KROGER SPECIAL REPORT — SEE PAGE 13

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Wal-Mart bids Auf Wiedersehen, ends nine-year grind in Germany

BY MIKE TROY

BENTONVILLE, ARK. — Wal-Mart may not have been successful in Germany but the lessons learned during a struggle that lasted nearly a decade in Europe's largest economy are evident today throughout the retailer's global operations and its approach to acquisitions.

It was an expensive lesson. The decision to sell its 85 stores to German retailer Metro AG will result in a $1 billion pretax loss during the second quarter, but the move is in keeping with Wal-Mart's renewed focus on achieving higher rates of return on its invested capital. Successful execution of that strategy, even if it means shedding pieces of its business, is viewed as a key to helping the company's long-suffering stock price break out of its six-year slump.

"As we focus our efforts on where we can have the greatest impact on our growth and return-on-investment strategies, it has become increasingly clear that in Germany's business environment it would be difficult for us to obtain the scale and results we desire," said Wal-Mart vice chairman Mike Duke in reference to the decision to exit Germany.

Those comments are nearly identical to a statement in late May when Wal-Mart announced the sale of its 16 stores in South Korea.

"As we continue to focus our efforts where we can have the greatest impact on our growth strategy, it became increasingly clear that in South Korea's current environment it would be difficult to reach the scale we desired," Duke said.

Both decisions were viewed positively by financial analysts who saw the moves

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Day one for new RadioShack ceo off to rough start

BY LAURA HELLER

FORT WORTH, TEXAS — RadioShack has brought in turnaround guru Julian Day, who joined the company just in time to announce a drop in quarterly earnings and bid adieu to the chain's cfo. Day was named ceo of RadioShack on July 7 to fill the post left vacant by David Edmondson, who resigned in February. But before Day could even take office, cfo David Barnes announced his departure to join Western Union, a division of First Data Corp. Until a replacement is named, all finance functions will report directly to Day.

JULIAN DAY

Day is taking over leadership of a company in the midst of a turnaround plan, one that includes the closing of 480 stores, the cycling out of unprofitable merchandise and the addition of new product categories such as flat-screen TVs in the hopes of making up lost revenue from the sales of the retailer's core wireless phone business. RadioShack reported an 85% drop in earnings during its first quarter due mainly to weak sales of

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Manufacturers long for brand equity

BY LAURA HELLER

QINGDAO, CHINA — A visit to China yields a wealth of experience and an opportunity to see firsthand just how important that market is to U.S. retailers and other companies looking to increase their fortunes by selling to the world's largest population. But it also reveals a manufacturing base itching to reverse that paradigm by launching Chinese brands in Western markets.

China is known to U.S. consumers as a country that offers inexpensive labor to produce much of the world's goods, including apparel, entertainment products and electronics parts, and one that typically supplies cheap copies of all the above. It's an image that Chinese electronics manufacturers are hoping to combat in the coming years as they move beyond supplying parts and products to more established brands and launch branded businesses of their own on the international stage.

"Step back a bit and compare and contrast where China is today versus where others have been," said Robert Willett, ceo of Best Buy International. "China is in the same position as Japan was 20 to 25 years ago." The same can be said of Korea, which

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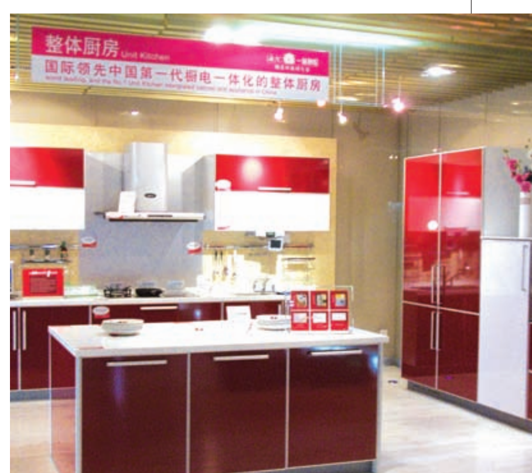

Companies like Haier are looking to move beyond supplying parts by developing their own brands.

Study: Biggest retail names among biggest importers of goods to United States

BY MIKE TROY

WASHINGTON — Several of the nation's largest retailers are again atop the annual ranking of the largest importers and exporters published by the *Journal of Commerce*.

Using data compiled by its research arm, the Port Import/Export Reporting Service, or PIERS, the *Journal of Commerce* determined some of the biggest names in retail—Wal-Mart, Target, Home Depot, Sears, Lowe's and Costco—account for six of the top 10 spots on the journal's list. Other top importers include Dole Food, LG Group, Philips and Chiquita Brands.

According to Marsh Salisbury, research editor at the *Journal of Commerce*, imports tracked by PIERS, while accurate, provide only a partial picture of total imports.

"There are a lot of different ways that people import cargo," according to Salisbury. "Different retailers do different things and the data is also influenced by the type of merchandise they have." ■

The Import Report: TOP RETAILERS ACCOUNT FOR BULK OF CONTAINER TRAFFIC THROUGH U.S. PORTS

Retailer	# of containers*
Wal-Mart	695,000
Target	371,000
Home Depot	335,000
Sears Holdings	240,000
Lowe's	163,000
Costco	160,000
IKEA	100,000
JCPenney	63,400
Gap	60,000
Pier 1	53,100

* Container is defined by the shipping industry standard known as a "20-foot equivalency unit" that measures 20 feet long, 8 feet wide and 8 feet tall.

Source: The Port Import/Export Reporting Service (PIERS) Global Intelligence Solutions; figures are for calendar year 2005.

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ability to further segment our diverse customer base with our multiple format strategy."

