

Retailing

NEWSLETTER

TABLE OF CONTENTS

1. Strategic Planning and Management in Retailing Program Begins Third Decade
2. Strategic Profit Model Results for U.S. Retailers for 2005
4. Strategic Profit Model Results for International Retailers for 2005
6. Growth Strategies: When You Run Out of Runway, What Then?

CONTACT

BABSON COLLEGE

Babson Park, MA
02457-0310 USA
Phone: 1-800-882-EXEC
or +781-239-4354
Fax: +781-239-5266
E-mail: exec@babson.edu
www.babson.edu/bee/retailing

LAWRENCE J. RING, EDITOR

Chancellor Professor and
EMBA Alumni Distinguished
Professor of Executive Education
The College of William and Mary
larry.ring@mason.wm.edu

PROGRAM SUMMARY

Strategic Planning and Management in Retailing Program Begins Third Decade

In September 2006, the Strategic Planning and Management in Retailing program ran for the 45th time in North America and the 21st time at Babson College. Larry Ring and John Strong were the program faculty. Currently, this program is offered twice in North America (at Babson and at William and Mary) and once in Australia and in Singapore (both sponsored by Monash University in Australia). The next program will be offered April 28–May 4, 2007, at William and Mary in Williamsburg. Those interested are encouraged to apply early. To register, contact Sally Aubin at saubin@babson.edu, or at 781-239-4411.

The program kicked off with “The Eight Ways to Win in Retailing,” and featured cases on Tesco, Wal-Mart in 2005, Best Buy, Zara, Kohl’s, Seven-Eleven Japan, and Meijer. In addition, the faculty delivered lectures and exercises

on financial and productivity analysis, strategic thinking and planning, category scorecards, basket analysis, and supply chain management. On Wednesday afternoon, September 13, the group participated in a store tour with visits to Wal-Mart, BJ’s Wholesale Club, Target,

Walgreens, Whole Foods Market, Trader Joe’s, Staples, Shopper’s World Power Center (including Best Buy, DSW, Toys ‘R’ Us, Barnes & Noble, T.J.Maxx, Sports Authority, and others), and the Natick Mall (Macy’s, Lord & Taylor, Sears, and numerous specialty stores.) The highlight of the trip was our visit and guided tour of Jordan’s Furniture, including a viewing of its “Mardi Gras” show and its IMAX Theater.

The Babson Executive Conference Center made for an ideal learning environment and, of course, the food was excellent. Participants were treated to a lobster and clam bake upon returning from their store tour on Wednesday. Thursday’s lunch was the annual Doug Tigert Cheeseburger BBQ. Susan Hartshorn served as program manager and looked after all members of the diverse group of participants who represented nine different countries.

The next Strategic Planning and Management in Retailing program will be offered April 28–May 4, 2007, at William and Mary. For more information or to apply, contact Sally Aubin at saubin@babson.edu or at 781-239-4411, or visit www.babson.edu/bee/retail.

Strategic Profit Model Results for U.S. Retailers for 2005

The table on page 3 reports the most recent Strategic Profit Model (SPM) results for the 39 largest public U.S. retail companies based on sales. As we have done in the past, Tiffany & Co., a jeweler, has been added to the list to make a total of 40 companies.

Twenty-four of the 40 companies listed improved their after-tax return on year-end net worth (RONW) for 2005 from 2004. However, the top two companies declined slightly.

TJX was once again the top performer for the sixth straight year with a RONW of 36 percent, down slightly from 40 percent in 2004. TJX now has been first or second on our listing for an impressive nine consecutive years. As we observed last year, opportunistic merchandising seems to continue to work very well. Apparently, there is a never-ending supply of obsoletes, fashion mistakes, end-of-runs, bankruptcies, train wrecks, and the like.

As it was in 2004, The Limited was second in our 2005 listing with a nearly 27 percent RONW. Limited was followed closely by Nordstrom, resurgent after the family's return to management. Nordstrom now has improved from 7 percent in 2002 to 15 percent in 2003 to 22 percent in 2004 to 27 percent now.

Bed Bath & Beyond was in fourth place at 25.32 percent and up slightly from 2004. They were followed by a more focused J. C. Penney (having shed its drug business), in fifth place with 24.38 percent, up smartly from 2004. The grocer Publix came in sixth at 23.52 percent and continues to be the leading food retailer in the list. However, Kroger is just behind at 21.82 percent and has vastly improved from its negative 2.82 performance in 2004.

Wal-Mart was in eighth place in the listing with RONW of 21.73 percent and has displayed remarkable consistency during the last several years with its previous four years' RONW numbers at 21.29, 20.76, 19.00, 20.10, and 20.80 percent, respectively. In addition to these outstanding returns, Wal-Mart now has pushed its sales to \$316 billion in 2005, up from \$285 billion in 2004. Wal-Mart remains

nearly four times larger than the next largest U.S. retailer, Home Depot, which had sales in 2005 of \$81.5 billion. Home Depot's RONW in 2005 was 21.7 percent, up from 20.7 percent the previous year and placing Home Depot in ninth place in our listing. CEO Robert Nardelli seems to have Home Depot hitting on all eight cylinders once again, although he has been roundly criticized for a lagging stock price and an oversized compensation package. Home Depot's arch rival, Lowe's, had a RONW in 2005 of 19.32 percent as the company continued to chase its much larger competitor.

