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Raley's makes tactical retreat

Company appears set to defend home turf.

By Dale Kasler - Bee Staff Writers

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There was a time when it seemed Raley's wanted to conquer the West. Or at least parts of it.

Back in 1999, the supermarket chain bought 27 stores in Las Vegas and New Mexico from Albertson's Inc., matching its biggest acquisition ever. Raley's also explored making acquisitions in Salt Lake City, although it scrapped them after the Las Vegas-New Mexico takeover.

Now, the grocery industry is radically different. Traditional chains, under assault from such rivals as diverse as Wal-Mart Stores Inc., Trader Joe's and Costco, are seeking new strategies to stay competitive. For some chains, analysts say, that means retreating to their home turf in order to defend their base.

Raley's is the latest example of that. Last week the West Sacramento-based grocer said it was selling its 10 stores in New Mexico to what is now known as Albertsons LLC. The move, coming five years after it sold its Las Vegas stores, will let Raley's "focus our energy and efforts on our core markets in Northern California, the Bay Area and northern Nevada," said President and Chief Executive Bill Coyne in a press release. The sale, for an undisclosed amount, will leave Raley's with 130 stores.

Although Raley's spokeswoman Amy Johnston called the New Mexico stores "successful and profitable," analysts said the decision to pull out makes sense. Raley's needs to plow its resources into its increasingly competitive Northern California market, they said.

"Raley's really had it their way for 25 years, and now for the foreseeable future Raley's is in for the fight of its life," said Burt Flickinger III, an independent consultant based in New York. "Now they can reinvest capital in

California, which is a smart strategic move."

Johnston said Raley's isn't looking over its shoulder. "Our position is growing as is our long-term strategic plan," she said in an e-mail to The Bee. "We are pleased with how our consumers are receiving us in the community."

Still, Raley's probably wasn't making much money in New Mexico and was up against a low-price behemoth, Wal-Mart, which was better suited for that market, analysts said.

Wal-Mart holds 36 percent of the market in Albuquerque, site of most of Raley's New Mexico locations. Raley's is Albuquerque's fourth largest grocer with 7.6 percent, according to the Shelby Report, a trade publication.

In the late 1990s, when profits were greater, buying stores a great distance from headquarters made more sense, said George Whalin of Retail Management Consultants in San Marcos. Now, with slimmer margins, it's harder to justify the expense of operating stores so far away, he said.

"If you don't get a meaningful market share, there's no point in being there," said consultant Mark Lilien of Retail Technology Group in Stamford, Conn. "It raises your advertising costs on a per-store and per-customer basis, and it raises your logistics cost."

At the same time, it's more important than ever for Raley's to make sure it remains strong in Northern California, Whalin said.

Raley's, along with its Bel Air and Food Source subsidiaries, controlled 36 percent of the greater Sacramento market as of December, the latest figures available from Nielsen Trade Dimensions' Market Scope survey. But consultants say Sacramento is getting more crowded, with an influx of companies like Wal-Mart, WinCo and Whole Foods.

Safeway Inc., the No. 2 grocer in Sacramento, is gaining sales with a more upscale approach. The arrival of Modesto-based Save Mart, a strong grocer that's taking over Sacramento's Albertsons locations, is bringing additional pressure, Flickinger said.

So, eventually, will powerful British grocer Tesco, which has announced it will enter Southern California and is quietly looking at Northern California as well, Whalin said.

Raley's spokeswoman Johnston said that the company didn't link its exit from one market to a new competitor entering Raley's stronghold.

"Save Mart had nothing to do with our decision to sell the New Mexico stores," she said in the e-mail.

Despite the influx of new competitors, traditional grocers have stabilized their position in the market by focusing on things like organic foods and better private-label goods, according to the Willard Bishop consulting firm in Illinois. Last year their sales improved 2.6 percent, Willard Bishop said.

"Well-run conventional supermarkets are holding their own," Lilien said.

Nonetheless, some are finding it necessary to bulk up against the competition by exiting far-flung markets, he said. New Jersey-based A&P, for example, is trying to unload stores in Louisiana and Michigan in order to concentrate on its core Northeastern markets.

"It's a good idea in the supermarket business ... to try to cluster your stores," Lilien said.

A decade of change

Over the past decade, Raley's has expanded and contracted.

- Dec. 16, 1997: Buys 27- store Bay Area chain Nob Hill Foods.
- June 22, 1999: Buys 27 stores in Las Vegas and New Mexico from Albertson's Inc.
- Sept. 13, 2002: Sells Las Vegas stores to Kroger Co.
- June 12, 2007: Sells New Mexico stores to Albertsons LLC Source: Bee research

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