

a view from wall street

BY GARY GIBLEN

Wall Street's view of the West Coast retail strike



Retail analysts have underestimated the long-term ramifications of the West Coast retail strike, particularly how it will affect retailers once it is resolved.

Wall Street has been wrong about the grocery industry labor crisis and these industry gurus may be getting more confused as the focus shifts to the eventual aftermath of the Southern California strike and lockout—although at press time, no end was in sight.

Chalk it up to a host of factors: analyst job/bonus preservation (decided in December 2003 for 2004), brainwashing by companies' public relation messages and finally, sheer naiveté (industry and Wall Street titans have little exposure to the grocery world).

Further, it seems that few believed the workers had the strength to strike in the first place and then persevere through the fall and holiday season. In addition to Wall Street's argument that it's difficult to strike

Wall Street is underestimating the potential for low morale, shoddy customer service and poor productivity post-strike settlement, as any labor concessions will most likely come in the form of healthcare benefits.

during the holidays, analysts took comfort in the theory that the union could not hurt any of the Big 3 chains too badly because each had agreed to lock out workers if one was struck. However, the union disproved this notion with a brilliant strategy: It voluntarily stopped picketing Ralphs/Kroger and publicly urged consumers to shop Ralphs. Thus, Safeway and Albertson's customers shopped at Ralphs at the expense of the other two stores. And by providing an outlet for convenient shopping, public support for the union was enhanced.

With egg all over its face regarding the strike's duration and focus on two chains, Wall Street offered another theory: The strike would not cost the chains much per day because sales loss was modest and temporary staffing was skeletal. Unfortunately, the truth emerging from the chains' third quarter earnings and conference calls was somewhat shocking. Losses were twice what many had predicted.

The facts were that customers went away and stayed away, volume in

high-margin perishables was disproportionately decimated, replacement workers were inefficient and caused huge shrink and even traffic from pharmacy operations ground to a halt as shoppers switched their prescriptions to drugstores or other stores.

Going forward, our research concludes that Wall Street is grossly underestimating:

- The permanency of losses to overlapping and better-run non-union formats such as Costco and Whole Foods.
- The price wars needed for the chains to rebuild after the eventual strike settlement.
- The likelihood that the union will win at least a 50% compromise, thus forcing the chains to pay much more than their best and final offer and stymieing parity with encroaching non-union players. As a result, food retailing looks comparable to the steel industry, in which unions had much to lose, little room for compromise and basically won the strikes and the day. This was because it was more rational to milk the cash cow than to give up ground, even if it meant accelerating the inevitable decline of the industry for lack of labor parity. In the steel industry, U.S. Steel and others battled government-subsidized and lower-cost foreign competition; in supermarkets, it's the big chains against non-union players such as Wal-Mart and Costco.
- The potential for low morale, shoddy customer service and poor productivity post-strike settlement, as any labor concessions will be cutting marrow, not fat, muscle or bone from workers' incomes—most likely in the form of healthcare benefits. Low in-store productivity in the face of reduced jobs and hours per job has driven poor operating performance by Safeway and Albertson's in recent years.
- The impracticality of Safeway's new strategy to emulate Whole Foods and go upscale, assuming labor relations and productivity remain poor. Further, Safeway runs the risk of even further chaos at Dominick's. The bitter labor disputes that were shelved while the Chicago chain was being divested now challenge Safeway as it retains Dominick's and attempts the seemingly impossible mission of fixing it □

Cary M. Giblen is senior vice president and director of research at CL King & Associates, New York, a Wall Street money management and research firm.