The #10 company in our listing was Best Buy at 21.69 percent, up slightly from 2004. Best Buy seems to have left Circuit City in its dust. Gap came 11th in our ranking at 20.52 percent, down from 23.3 percent in 2004. The chain continues to struggle with declining comps and a seeming inability to recapture consumers' imaginations. Dollar General came in 12th in our rankings at 20.35 percent, followed by Lowe's and Staples. Druggist Walgreens is at 17.31 percent.

As we scan the list, it is once again clear that the cream has risen to the top of the retailing world. In order, we have:

- Best Off-Pricer:TJX
- Best Specialty Apparel Chain:Limited
- Best Upscale Department Store:Nordstrom
- Best Home Retailer:Bed Bath & Beyond
- Best Promotional Department Store.....J. C. Penney
- Best Grocer:Publix
- Best Discounter:.....Wal-Mart
- Best Consumer Electronics Chain:Best Buy
- Best DIY/Home Improvement Chain:....Home Depot
- Best Dollar Store:.....Dollar General
- Best Druggist:Walgreens
- Best Office Supplies Super Store:.....Staples

As it has for several years, the traditional department stores sector continued to post fairly puny results as the sector continues to consolidate and struggles to find a place for itself amongst the discounters and the big boxes. Federated Department Stores was down slightly from last year to 10.16 percent (and, of course, May Company has disappeared as part of the Federated merger.) Saks Holdings continued to drop to 1.12 percent; and, as of this date, has pretty well sold itself off. Dillard's was at 5.19 percent.

The traditional grocers (besides Publix and Kroger) continued to be in the bottom half of the list as the onslaught of Wal-Mart and Target supercenters take their price/value customers, and the Whole Foods and other specialty grocers steal the cream off the top. Winn-Dixie and A&P continued in bankruptcy. Albertsons at 8.10 percent gave up and sold

itself to Supervalu (which dropped from 15.37 to 7.87 percent) and others while Safeway was at 11.41 percent and busy remaking itself.

Others at the bottom of the list again were internet retailer Amazon.com, Rite Aid, Toys 'R' Us (now sold and taken private), and bankrupt Blockbuster.

STRATEGIC PROFIT MODELS FOR SELECTED RETAILERS RETURN ON YEAR-END NET WORTH (RONW)

Retailer Name	Date	Sales '05 (in millions)	Return on Sales '05	Asset Turnover '05	Return on Assets '05	Financial Leverage '05	Return on Net Worth '05	Return on Net Worth '04	Return on Net Worth '03	Return on Net Worth '02	Return on Net Worth '01
TJX COMPANIES INC.	Jan-06	\$16,058	4.30%	2.92	12.56%	2.90	36.48%	40.17%	42.41%	41.04%	37.32%
LIMITED INC.	Jan-06	\$9,699	6.87%	1.53	10.49%	2.57	26.95%	30.19%	13.62%	10.33%	18.91%
NORDSTROM INC.	Jan-06	\$7,723	7.14%	1.57	11.20%	2.35	26.34%	22.00%	14.86%	6.57%	9.49%
BED BATH & BEYOND INC.	Feb-06	\$5,810	9.86%	1.72	16.94%	1.49	25.32%	22.91%	20.06%	20.80%	20.07%
J.C. PENNEY	Jan-06	\$18,781	5.20%	1.51	7.84%	3.11	24.38%	13.74%	-17.11%	6.36%	1.60%
PUBLIX SUPER MARKETS INC.	Dec-05	\$20,745	4.77%	3.08	14.70%	1.60	23.52%	22.85%	20.85%	21.01%	19.20%
KROGER CO.	Jan-06	\$60,553	1.58%	2.96	4.68%	4.67	21.82%	-2.82%	7.85%	31.30%	29.78%
WAL-MART STORES	Jan-06	\$315,654	3.66%	2.28	8.36%	2.60	21.73%	21.29%	20.76%	19.00%	20.09%
HOME DEPOT INC.	Jan-06	\$81,511	7.16%	1.83	13.12%	1.65	21.70%	20.70%	19.21%	18.50%	16.83%
BEST BUY CO. INC.	Feb-06	\$30,848	3.70%	2.60	9.61%	2.26	21.69%	20.99%	20.60%	0.01%	21.72%
GAP INC.	Jan-06	\$16,023	6.95%	1.82	12.62%	1.63	20.52%	23.30%	21.53%	13.05%	-0.26%
DOLLAR GENERAL	Jan-06	\$8,582	4.08%	2.87	11.70%	1.74	20.35%	20.43%	19.09%	20.57%	19.92%
LOWE'S	Jan-06	\$43,243	6.41%	1.75	11.23%	1.72	19.32%	18.86%	18.21%	17.72%	15.33%
STAPLES INC.	Jan-06	\$16,079	5.19%	2.09	10.87%	1.73	18.86%	17.21%	13.38%	16.78%	12.90%
WALGREEN CO.	Aug-06	\$47,409	3.69%	2.77	10.22%	1.69	17.31%	17.54%	16.53%	16.34%	17.01%
TARGET CORP.	Jan-06	\$52,620	4.58%	1.50	6.88%	2.46	16.95%	14.47%	16.64%	17.52%	17.40%
FAMILY DOLLAR STORES	Aug-06	\$6,395	3.15%	2.53	7.97%	2.08	16.59%	15.25%	19.50%	20.10%	20.50%
CVS CORP.	Dec-05	\$37,006	3.31%	2.42	8.01%	1.83	14.70%	13.15%	14.07%	13.79%	9.05%
KOHL'S CORP.	Jan-06	\$13,402	6.28%	1.46	9.20%	1.54	14.13%	14.70%	14.11%	18.31%	17.76%
TIFFANY & CO.	Jan-06	\$2,395	10.63%	0.86	9.17%	1.52	13.91%	17.89%	14.68%	15.73%	16.74%
BARNES & NOBLE	Jan-06	\$5,103	2.91%	1.61	4.69%	2.84	13.30%	10.69%	12.06%	9.74%	7.21%
FOOTLOCKER	Jan-06	\$5,653	4.65%	1.71	7.94%	1.63	12.97%	13.93%	15.05%	13.78%	na
BJ'S WHOLESALE CLUB	Jan-06	\$7,950	1.62%	4.00	6.47%	1.96	12.68%	12.41%	12.06%	17.68%	11.99%
COSTCO COMPANIES INC.	Sep-06	\$19,875	1.83%	3.45	6.32%	1.91	12.09%	11.89%	11.57%	12.66%	12.33%
SAFEWAY	Dec-05	\$38,416	1.46%	2.44	3.56%	3.20	11.41%	13.01%	-4.66%	-22.83%	21.29%
SEARS HOLDINGS	Jan-06	\$49,124	2.54%	1.61	4.09%	2.63	10.76%	6.19%	53.07%	20.38%	12.01%

