

# Retailing Today

THE CONNECTION TO AMERICA'S LEADING RETAILERS

A LEBHAR-FRIEDMAN® PUBLICATION

ANNUAL

hardlines

# CATEGORY

home &  
housewares

# INDUSTRY

food, hbc &  
consumables

ce &  
entertainment

# CENSUS

# REPORT • PART 2

\$1.46  
trillion

apparel &  
accessories

THE SCORECARD OF THE INDUSTRY'S  
LEADING PRODUCT CATEGORIES  
BY SALES VOLUME

## High-end designers stake their claim at mass

By Kelly Nolan

**A**pparel performance saw its third straight year of growth in 2006, posting a moderate 5.1% sales gain from last year, according to data from The NPD Group. Children's apparel led the industry's growth with an increase of 8.4%. Women's apparel grew 5.2% to nearly \$102 billion. Men's apparel grew just 2.9% to nearly \$55 billion in sales. Overall, the industry brought in \$190 billion in top-line sales last year.

Among the sub-segments that enjoyed the most growth were children's and infants' sets, with 15.1% growth; special infants' wear with 16.3% growth; and intimate apparel with a 9.9% boost.

The "dressing up" trend fueled sales growth in both men's and women's apparel last year, NPD said. The categories of notable growth in women's apparel were dresses and hosiery. Dress sales were up 7% this year, and hosiery sales overall were up 3.4%.

For men, the bottoms category was up 8.5% overall, with pants and slacks (a dressier option) posting 7.2% growth, while jeans posted 5.4% growth. In suiting, NPD reported that the unit volume was up 6.2% for 2006.

"Suits are stronger in the younger men's market," said Marshal Cohen, the apparel industry analyst for NPD. "Younger men are realizing the benefits of dressing up ... 'dress for success' has become 'dress to impress.' ... Men ages 25 to 34 increased their purchases by 13.4%, while men 18 to 24 purchased 11.6% more suits [in 2006] than [in 2005]."

Beyond segment sales, apparel headlines in 2006 were again focused on designer fashion at discount prices. Target began its limited-edition, quarterly GO International program last February, introducing juniors' apparel and accessories collections from a roster of high-end designers including Luella Bartley, Tara Jarmon, Sophie Albou (Paul & Joe) and Behnaz Sarafpour. Target has continued the series this year with collections from Proenza Schouler, which launched in February, and Patrick Robinson, which launched in May. Libertine will be designing a collection that launches this summer, and British designer Alice Temperley will round out the year, with a line launching in the fall.

H&M, who launched one-off collections from Karl Lagerfeld in 2004 and Stella McCartney in 2005, launched a bridal-themed collection from Viktor & Rolf in stores last year. The Swedish fast-fashion retailer, which is continuing to amp up its retail store presence in the United States, said that it will launch a new one-off collection from Roberto Cavalli in select stores this fall. The company topped off last year by announcing a formal partnership with Madonna in December. Her line, M by Madonna, landed in all 1,300 stores in March.

Kohl's made major headlines last August when it announced that it would launch an exclusive better women's sportswear collection by bridal and ready-to-wear designer Vera Wang. The line, which will also include accessories and intimate apparel, will launch in all of Kohl's stores and on its Web site this fall. In addition to apparel, Wang's line will have a major presence in Kohl's home department.

Last fall, Payless Shoesource lined up a deal with designer Laura Poretzky of fashion house Abaeté to design an exclusive shoe collection for select Payless stores, and since then, the company also has secured deals with designer Lela Rose and well-known stylist Patricia Fields, from the television show "Sex and the City."

While many retailers thrived on the excite-

ment brought about by the introduction of their own discount designer brands, others struggled to find the best fit for fashion in their stores. Wal-Mart, for example, started off the year strong with its fashion-forward Metro 7 brand. The line originally launched in 500 stores in fall 2005, but Wal-Mart reported that it sold so well that it had to cut back the number of stores that the line reached from 1,000 to 860 in February 2006.

However, by the holiday season, it was clear that the line had been overextended: Wal-Mart was forced to slash prices drastically on its Metro 7 merchandise in November and December. This year, the company has taken a "back to basics" approach, as it figures out just how far it can push the fashion envelope and what stores, if any, could support a greater presence of fashion apparel.

Macy's Inc. (formerly known as Federated Department Stores) has been having trouble attracting former May Department Store customers back into some 400 newly renovated Macy's doors. Despite initial assertions that the merger of the two companies was going smoothly, the company has recently admitted that, perhaps due to lack of promotions in former May stores, its newest Macy's branded doors have been consistently below sales expectations.