That Kroger is touting the performance of its 'multidepartment' stores and general merchandise is just one example of a series of significant changes taking place in the food retailing market at large. In the last 12 months, for example, Albertsons, the nation's next-largest food company, was carved up and sold off, with the largest part going to veteran food company Supervalu, a development that many analysts believe will keep Supervalu preoccupied with the merging of those two businesses for at least the next few years. But perhaps the development with the greatest impact on the food business as a whole is the struggling comp-store sales at Wal-Mart. In recent months, comps at the world's largest retailer have been especially weak, with June same-store sales up just 1.2%, as compared to 4.3% at JCPenney, 4.8% at Target and 6.0% at Costco.

That said, it may still be too early to raise the victory flag in the Kroger camp. Despite a respectable balance sheet and a portfolio of store concepts that's as strong as any in the business, the company faces a veritable onslaught of food retailing competitors these days, from warehouse clubs to dollar stores.

Fortunately for Kroger, that market dynamic doesn't seem to phase senior management, especially Dillon, who even has shown signs of optimism lately—a rare occurrence from an organization that hasn't had many financial highlights to brag about for several years.

"A popular theme among some investors these days is that traditional supermarket operators like Kroger are being squeezed out of business by price-focused discounters at one end and high-end specialty retailers at the other," Dillon said during a conference call in the spring. "To the contrary, Kroger continues to grow in this highly competitive industry environment."

Underappreciated or not, Kroger's performance of late indeed has been successful. And where there's success, respect can't be far behind. ■

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mobile phones.

"Mr. Day has a tough assignment," wrote Merrill Lynch analyst Danielle Fox in a research note. "Over the past 18 months, RadioShack has suffered from a wireless slowdown that has highlighted its growing dependence on this one category. Now it is struggling to find relevancy in the consumer electronics marketplace."

A struggle highlighted by the company's second-quarter results. Total sales in the second quarter ended June 30, were up 1% to $1.1 billion, compared to total sales of $1.09 billion for the previous year. But comp-store sales were down 3% versus the prior year and, overall, the company posted a net loss of $3 billion for the quarter.

"We do not put much stock in a quarter that closed before RadioShack named its new ceo," Fox wrote in a research note. "However, it did highlight the core issue at the company. Gross margins are on the decline, and we do not see them getting better in the near term."

One of Day's first directives was to stop holding conference calls for quarterly earnings. In a detailed statement put out instead, the company reiterated its turnaround plan and the progress made thus far. It also addressed the weakness in wireless and the need to achieve business goals through improved execution beyond those areas identified in the plan. Most importantly, the company must improve upon the performance of its wireless business.

"Management believes it can improve the wireless business as we alter our approach," said Claire Babrowski, president and coo. "Our second-half marketing plan has been revamped in recognition of that and breaks from our past approach of treating wireless the same as all our other product categories."

RadioShack has put marketing efforts on hold as it identified and began executing its changes. But it has been testing some new programs related to wireless sales in the New York market that won't begin to be implemented or yield results until late in the third quarter.

More immediately, RadioShack is embarking on a national marketing initiative by sponsoring the Rolling Stones' fall tour of North America.

The tour kicks off in Boston and dovetails nicely with the retailer's 85th anniversary next year, according to Tori Binau, RadioShack senior vp of marketing. It's the company's first big advertising push since the fourth quarter of last year and one that coincides with changes being made in stores, including the elimination of underperforming merchandise and the addition of flat-screen TVs. "The Rolling Stones are great at reinventing themselves and we're in the process of reinventing ourselves," Binau told *Retailing Today*. "So it's a great fit for us." ■

CHINA

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today boasts two powerhouse brands—Samsung and LG Electronics. Both those companies have now established their presence in the United States with the brand equity and sales that go with it.

A recent visit to SINOCES, China's version of the International Consumer Electronics Show—run in partnership with the U.S. show's sponsor, the Consumer Electronics Association—provides a glimpse at the beginning efforts by Chinese companies to do the same. Attendees at the show included representatives of most large U.S. retailers such as Best Buy and Wal-Mart, and exhibitors anxious to be in the U.S. marketplace as more than just original equipment manufacturers.

China-based Haier already has products in the top 10 U.S. retail chains and more than 240 subsidiaries worldwide, including manufacturing facilities in the United States. In spite of being the fourth-largest producer of white goods in the world and China's largest CE manufacturer, Yang Main Mian, president of Haier, admits to being "not yet well-informed about the U.S. market."

Mian took the opportunity to meet with a visiting delegation from the CEA and *Retailing Today* to expand that knowledge, asking questions about what U.S. consumers are interested in and discussing Haier's efforts in research and development into flat-panel displays, ionic washing machines that don't require detergent and solar-powered portable devices such as DVD and digital music players.

The need for greater insight is a sentiment echoed by Yu Shumin, president and ceo of Hisense, one of the top brands within China and manufacturer of many private-label products in the United States including Best Buy's own line of TVs. Hisense boldly declares its goal of being a "giant in world industries" in company literature.

"Our target is to develop the Hisense brand into a well-known one in the world market," the company posts on its Web site, "[to] let a majority of overseas consumers recognize Hisense brand, identify Hisense culture, use Hisense products, enjoy Hisense cutting-edge technology and quality after-sale service and support the development of Hisense."

Like her counterpart at Haier, Shumin expressed the need to learn more about the U.S. market and gain exposure with consumers for its own-brand name. But both companies, and Chinese manufacturers in general, face significant hurdles in branding and marketing as they build this brand presence. Logos, icons and messaging have been developed expressly for Chinese and other Asian consumers and may not translate well to Western markets. Haier's corporate logo, visible atop its headquarters and on the SINOCES show floor, features two swimsuit-clad toddlers that struck U.S. attendees as vaguely sinister, illustrating quite literally, a learning process in its infancy. ■