STRATEGIC PROFIT MODELS FOR SELECTED RETAILERS RETURN ON YEAR-END NET WORTH (RONW) CONTINUED

FEDERATED DEPT. STORES	Jan-06	\$22,390	6.13%	0.68	4.14%	2.45	10.16%	11.17%	11.67%	14.20%	-4.96%
OFFICE DEPOT INC.	Dec-05	\$14,279	1.92%	2.34	4.49%	2.23	10.00%	10.41%	9.89%	13.54%	10.87%
DELHAIZE AMERICA	Dec-05	\$16,565	2.01%	1.80	3.60%	2.43	8.74%	7.12%	5.46%	-1.06%	3.97%
ALBERTSONS INC.	Jan-06	\$40,358	1.14%	2.26	2.59%	3.13	8.10%	8.74%	10.33%	9.33%	8.47%
SUPERVALU INC.	Feb-06	\$19,864	1.04%	3.29	3.41%	2.31	7.87%	15.37%	12.68%	12.79%	10.72%
CIRCUIT CITY STORES INC.	Feb-06	\$11,598	1.30%	2.85	3.71%	2.08	7.73%	2.87%	-4.02%	1.78%	7.45%
DILLARDS INC. -CL A	Jan-06	\$7,708	1.58%	1.40	2.20%	2.36	5.19%	5.06%	0.42%	-17.58%	2.70%
RITE AID CORP*	Feb-06	\$17,271	0.25%	2.47	0.62%	4.35	2.69%	na	na	na	na
SAKS HOLDINGS INC.	Jan-06	\$5,953	0.37%	1.55	0.58%	1.93	1.12%	2.93%	3.57%	1.07%	0.02%
GREAT ATLANTIC & PAC TEA CO.^	Feb-06	\$8,740	-0.74%	3.50	-2.60%	3.72	-9.68%	-80.45%	-38.05%	-38.86%	-10.68%
BLOCKBUSTER	Dec-05	\$5,864	-10.03%	1.84	-18.50%	5.03	-93.11%	-117.49%	-30.12%	-39.06%	-4.18%
AMAZON.COM	Dec-05	\$8,490	3.92%	2.30	9.01%	15.02	nm	nm	nm	nm	nm
TOYS 'R' US INC.	Jan-06	\$11,275	-3.41%	1.35	-4.59%	(11.56)	nm	5.83%	2.08%	5.68%	1.96%
WINN-DIXIE STORES INC.	Jun-06	\$9,921	-5.02%	4.51	-22.65%	(5.65)	nm	-1404.19	7.85%	31.30%	29.78%

*net income excludes income tax benefit

^net income excludes income from sale of Canadian operations

These data were compiled by Professor Lawrence J. Ring with the assistance of Gregory Higgins MBA '07, research assistant.

Strategic Profit Model Results for International Retailers for 2005

The table on page 5 provides the Strategic Profit Model results for 30 of the largest publicly held international retailing companies. This is our sixth year of compiling these statistics. Twelve countries are represented here, although most of these retailers have at least continental, if not global, operations. Among international retailers, the five largest are food retailers and all have European origins, but clearly are global players. Carrefour (French) is the largest (by sales at \$88 billion), followed by Tesco (British, \$69 billion), Metro (German, \$66 billion), Fonciere Euris (Casino, French, \$66 billion), and Royal Ahold (Dutch, \$52 billion). Put in perspective, however, all five combined are just a bit larger than world number one retailer, Wal-Mart at \$316 billion.

