RETAILING SMARTER 2006

Each year the David F. Miller Center for Retailing Education and Research offers an executive continuing education symposium specifically designed for retailers. A group of senior retail executives from leading firms are assembled to focus on topics of strategic importance to retailers. The executives candidly share information and new ideas that are working to keep organizations ahead of their competition. The symposium is designed for participants to hear about current ideas from the industry. We provide frequent breaks for discussion and networking.

Our Symposium this year was June 22 - 23, 2006 at the Rosen Centre Hotel in Orlando. Many organizations help support this event and I recognize and thank them for their generosity and continued support: Office Depot, Miller Zell, Sunbeam Products, Inc., Famous Footwear, Naturalizer, Pinch-A-Penny, JCPenney, Claire’s Stores, Inc., Firestone Complete Auto Care, Novations, Walgreens, NPD Group and Beyond Hello, Inc.

Mark your calendar for Symposium 2007 event: Thursday and Friday, June 7 & 8 at the Rosen Shingle Creek Resort in Orlando. See you there!

Betsy Trobaugh, JCPenney Director Miller Center for Retailing Education and Research

SEARS HOLDINGS: THE POWER OF ONE

by: Shannon Lavvorn

Don Germano, the Senior Vice President and General Manager of Kmart Retail for all Kmart stores spoke at the annual Retailing Smarter Symposium and helped participants to better understand the massive changes in the company as Sears Holdings moves forward. Germano started his presentation with the history of Kmart and Sears. He spoke about Sebastian Kresge opening his first store in Detroit in 1899 and how he started with Five and Dime stores and moved onto dollar stores. In 1962, he opened the first Kmart. Sears, Roebuck and Company began with railroads and lumber and moved into selling watches and other assorted items. Sears evolved into a mail order business. After much success with the catalog business, Sears decided to open an outlet store in Chicago, and they couldn’t have opened it fast enough! Both Kmart and Sears have such a rich history.

Mr. Germano talked about the merger between these two retailers by simply stating that, “1 + 1 = 1.” To really resonate with the customer and make it a good place to work, customers have to remember this. Once a struggling retailer, Kmart has now joined forces with Sears and together their opportunities are strong and endless. Kmart and Sears announced the merger in 2004, and it was completed in June 2005. The new company focuses on the customer as one unified retailer. Kmart is a mass merchandiser with the ability to sell items at low prices. Sears is known for its product knowledge and customer service. More than 40% of households in the United States are active Sears’s customers. With that kind of customer base and store placement, the two companies are able to reach customers in ways that other retailers cannot. In addition, Kmart is now selling Sears exclusive brands such as Kenmore and Craftsman. Sears also acquired Lands End in 2002, so these fashions are now being sold at Sears stores. Kmart changed its store design by widening aisles and changing signage making the shopping experience more appealing.

See SEARS page 3...
HUMAN RESOURCES INFLUENCE ON THE BRAND

by: Tara Quincey

At the 2006 Retailing Smarter Symposium, Kim Strong represented the Center for Retailing's newest sponsor, Target, in order to discuss Target's brand management perspective and to stress the importance of the Human Resource department in brand management.

Although companies typically utilize the Human Resources department as a means of recruiting, training, and developing top talent, Ms. Strong remarked that Target's uniqueness rests in its ability to manage the Target brand in everything it does. Ms. Strong noted that every one of Target's 300,000 employees plays a pivotal role in developing and enhancing the Target brand. Target's Human Resource department helps team members understand that their roles ensure the success of the Target brand. Ms. Strong's speech centered on the idea of a "brand": specifically, the experience guests have at Target as well as its ability to bring uniqueness to a product, down to the Bullseye dog.

Additionally, Ms. Strong remarked on some of Target's ideologies and goals, reinforcing their brand promise to have guests “Expect More” from their differentiated merchandise, and “Pay Less” through partnerships with a wide variety of designers that make stylish couture available and affordable.

