Los Angeles Times

cc Tuesday, September 10, 2013 latimes.com/news

Ron Burkle's Yucaipa buying Fresh & Easy stores from Tesco

The British grocer will exit the U.S. after losing about $2 billion over five years. Yucaipa will acquire more than 150 of Fresh & Easy's nearly 200 stores as well as distribution and production facilities.

By STUART PFEIFER
TIMES STAFF WRITER

Ron Burkle, who became a billionaire reviving faltering supermarket chains, will try to turn the money-losing Fresh & Easy stores into a profitable venture.

Burkle's Yucaipa Cos. has agreed to buy the El Segundo chain for an undisclosed amount from British supermarket giant Tesco, which is bailing from the U.S. scene after losing about $2 billion over five years.

Yucaipa will acquire more than 150 of Fresh & Easy's 200 mostly Southern California stores and its Riverside distribution and production facilities, keeping more than 4,000 employees. The deal is expected to close within three months.

The sale marks not only the end of the British firm's badly mismanaged venture but also an opportunity for Burkle to shake up the chain — and, possibly, the industry.

Burkle, who bought and sold such supermarket names as Ralphs Grocery Co. and Food 4 Less, would not provide details but said he intended to make changes to Fresh & Easy that "will make it even more relevant to today's consumer."

Yucaipa Cos. will acquire more than 150 of Fresh & Easy's 200 mostly Southern California stores. Above, a store in Hollywood. (Christina House, for the Times / September 11, 2013)

One key could well be a convenience market catering to consumers' everyday needs, said Steve Stallman, president of food industry consulting firm Stallman Marketing.

"I think the concept of a more European-style grocer where you go on a daily basis could appeal to a lot of people," he said.

Fresh & Easy's ready-made meals "weren't very good at first, but they got much better," he said. "I think having quality ready-made meals, as well as fresh breads any time of day, could appeal to a lot of people."

Where Tesco went wrong was in trying to convert a British retail format to the U.S. market, said Burt P. Flickinger III of Strategic Resource Group, a retail consulting firm in New York.

"They had primarily private-label products and low to no service, when people in the Southern

California markets and across the Western U.S. want well-known regional and national brands and a choice between staffed and self-checkout," Flickinger said.

Tesco, in deciding to abandon the U.S. market this year, acknowledged that its effort to compete with natural and organic retailers such as Trader Joe's, Whole Foods and Sprouts had failed.

"It was an expensive experiment, and Tesco decided to take its losses," Flickinger said.

Some in the industry expect that Burkle will rename the stores Wild Oats, which was the name of a chain of natural foods stores acquired by Whole Foods Market in 2007. Yucaipa, which held an 18% stake in Wild Oats, owns the brand name.

"Wild Oats is a well-known brand and it would be a great way to hit the ground running," said Lloyd Greif, an investment banker who has worked on previous acquisitions with Yucaipa. "This transaction just goes to show you that one man's garbage is another man's gold."

Burkle, the son of a Stater Bros. supermarket executive, built his empire buying Food 4 Less in 1987, then a series of chains that included Alpha Beta, Ralphs and Fred Meyer. Yucaipa sold much of it a decade ago.

The Los Angeles company has since diversified its investments, though it bought a stake two years ago in the Great Atlantic & Pacific Tea Co., the supermarket chain better known as A&P. Burkle's net worth was estimated this year at $3.1 billion by Forbes magazine.

Tesco was so desperate to unload its failed U.S. stores that it agreed to lend Yucaipa about $126 million to complete the transaction. The loan is secured by the Riverside distribution center.

About 50 Fresh & Easy stores will close in the coming weeks, and about 400 employees will lose their jobs, said Brendan Wonnacott, a Fresh & Easy spokesman.

"The vast majority of Fresh & Easy stores in the L.A. region will remain open," he said, but he would not identify which ones.

Steven Johnson of Foodservice Solutions, a Tacoma, Wash., consulting firm, said Fresh & Easy was doomed under Tesco's effort to sell budget-priced, healthful foods and ready-to-eat meals.

Despite wild success in Europe and Asia, the company failed in the U.S. on two fronts: poor locations and weak customer service.

"They did nothing to coddle the customers," Johnson said. "They'd pack three apples under plastic even though Americans like to feel their produce. All their market research was based on the European experience."

And when the stores opened, the ready-to-eat entrees were limited.

"Unfortunately, that turned off a lot of shoppers in the beginning, and they never went back," analyst Stallman said.

"Burkle's challenge is going to be the mix of locations; some in lower-income areas and some in wealthier areas," he said. "I'm not positive how it's going to work in the lower-income neighborhoods without changing some of the product mix. Prices would have to come down."

Johnson said the company could thrive under Burkle.

For one, American consumers are trending toward fast-serve food as households become smaller. Fresh & Easy, he said, specializes in packing food for one or two people.

More and more, he said, consumers don't want to go to "70,000-square-foot grocery stores. They don't need 10 pork chops."

Under new ownership, Johnson said, the company has "really good infrastructure like central kitchens to orchestrate and make money right away."