In terms of overall performance on return on net worth, 2005 brought a new number one, Marks and Spencer at 45.06 percent, and up from 23.92 percent last year. A high leverage factor contributed to this result. Woolworth's Australia, the leader for the last four years came second in 2005 at 34.58

percent, almost the same as in each of the last three years. Woolworths was followed closely by Australian arch rival Coles Myer at 32.34 percent, up strongly from 16.75 percent the previous year. M&S, Woolies, and Coles Myer were significantly above the rest of the pack on RONW, with the fourth place company, DSG International, coming in at 18.68 percent, up slightly from 2004.

The next six in order were all food retailers including Groupe Auchan at RONW of 17.29 percent, up strongly from 2004 at 9.04 percent; Tesco at 16.89 percent (up slightly); Carrefour 15.31 percent and down from 18.23 percent in 2004; Jardine Matheson (Dairy Farm) at 13.87 percent and down from 17.59 percent; George Weston at 13.66 percent, up from 9.72 percent in 2004; and Metro at 12.22 percent versus 16.72 percent in 2004.

Among other food retailers, Sobeys was at 10.32 percent RONW, Delhaize was at 10.16 percent, and Migros was at 7.26 percent. The remaining food companies were all less than seven percent RONW, and former high flyer Ahold continues to struggle with yet another negative number in 2005. All told, this list is dominated by food retailers with 19 of the largest 30.

STRATEGIC PROFIT MODEL RESULTS FOR 2005 FOR SELECTED INTERNATIONAL RETAILERS RETURN ON YEAR-END NET WORTH (RONW)

Company Name	Country	Business Area	Date	Net Sales Millions U.S.	Return on Sales '05	Asset Turnover '05	Return on Assets '05	Financial Leverage '05	Return on Net Worth '05	Return on New Worth '04	Return on Net Worth '03	Return on Net Worth '02
Marks & Spencer	UK	Broadline	Mar-06	\$13,564.10	6.70%	1.50	10.03%	4.49	45.06%	23.92%	22.51%	14.50%
Woolworths Limited	Australia	Food	Jun-06	\$28,668.90	3.90%	2.83	11.03%	3.13	34.58%	35.98%	35.62%	35.70%
Coles Myer	Australia	Food	Jul-06	\$26,254.30	3.40%	3.75	12.74%	2.54	32.34%	16.75%	15.10%	11.37%
Dixon's (DSG International)	UK	Broadline	Apr-06	\$13,513.40	3.90%	1.80	7.02%	2.66	18.68%	16.48%	19.09%	11.96%
Groupe Auchan	France	Food	Dec-05	\$39,797.50	2.87%	1.52	4.35%	3.98	17.29%	9.04%	10.57%	4.97%
Tesco	UK	Food	Feb-06	\$68,701.30	4.01%	1.75	7.02%	2.41	16.89%	15.12%	13.85%	14.47%
Carrefour	France	Food	Dec-05	\$88,226.80	1.93%	1.61	3.11%	4.93	15.31%	18.28%	22.98%	25.01%
Jardine Matheson	China	Food	Dec-05	\$11,929.00	10.44%	0.65	6.75%	2.05	13.87%	17.59%	6.75%	17.27%
George Weston	Canada	Food	Dec-05	\$26,896.90	2.23%	1.69	3.76%	3.64	13.66%	9.77%	17.75%	22.16%
Metro	Germany	Food	Dec-05	\$66,000.00	1.16%	1.94	2.26%	5.41	12.22%	16.72%	11.92%	11.82%
Home Retail Group	UK	Broadline	Mar-06	\$9,652.30	5.64%	1.02	5.77%	1.96	11.28%	na	na	na
Otto Versand (Otto GmbH & Co KG)	Germany	Specialty	May-06	\$17,926.20	1.96%	1.20	2.35%	4.73	11.12%	6.04%	7.60%	13.28%
Sobeys	Canada	Food	Apr-06	\$11,501.10	1.42%	3.58	5.06%	2.04	10.32%	11.30%	10.63%	12.45%
Delhaize	Belgium	Food	Dec-05	\$21,996.40	2.02%	1.78	3.60%	2.82	10.16%	6.29%	5.14%	5.10%
Takashimaya	Japan	Broadline	Feb-06	\$8,510.10	2.14%	1.29	2.77%	3.36	9.31%	7.12%	-1.97%	2.07%
Migros	Switzerland	Food	Dec-05	\$15,495.90	3.43%	1.21	4.17%	1.74	7.26%	1.36%	3.60%	na
Pinault-Printemps (PPR)	France	Broadline	Dec-05	\$21,039.90	3.23%	0.77	2.49%	2.83	7.06%	11.96%	9.34%	21.60%
Coop	Switzerland	Food	Dec-05	\$10,743.40	1.91%	1.26	2.40%	2.44	5.87%	8.23%	8.98%	9.19%
Kingfisher	UK	Specialty	Jan-06	\$14,155.40	2.82%	0.98	2.77%	1.93	5.37%	9.72%	5.21%	6.04%
UNY	Japan	Broadline	Feb-06	\$10,189.60	1.34%	1.26	1.69%	2.63	4.44%	3.18%	4.59%	6.51%
Aeon	Japan	Food	Feb-06	\$37,544.80	0.65%	1.51	0.99%	4.33	4.28%	7.45%	11.55%	12.59%
Daiei*	Japan	Broadline	Feb-06	\$14,339.90	0.27%	1.25	0.33%	11.93	3.95%	nm	16.30%	nm
Seven and I Holdings	Japan	Food	Feb-06	\$33,199.40	2.26%	1.14	2.57%	1.05	2.70%	1.11%	4.71%	5.80%
Fonciere Euris	France	Food	Dec-05	\$65,908.70	0.69%	0.96	0.66%	2.69	1.78%	15.83%	54.27%	11.99%
J. Sainsbury	UK	Food	Mar-06	\$27,938.10	0.36%	1.26	0.45%	3.20	1.45%	1.46%	12.79%	9.09%
El Corte Ingles	Spain	Broadline	Dec-05	\$18,779.50	4.12%	na	na	na	na	na	na	10.88%
Royal Ahold	Netherlands	Food	Dec-05	\$52,223.20	-0.28%	1.74	-0.48%	2.52	-1.21%	-2.12%	-0.02%	-45.89%
Wm Morrison Supermarkets	UK	Food	Jan-06	\$21,409.30	-2.21%	1.67	-3.70%	2.04	-7.54%	5.11%	8.91%	7.60%
Coop Norden	Sweden	Food	Dec-05	\$11,242.90	-1.01%	4.38	-4.41%	3.66	-16.12%	0.77%	-5.01%	na
Karstadt Quelle	Germany	Broadline	Dec-05	\$18,767.60	-2.49%	1.73	-4.32%	31.50	-136.23%	-263.31%	6.29%	9.70%