Meanwhile, Ms. Strong brought to life Target's company culture through defining characteristics from Personal Best to Leadership Dimensions. To ensure that Target team members keep Target's position first, remain focused, and still have fun, Target works to keep employees thinking innovatively, communicating effectively, and assessing personal potential. Ms. Strong relayed the importance of any Human Resource department encouraging growth within its team members, supporting and respecting leadership, and maintaining job satisfaction. Ms. Strong noted that these factors, combined with a clear definition and execution of brand image, have ensured Target's success, and are vital components to a company's successful utilization of Human Resources.
Dan Stanek, Executive Vice President of Retail Forward delivered an energetic presentation educating retailers on the importance of innovation and challenged them to consider the new trends of innovation during his “Top 10 for 2010” segment.

Mr. Stanek began by outlining some of the reasons why retailers are hesitant to adopt innovation, including the creative destruction syndrome. Many incumbents feel they have too much to lose, few are proactive, and others simply do not want to change. In order to overcome this, retailers must embrace systematic innovation in order to keep up with the fast-paced changing world. Mr. Stanek also pointed out that all strategies eventually fail. Some innovators are not always the winner; a “fast follower” might be a more profitable path for a retailer.

Innovation is especially important right now for several reasons. There is a lot of sameness in the retail industry, so change is required to stand out. Consumers are changing, and they want uniqueness and more value for less money. Retailers need to be aspirational, participatory and communal in order to reach their key consumers.

Mr. Stanek closed his presentation with the top 10 major trends in innovation including enhancing the shopping experience, bringing shopping closer to customers, helping customers choose their items, solving customer’s problems, focusing on growing market segments, making shopping easy and focusing more on customer relationship management. His most important point was that retailers have to speed things up because of the value consumers place on time. So, retailers have to bring their products, first, fast and now.

Mr. Stanek’s presentation was powerful and challenging and truly set the tone for the rest of the symposium.

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Germano then explained how shoppers are moving away from malls. Sears noticed this and started moving away from malls, too. By joining with Kmart, they are accomplishing this by developing free standing Sears formats. These formats include Sears Essentials and Sears Grand. Sears Essentials is a smaller format than a full service Sears stores. The Sears Grand stores are huge. They offer everything you would find in Sears, along with items you would find in Kmart.

The Sears Holdings Corporation wholly owns and operates Kmart and Sears stores. With 2300 stores, Sears Holdings Corporation has revenues of 55 billion annually. Since both stores are very different, it is challenging and exciting, says Germano, to make the transition into one company. Germano explained they are a learning company and they are making decisions based on their mission statement. Germano says even though they appear to be separate companies, they are operated as one. They did this by centralizing the supply chain, operations and merchandising. The only point of differentiation is how they reach the customer. Germano strongly believes that if they stick to their mission statement and keep the end in mind, the Sears Holdings Corporation will be tremendously successful. Germano and his colleagues ensure they are abiding by their mission statement by carrying a copy of it in their pockets at all times. He even brought it out while he was doing this presentation.

RETAILING SMARTER 2007

June 7 - 8, 2007
Rosen Shingle Creek Resort & Golf Club
Orlando, Florida

Joe Scarlett, Chairman of the Board
Tractor Supply

Ken Hicks, President & Chief Merchandising Officer
JC Penney

Mark Emkes, Chairman & CEO Bridgestone Americas Holding

Stew Leonard, Jr., President & CEO
Stew Leonards

Matthew Rubel, President, CEO & Director, Payless ShoeSource, Inc.

Gloria Johnson-Goins, VP Diversity & Inclusion, The Home Depot

Paul Levesque, Author, “Customer Service From The Inside Out Made Easy”

William Lucas, President & General Manager, Retail Business Group
The NPD Group, Inc.
Robert Kennedy stated that, “We take care to actually talk to shoppers to find out what they want in their shopping experience” because he knew and understood the severity of the data, knew retailers had to react, and knew the best way to react was to talk directly to the customer. The panel expressed over and over that retailers and suppliers should talk to their customers to find out what would attract them to their store and to specific product categories within it, and what would compel them buy their products.

To illustrate this strategy Craig Apatov focused the panel’s discussion on a few specific projects, such as the Coca Cola in aisle messaging system for carbonated soft drinks, an innovative aisle reinvention program for Kraft cookies and crackers, and “Project Makeover” sponsored by Johnson and Johnson’s Vision Care group. These three projects showed the sponsoring companies that understanding the insights behind the shopping experience can be used to create a much more productive and profitable category solution for retailers and suppliers alike.

