped Yams, Macaroni & Cheese, Glazed Carrots, Spanish Rice, Country-Style BBQ Ribs, One-Quarter Chicken and Meatloaf.

Bulk deli meat and cheese brands include Coleman All-Natural, Emil's, Tillamook, Jarlsberg, Great Lakes, Lorraine and Sara Lee.

Though the sandwich stations in most outlets have similar décors and menus, many also display a local flavor. A Tom Thumb store in the University Park area of Dallas, for instance, last year was promoting the "Southwest Jackhammer," a Ham & Pepper Jack Cheese sandwich that is custom prepared in the deli and includes a Ciabatta Roll with Chipotle Sauce, Avocado, Sliced Jalapenos, Lettuce and Tomato.

A Safeway outlet near Washington, D.C., meanwhile, was marketing the "East Coast Combo," consisting of Primo Taglio Smoked Turkey, Genoa Salame, Smoked Fortina Cheese, Bacon, Lettuce, Tomato and a Creamy Garlic Sauce on a Rustic Italian bread.

Stores also are expanding their offerings. A Dominick's outlet in downtown Chicago, for instance, is promoting such new value-added items in its full-service meat case as Beef Wellington, Chicken Cordon Blue Wellington and two additional varieties of hot wings.

About half of the store's 35 types of prepared foods in the full-service deli are center-of-the plate offerings, including Chicken Florentine, Spinach Lasagna, Pot Roast & Vegetables, Quiche, Pork Chops and Salmon.

Frank Dell, president of Dellmart & Co., a Stamford, Conn.-based retail consultancy, says Safeway's greater emphasis on prepared foods and private-label offerings is prudent marketing.

"Safeway understands that the market is changing and supermarkets can't be all things to all people," he states. "They are making a bold move and saying, 'we won't be like everyone else.' They are distinguishing themselves from other chains."

Dell notes, however, that it is too soon to determine whether the Lifestyle format will result in sustained sales increases.

"The question is whether success will result from the Lifestyle offerings or because a store was remodeled," he states. "But launching such an initiative is better than doing nothing."

Lifestyle stores, Dell adds, are more likely to appeal to shoppers who seek fresh perishables and are not price sensitive. Such groups, he states, typically are more prevalent on the East and West Coasts.

Nevertheless, he says Safeway's renewed focus on prepared foods is a "solid concept. There is a large group of consumers who don't want to go to restaurants and prefer to pick up quality meals and eat at home, and that includes the young people who lack cooking skills."

Despite a potentially strong payback from its Lifestyle and private-label investments, Safeway still is likely to face strong competition from other chains that also emphasize fresh perishables, Wiltamurth says.

Competitors will include Wal-Mart Stores Inc., club stores and other alternative-format food retailers, he states.

Such formats include the 10,000-square-foot Fresh & Easy stores that were recently launched in the U.S. by Hertfordshire, England-based Tesco LLC, the United Kingdom's largest retailer. The convenience-oriented locations offer about 3,500 items, including more than two-dozen types of heat-and-eat and heat-and-serve offerings that are developed at a central kitchen in Riverside, Calif.

The first 20 stores were opened late last year in Southern California, Arizona and Nevada. Tesco says it plans to have 50 locations operating by the end of February and about 200 by the end of 2008.

Morgan Stanley estimates that Tesco could open 150 to 300 new outlets per year, by 2012 could account for 4 percent to 8 percent of industry growth.

"These stores feature Wal-Mart level pricing, fifty-percent private-label mix and narrow product selection within categories," Wiltamurth states.

He notes, however, that Morgan Stanley views the Fresh & Easy stores as a "top-up shopping trip and not a major threat to grocers."

Forecasts from Safeway, he adds, reveal that the Fresh & Easy outlets could account for 4 percent of the square footage competitive pressures the company will face by 2012, compared to 74 percent from conventional grocers and 22 percent from supercenters and other non-grocery formats.

## At A Glance

**Company:** Safeway Inc. Headquarters: Pleasanton, Calif.

**Stores:** 1,775

**Regions:** West, Southwest, Midwest, Mid-Atlantic, Western Canada

**Banners:** Safeway, Vons, Pavilions, Randalls, Tom Thumb, Dominick's, Genuardi's, Carr's

**Proprietary Meat & Deli Brands:** Safeway, Safeway Select, Primo Taglio, Rancher's Reserve, Signature, O Organics

*SOURCE: Safeway Inc.*