*excludes unusual restructuring income

These data were compiled by Professor Lawrence J. Ring with the assistance of Gregory Higgins MBA '07, research assistant.

Among broadline retailers, after Marks & Spencer and Dixon's came Home Retail Group (which was part of GUS) at 11.28 percent RONW, Takashimaya at 9.31 percent, up from last year (maybe Japan is finally improving), and Pinault-Printemps at 7.06 percent, down from 11.96 percent in 2004.

In addition to Royal Ahold, Morrisons, Coop Norden, and Karstadt Quelle also suffered negative returns on net worth for 2005. Karstadt Quelle appears to be in the worst shape of the bunch.

Overall, 15 of the 28 listed companies for which data were available had a higher RONW in 2005 than 2004. Also, it remains the case that, in general, the largest international retailers carry significantly more leverage than do their U.S. counterparts. Despite lower levels of leverage, the U.S. retailers appear to be more profitable than their foreign counterparts. Our U.S. list shows 12 companies with a RONW of greater than 20 percent, while the international list contains just three companies with that kind of performance.

Growth Strategies: When You Run Out of Runway, What Then?

LAWRENCE J. RING, CHANCELLOR PROFESSOR AND EMBA ALUMNI
DISTINGUISHED PROFESSOR OF EXECUTIVE EDUCATION

JOHN S. STRONG, CSX PROFESSOR OF FINANCE AND ECONOMICS,
THE COLLEGE OF WILLIAM AND MARY

In recent years, as both domestic and international retailers have grown and matured and, in many cases, consolidated, a persistent question we often hear is, "How do I continue to grow once I have filled up my natural space?" This is particularly true for destination "big box" retailers that rely on relatively large trade areas to thrive. Eventually, market saturation becomes a fact of life and new avenues must be pursued to sustain the growth.

What follows are a few case histories and an attempt to draw some conclusions based on these examples. Some of these histories reflect very successful transitions, and some do not; we present the good, the bad, and the ugly. The first three examples include Sears, Kmart, and Wal-Mart, each in its time the largest retailer in the world.

SEARS

Thought to be nearing saturation in 1980, Sears was the then largest retailer in the world.

Prior Actions:

- Went international (Canada, Mexico, South America)
- Added credit business
- Diversified into insurance

Subsequent Actions:

- Diversified into financial services (brokerage, real estate, home mortgage, credit card, etc.)
- Made retail acquisitions (Orchard Supply, Lands End, etc.)
- Tried to expand Services business (more acquisitions)
- Tried organic growth (Homelife furniture, The Great Indoors (TGI), Sears Hardware, etc.)
- Went online with sears.com

Subsequent Results:

- Sold or exited Mexico and South America
- Sold credit business to Citibank
- Spun off or sold all other financial services businesses
- Looking to divest remaining retail acquisitions
- Services business never gained momentum
- Homelife died, TGI is dying, and Sears Hardware is struggling
- Sears was sold to the remnants of Kmart, newly emergent from bankruptcy

KMART

Thought to be nearing saturation in 1986, Kmart was the largest retailer in the world.