This workshop taught the audience that stores and consumer product companies must be more innovative and compelling if they are to capture incremental shopper business. Additionally, the panel clearly communicated the importance of close collaboration between supplier and retailer in creating win/win retail merchandising programs.

Our distinguished panel of experts discussed using stores as the media to communicate directly to the customer and strengthening the relationship between suppliers and retailers in order to do this.

**THE RETAIL STORE AS THE NEW MEDIA**

*by: Jazmin Crayton*

The Retail Store as the New Media spotlighted the realization that many stores need to change their dialogue with consumers. This was a panel discussion that included Robert Kennedy, SVP & GM Consumer Products Group for Miller Zell, Steve Hyland, Director of Retail Merchandising for Coca Cola North America, Patrick Hare, Senior Director of In Store Merchandising and Sales Communications, Snacks and Cereal Segment for Kraft Foods North America, Chris Little, Associate Product Director for Vistakon, and the discussion leader Craig Apatov, EVP and Chief Sales and Marketing Officer for Miller Zell.

The discovery that the retail store was definitely the new media is a bit of a fresh idea for consumer product companies and retailers alike. It was revealed in statistical data that 80% of consumer purchase decisions about retail merchandise were made in the store and were influenced by imagery and messaging that is seen in the shopping aisles and on the retail shelves.

**TRANSFORMING THE CULTURE OF BEST BUY:**

**CREATING A NEW RETAIL EXPERIENCE**

*by: Shar’Day M. Gregory*

Tim McGeehan, Executive Vice President of Retail Sales at Best Buy was an engaging speaker. His topic discussion was on how Best Buy has continually changed and transformed to meet the needs of customers. Surprisingly, McGeehan started his career by selling televisions at Best Buy while studying in college. For the students in the audience, it was encouraging to see what can happen in a career with dedication and hard work.

Throughout the entire seminar, Mr. McGeehan continually drove the point that, “if you don’t change, you’re going to die.” He spoke of the journey of Best Buy and its goals. Best Buy is the number one CE retailer in North America. It has over 120,000 employees, 17% market share, $30 billion revenue, $1.5+ billion operating income, and has over 900 retail stores. Last year alone, Best Buy gave $28 million to communities. The mission of Best Buy is to have one common vision.

See BEST BUY page 6...
ALPHA DOGS: HOW YOUR SMALL BUSINESS CAN BECOME A LEADER OF THE PACK

by: Christine Davidson

"Size is relatively inconsequential – even little dogs can cast a big shadow when they’re in the right light" is what author and editor Donna Fenn illustrated when she discussed how an everyday company can distinguish itself and come out on top by using her 8 “Alpha Dog” strategies – seduce your customer, convert employees into true believers, transform with technology, make a hometown claim, innovate the mundane, market brand inside and out, build a village, and embrace reinvention. Ms. Fenn demonstrated the new challenges that arise in business as society continues to evolve, and how these especially affect small companies due to their limited human and financial resources.

Each company that Ms. Fenn highlighted is a shining example of the Alpha Dog characteristics. Norman Mayne of Dorothy Lane Market places great emphasis on his employees, creating a highly competitive hiring market to obtain top-notch employees. He passes great emotional ownership to his managers and allows employees to have access to a wide range of information. Mr. Mayne believes in continuous learning and provides opportunities for employees to attend educational programs at universities and field trips to other companies to get ideas and therefore better his Markets. “Remember – the best ideas are stolen,” as Mr. Mayne and Ms. Fenn realize. He believes that knowledge is power and that in empowering employees, the benefit back to you and the company is exponentially greater.

Chris Zane and his bike shop are an amazing inspiration (he began it at age 16!) and an awesome example of seducing the customer. In his business practices, Mr. Zane creates a relationship between the customer and his store so that people would not even think of buying a bike anywhere else. Things may go wrong and problems may arise, however Ms. Fenn and Mr. Zane encourage us to “Remember – You mess up – it’s not the end of the world, it’s an opportunity.”