Prior Actions:

- Went international (Canada, Australia)
- Experimented with food services

Subsequent Actions:

- Made retail acquisitions (Walden Books, Builders Square, Sports Authority, Office Max, Borders Books, Pace Warehouse Membership Club, etc.)
- Added brands (Jaclyn Smith, Martha Stewart, etc.)
- Tried to expand internationally (Mexico, Singapore, Eastern Europe)
- Developed supercenters

Subsequent Results:

- Sold or exited all international businesses
- Spun off or sold all retail acquisitions

EVENTUALLY, MARKET SATURATION BECOMES A FACT OF LIFE AND NEW AVENUES MUST BE PURSUED TO SUSTAIN THE GROWTH.

- Declared bankruptcy 2002, significantly downsized
- Emerged from bankruptcy, sold stores, slashed spending, accumulated cash, and merged with Sears
- Began turning some Kmart stores into Sears Essentials but then abandoned that nameplate. Some limited experimentation with Sears Grand format.
- Refocusing efforts on extending Sears brands into Kmart locations
- Making major efforts on improving capital productivity and gross margin, with significant negative effects on sales trends

WALMART

Thought to be nearing saturation in 1994, Wal-Mart remains the largest retailer in the world.

Prior Actions:

- Went international (Canada, Mexico)
- Experimented with food (hypermarket USA, early supercenters)
- Added warehouse clubs (Sam's Club)

Subsequent Actions:

- Made retail acquisitions to enter more international markets (UK, Germany, Brazil, Japan, Korea, Argentina, Indonesia, etc.)
- Tried more international (China and Latin America, as well as investigating Russia and India)
- Developed and rapidly grew supercenters
- Developed neighborhood markets
- Cobranded credit card

Subsequent Results:

- Still in all international markets except Indonesia, Germany, and Korea
- Management facing major human resource challenges

- Refocusing attention on store (especially supercenter) performance, with major efforts on store refurbishments and improvements to shopping experience
- Remains the largest retailer in the world by a factor of four

Among other "big box" retailers, we also examine Best Buy, Office Depot, Toys 'R' Us, and Costco.

BEST BUY

Thought to be nearing saturation in 1997, Best Buy is the largest home electronics retailer in the world.

Prior Actions:

- Developed the KRAs (key resource areas) to fix their triangle
- Got serious about offering maintenance contracts
- Built bigger stores

Subsequent Actions:

- Made retail acquisitions (Musicland, Magnolia Hi Fi, etc.)
- Went international (acquired Future Shop in Canada, have now announced China)
- Working on small market format
- Introduced Customer Centricity
- Introduced the Geek Squad

Subsequent Results:

- Canada working well
- Musicland a disaster—divested and lost \$700 million
- Moving Magnolia centers within the big stores
- Small market format still a question, but beginning to show better results
- Customer Centricity evolving
- Geek Squad gaining popularity

OFFICE DEPOT

Thought to be nearing saturation in 1997, Office Depot is largest office supply retailer in the world.

Prior Actions:

- Acquired Office Club
- Expanded product line
- Went to Canada
- Licensed ventures in Mexico, Israel, Poland, France, Thailand, and Colombia
- Entered the contract stationery business via acquisition
- Established a business services division

Subsequent Actions:

- Attempted to merge with leading competitor, Staples
- Further International Expansion
- Merged with Viking Office Products
- Launched officedepot.com
- Expanded ecommerce activities

Subsequent Results:

- Merger with Staples disallowed by U.S. Federal Trade Commission
- U.S. store growth mature
- E-commerce becoming the growth engine
- International still growing

TOYS 'R' US

Thought to be nearing saturation in 1980s in the United States, Toys 'R' Us was the largest toy retailer in the country with a nearly 25 percent share.

Subsequent Actions:

- Went International (began in Canada, eventually in 29 countries)
- Developed Kids 'R' Us
- Developed Babies 'R' Us (acquired a similar competitor)
- Launched TRU "Toy Box" stores in Albertsons supermarkets
- Allied with Amazon.com to form toysrus.com

Subsequent Results:

- Closed Kids 'R' Us
- Sales and stock price disappointing for several years
- Sold company to KKR and others and now private

COSTCO

Merged with Price Company in 1993.

Prior Actions:

- Went International (Canada and Mexico)

Subsequent Actions:

- Further International (UK, Korea, Taiwan, Japan)
- Further expansion in United States
- Developed Private Label (Kirkland Signature)
- Developed costco.com

Subsequent Results:

- Now in 37 states
- International now the growth vehicle
- Annual sales per warehouse \$105 million

TESCO HAS TRANSFORMED ITSELF FROM A THIRD-RATE PLAYER IN THE UK GROCERY MARKET TO HAVING THE LARGEST MARKET SHARE.

TESCO

Another example that illustrates a wide variety of actions is British grocery retailer, Tesco.

Tesco has transformed itself from a third-rate player in the UK grocery market to having the largest market share and dominant market position in the core UK grocery market, which was thought to be nearing saturation by 1997.