Being “locked in at Amy’s” is an example of one of the many activities going on at Amy’s Ice Cream. Amy is a hometown favorite and has opened ice cream parlors in neighborhoods, each with different architecture to reflect the character of the surrounding area. Her motto is “We want to make your day” and that is what she strives to do each and every day. Amy has no formal advertising, but instead uses that money to fund community events as well as running fundraisers for different organizations. She is truly Austin’s “hometown girl” and if you ask anyone out on the street for an ice cream shop recommendation, they will most definitely send you to Amy’s – not because they love the ice cream, but because they love the character and personality of her business.

Ms. Fenn describes childhood, as well as life and business, as being “characterized by alternating periods of equilibrium and disequilibrium”. The equilibrium is not for very long because relationships change. Businesses may grow competitively, but that doesn’t help them to grow up. Mike Schwartz, the owner of Mike’s Famous Harley Davidson did not (at first) reinvent his business as his customer and the environment changed. Through a learning period, Mr. Schwartz realized that a business owner must never stop reevaluating his business, that he must never be static, and that there are changes from within the organization to support these changes. Now his motorcycle dealership and restaurant are the place to stop for a comfortable, inviting, and exciting meal.

After the conclusion of Ms. Fenn’s presentation, another intern sitting next to me said, “After watching this presentation, it really makes me think that I want to start my own business!” I exclaimed, “Me too!” because right at that moment I had been thinking the exact same thing! Ms. Fenn’s strategies for small business and examples she presented truly engaged the audience and allowed us to dream that we all could do it, too. The qualities that compose “Alpha Dog DNA” are necessary not only for small businesses, but for all size businesses in any field. Ms. Fenn’s presentation and book give inspiration to small businesses everywhere and challenge entrepreneurs to “paw” their way to becoming a leader of the pack. ♦
CAPITALIZING ON THE LATINO BOOM!
by: Joanna Tilley

Chiqui Cartagena, the leading expert of the U.S. Latino market and author of Latino Boom! Everything You Need to Know to Grow Your Business in the U.S. Hispanic Market, spoke at this year’s symposium about valuable information regarding the amazing opportunities to capitalize on the growing Latino population. The statistics are astounding, with an estimated 42.7 million Latinos expected to increase to 103 million by 2050, capitalizing on the “Latino boom” has never been so exciting for retailers.

According to a recent census, the Hispanic population is growing at a rate of 58% compared to the general population with an increase of only 13%. However, despite the record growth rate, only 5% of companies market to Hispanics. “This leaves incredible opportunities for companies that would like to attract a wider range of customers,” Cartagena notes.

Hispanics are retaining their culture longer than any other group of immigrants so it is becoming essential that companies learn to cater to their ever increasing needs. The grocery store industry was one example that Cartagena emphasized. Latinos are known for placing special importance on family and meal preparation. So, for the grocery store industry, capitalizing on the “Latino boom” means providing fresher food and popular Latin brands. Cartagena suggested that stores do demographic research to find out the origins of the specific Latinos in their communities and stock accordingly. For example, Latinos from Mexico would want to find tortillas and salsa whereas Latinos from Argentina would care more about buying quality meats.

Chiqui Cartagena’s message was that the Latino population is proud of their unique culture and value companies who take them into consideration by offering products and services that meet their needs. With a buying power of 736 billion that is expected to increase to 1 trillion by 2010, the Latino market need not be overlooked.

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and one common purpose.

Mr. McGeehan also talked about differentiation. He stressed that this is key because a company must have uniqueness over the competition to achieve success. Since customers change rapidly, a company must stay focused on customer centricity and on team work. Through Best Buy’s core philosophies of (1) inviting employees to contribute their unique ideas and experiences in serving customers, (2) treating customers uniquely and honoring their differences and (3) meeting customers’ unique needs, end-to-end, they have been able to achieve this vision.

Mr. McGeehan gave many examples of how Best Buy implements their philosophies. One example was when he displayed an organizational activity chart that focused on strategy, which is simply how you win in the marketplace. In the middle was strategy, and then system, relationships, structure, and power distribution branches of strategy. By showing this, he confirmed how strategy dictates everything and why change needs to be constant. Each word that branched off of strategy affected one another. With change, McGeehan stressed how testing and innovations were also important.