Prior Actions:

- Major efforts to improve productivity, service, and culture
- Early experiments with "international" in Ireland
- Began to recognize importance and loyalty of key customers and credibility of Tesco brand

Subsequent Actions:

- Developed full array of alternative formats, from hypermarkets to c-stores
- tesco.com becomes largest online grocer in world (>\$1 billion U.S.)
- Nonfood initiative (goal of 50 percent of sales in 10 years), especially with private label
- Major expansion of financial services, telecoms, and retail services with partners
- International expansion with core hypermarket format into targeted countries (Eastern Europe, Turkey, Thailand, Malaysia, China); mix of partners or organic entry
- Announced plans to enter the United States with convenience stores in 2007

Subsequent Results:

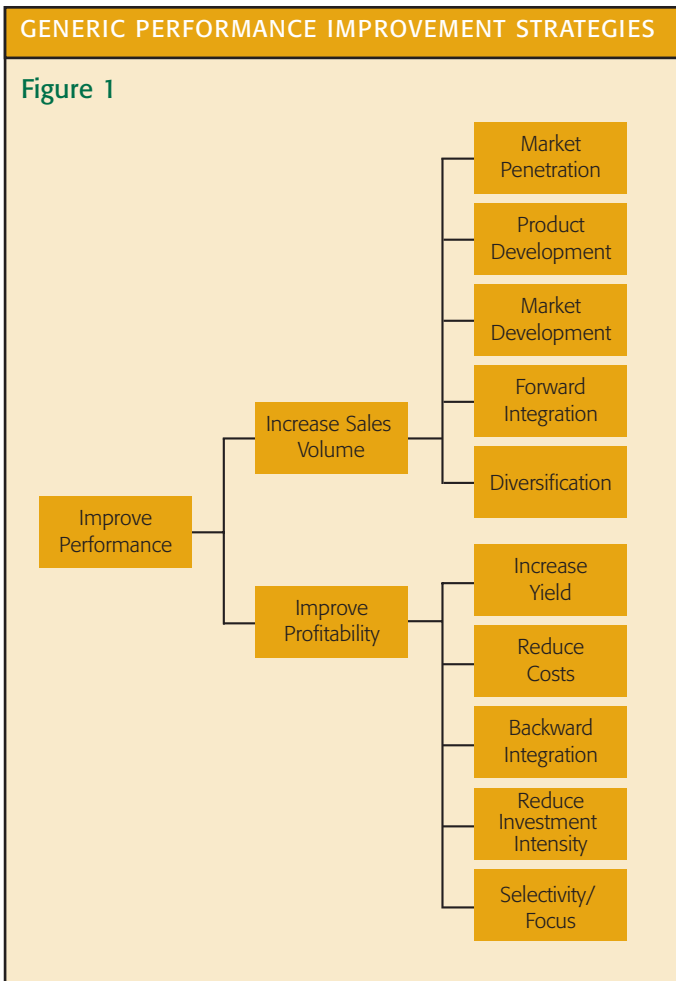
- New businesses since 1997 have more profit than entire group had in 1997
- Alternative formats and product and service extensions well received
- Ten-year goals will not be achieved by 2007, but will be soon after

A Framework for Assessing Growth Strategies

The strategic market-planning literature is replete with references to generic performance improvement strategies. Leaving aside harvesting or divestment strategies, as well as turnaround strategies, the primary focus is performance improvement strategies that emphasize the alternatives to either increasing sales volume or increasing profitability. We believe that most of the activities outlined above across eight chains we have profiled fall into those categories.

There are five primary generic strategies for improving sales performance and five primary generic strategies for improving profit performance. Also, there are second order effects that are not discussed here.

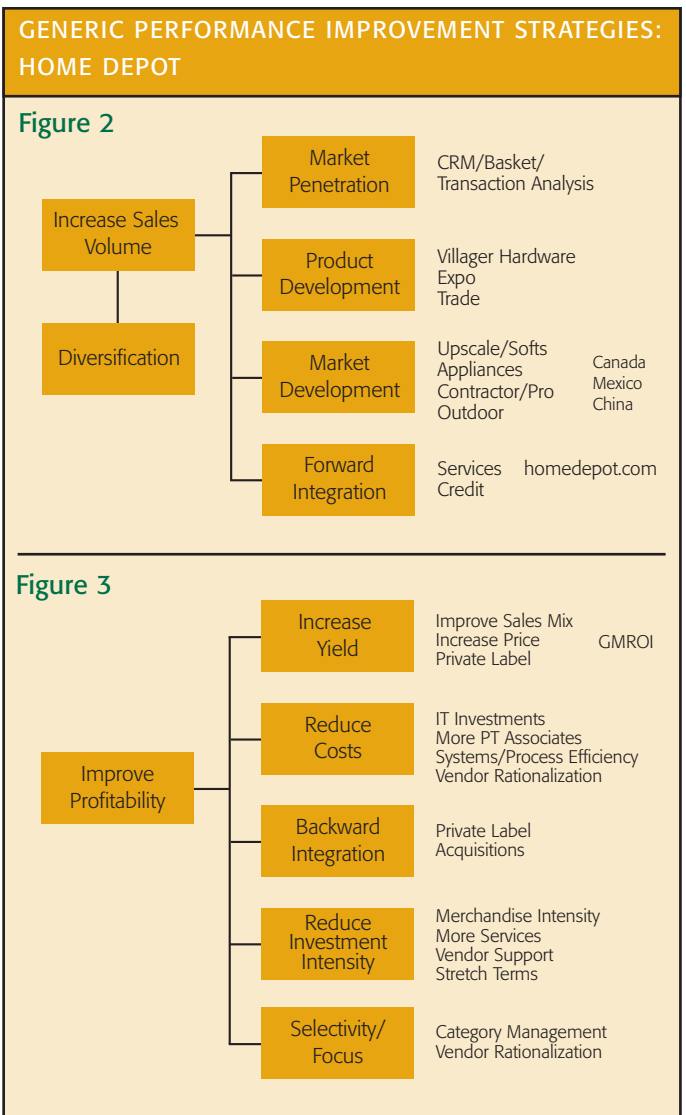
These choices can be summarized as in the figure below:



EXAMPLE: HOME DEPOT

Currently, Home Depot is the second-largest domestic retailer and the third largest in the world. As the company has battled rival Lowe’s, it has increasingly struggled to find the next avenue for growth. Nevertheless, Home Depot so far is on a steeper growth trajectory than Wal-Mart, having reached plateaus of \$10 billion, \$20 billion, etc., up to \$80 billion faster than the Bentonville chain.

As the company nears saturation of the U.S. market, we might classify Home Depot’s activities using the generic strategy schema as follows (See Figures 2 and 3 below):



Runway Lessons

The experience of some of the most successful retailers shows that growth is a continuing challenge. The performance improvement framework above offers a structured way of thinking through alternative strategies. We offer the following lessons of experience when pursuing next generation growth strategies:

- Companies that have retained focus on productivity and performance in their core segment(s) have had the best success in creating new growth options.
- Don't underestimate how hard it is or how much it takes to keep the core strong. A dominant market position means everyone is gunning for you.
- Be clear about what growth means. Are you primarily seeking sales or profit growth? Have a clear understanding that the new initiatives are not likely to deliver the financial performance of your core business, but have clear ideas about key metrics and benchmarks to know if your new plans are working.
- Brand extensions have had some success, but there is a need for a clear sense of where brand authority ends. In this area, market research is essential.
- Too often, companies believe that a strong position in the original core market will translate into other segments. But don't confuse bigger size with better—in many cases there are very good smaller players in the new segments, often with strong customer loyalty and targeted geographic strengths.
- Geographic expansion across borders has been successful in many cases, but slower and harder than anticipated. Internationally, the next farm is better than the next country, as indicated by Wal-Mart's success in Canada and Mexico, and Tesco in Eastern Europe.
- Acquisitions have worked but generally when they are integrated and transformed into the mother ship. While this need not happen immediately, a clear plan needs to be in place (examples include Tesco's joint venture partners and Home Depot's organizational strategy with Home Depot Supply for its trade acquisitions).
- Culture matters. Many of the organization's associates have grown up in the core business with a sense of challenge and growth opportunities, but later have enjoyed

THERE ARE FIVE PRIMARY GENERIC STRATEGIES FOR IMPROVING SALES PERFORMANCE AND FIVE PRIMARY GENERIC STRATEGIES FOR IMPROVING PROFIT PERFORMANCE.

and expected the benefits of a successful position. There is an ongoing need for senior management to set new challenges that capture the imagination of a new generation—to transform them from “employees” to team members eager to play the next game.

2007 PROGRAM DATES

- William and Mary, April 28–May 4
- Monash, May 20–25
- Singapore, June 10–15
- Babson, September 15–21

CONTACT

— Babson College
Babson Park, MA
02457-0310 USA
Phone: 1-800-882-EXEC
or +781-239-4354
Fax: +781-239-5266
E-mail: exec@babson.edu
www.babson.edu/bee

— Lawrence J. Ring, Editor
Chancellor Professor and
EMBA Alumni Distinguished
Professor of Executive Education
The College of William and Mary
larry.ring@mason.wm.edu

INTERNATIONAL PROGRAMS

- If you would like to request a brochure and application for the Australian/Asian programs, please contact:

Mr. Peter Phillips-Rees, Program Director
Australian Centre for Retail Studies
Monash University, P.O. Box 197, Caulfield East
Victoria 3145
Australia
Phone: +613-990-32455
E-mail: ppr323@ozemail.com.au

Babson Executive Education offers a variety of engaging, high-impact programs to help companies and individuals reach their strategic goals:

Consortium for Executive Education

Custom Programs

Open Enrollment Programs

- Bio-Pharma: Mastering the Business of Science
- Coaching Inside the Organization
- Entrepreneurial Strategies for Innovation and Growth
- Leadership and Influence
- Opting In: Women's Leadership at Points of Transition
- Strategic Planning and Management in Retailing

Research Centers

- Process Management
- Working Knowledge
- Innovation and Corporate Entrepreneurship

Visit www.babson.edu/bee for any program changes and updates.



BABSON PARK, MA 02457-0310 USA
PHONE 1-800-882-EXEC OR +781-239-4354 FAX +781-239-5266 E-MAIL EXEC@BABSON.EDU
WWW.BABSON.EDU/BEE/RETAILING