Participants learned about Best Buy, but also that customers, team members and change are all important in becoming successful. Our world changes rapidly, so change is always a factor.
Perhaps it was a twist of fate that the final presentation of this year’s Retailing Smarter Symposium discussed how to bring an end to certain stores or divisions of a retail company. Entitled What a Retailer Does with a Problematic Division, the presentation focused on the experiences of its two presenters, Mr. Cory Lipoff, Executive Vice President of Hilco Merchant Resources, LLC and Mr. Christopher Kay, Former Chief Operating Officer of Toys “R” Us.

Mr. Lipoff spoke of his company and the tools they have developed for the classic “Going Out of Business” sale whereby a company attempts to liquidate its on hand inventories. Traditionally, retailers would simply continually mark down their merchandise a certain percentage each week until it was all gone. Mr. Lipoff showed that by understanding how long it will take to sell certain merchandise at a certain discount, you can maximize the financial return on your inventory and minimize the time to close the store. For example, through their work, they have discovered that more common items only need to be discounted a small percentage while more specialty and off-sized items may need to be drastically marked down before they will sell. By maximizing the return on inventory, the company is able to pay off more of its lease contracts and other debt which can sometimes yield a net profit to the company.

Mr. Kay showed how closing poor performing stores, if done correctly, can sometimes lead to financial benefits to the company, as well. He spoke of his tenure at Toys “R” Us and how he looked at every store both as a four wall unit and within the context of the company. The four walls analysis looks at the sales and costs of business of each store, which must show that the store is making a profit on its own. Any store that doesn’t pass the four walls test must receive corrective action. The first step, as Mr. Kay said, is to take a good look at the store’s management. Often that is the root of the problem since a poorly run store rarely makes money. After looking at management, sometimes the problem is just that the market can no longer support the store. In this case, it may be appropriate to close the store. Mr. Kay first explained that this is a very difficult process since often many loyal employees lose their job. However, sales of nearby stores often increase as the result of customers traveling to the next closest store. This can yield a great benefit to the company as you are not losing all of the sales of the old store but you are losing all of the old costs. Mr. Kay explained that through closing many Toys “R” Us stores, he was able to increase the value of the company and eventually sell it to a private equity firm for more than market value.

Considering that the retail sector is a place where companies come and go all the time, the presentation may prove to be an invaluable lesson for the future. The best advice, though, came after the presentation when Mr. Kay explained to one retail student, “Pick the company you work for very carefully. Pick a company that’s going to be around as long as you’ll be.” His advice was well taken.
As a customer, you expect to find a large building containing a variety of merchandise categorized into distinct sections of the store. The more prestigious the store, the more you expect excellent customer service as well. Retailers want to create an environment that not only displays their products, but entices customers to make purchases and return to purchase more. Retailers are faced with the challenge of finding innovative techniques to provide the best overall shopping experience.

Customers are witnessing an evolution of the department store, specialty shops, and service market. New designs and concepts are becoming a must for “shopping of tomorrow”. Senior Editor of Special Projects of Chain Store Age, Marianne Wilson, spoke of the most outstanding and creative retailers of 2005. Malls, services providers, big named retailers and specialty shops were noted for the innovative design that helped create breathtaking displays that effectively integrated strong brand identity into their stores.

Smaller retailers were noted for providing tremendous customer service that allowed them to compete and service large retail chains. Apple once believed to be losing the PC war has prevailed and continues to challenge other computer retailers to meet their standards. With the opening of a new store in New York, Apple has amazed many with their 32-foot street-level glass cube with an Apple logo suspended in the middle. Many called the structure the “Glass Palace”. The store is noted not only for its incredible structure, but for providing its services 24 hours a day, 365 days a year. Another noted retailer was the M&M’s World in Orlando. This store is saturated with the beloved colorful candy coated shells. As customers are led through a maze of larger than life candy, chocolate aroma is periodically dispersed to enhance the shopping experience.

Marianne Wilson enthusiastically talked about futuristic concepts and ideas that are creating fun and exciting destinations for consumers. With more retailers focusing on these new concepts there is sure to be more aesthetically pleasing stores that incorporate incredible customer service and unforgettable shopping experiences.