It's too early to tell whether the company's newest designer brand, O Oscar, has made any traction. The company launched the line in just 150 Macy's doors in February. However, the line is a relaunch of a failed more moderate line, also called O Oscar, that was made for May Co. stores and sold for only two seasons, in fall 2004 and spring 2005. The relaunched line could expand to 350 Macy's doors—if it performs well.

Although neither Sears nor Kmart launched any designer brands last year or this year, both companies showed improvement in soft good sales last year, according to Sears Holdings chairman Eddie Lampert.

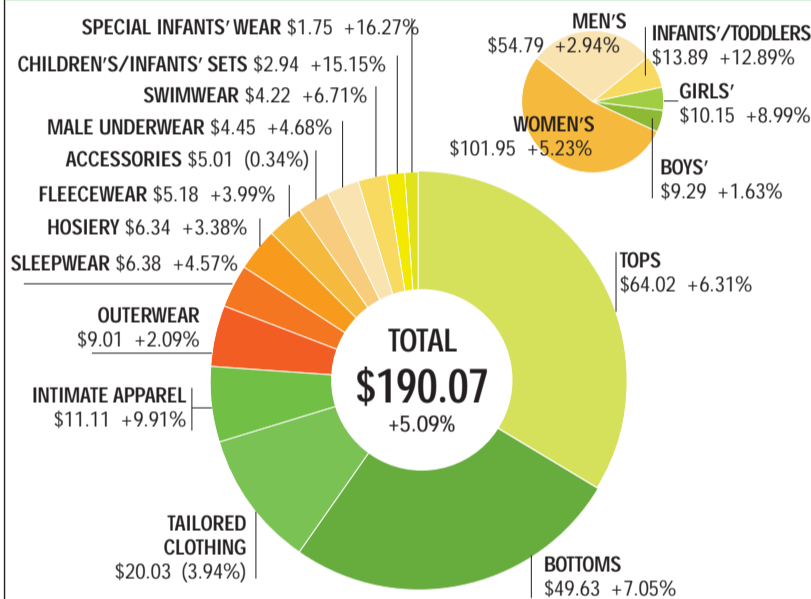
"The apparel businesses at both Kmart and Sears also showed continued improvement," Lampert wrote in his shareholders letter in March. "Kmart is further along in partnering with our sourcing and design groups, and we believe that we have improved our offering ... Sears' apparel has turned around the decline that occurred in 2005 when it moved away from the styles our customers wanted to buy."

JCPenney continued to make headlines in apparel last year, although it, too, did not launch any new designer brands. Instead, the company focused largely on its exclusive national and proprietary offerings. For example, the retailer reinvented its beauty business by launching boutique store-in-store shops with leading beauty retailer Sephora. JCPenney revamped its intimates business with a new in-house apparel brand, called Ambrielle, designed to go head-to-head with intimate apparel specialty retailers like Victoria's Secret. Penney's also announced a major store-wide partnership with Polo Ralph Lauren for a new line called American Living, which will land in all stores this fall. ■

### Apparel & Accessories

2006 RETAIL SALES BY SUB-SEGMENT

FIGURES IN BILLIONS, % CHANGE OVER PREVIOUS YEAR



Source: The NPD Group/Consumer Tracking Service

### Top Volume Leaders (SALES IN MILLIONS)

CHAIN	2006	2005	% CHG.
Wal-Mart	\$31,379 <sup>e</sup>	\$29,387 <sup>e</sup>	6.78%
Macy's Inc. <sup>1</sup>	23,954 <sup>e</sup>	19,886 <sup>e</sup>	20.46
Gap Inc.	13,552 <sup>e</sup>	13,620 <sup>e</sup>	(0.50)
Sears Holdings Corp.	10,072 <sup>e</sup>	10,310 <sup>e</sup>	(2.31)
JCPenney	11,623 <sup>e</sup>	10,330 <sup>e</sup>	12.52

### Top Specialists (SALES IN MILLIONS)

CHAIN	2006	2005	% CHG.
TJMaxx/Marshalls	\$11,532	\$10,957	5.25%
Old Navy	6,484	6,588	(1.58)
Foot Locker <sup>2</sup>	5,750	5,653	1.72
Ross Stores <sup>3</sup>	5,570	4,944	12.66
Victoria's Secret	5,139	4,448	15.54

ALL FIGURES FOR U.S. OPERATIONS ONLY, UNLESS OTHERWISE NOTED

Source: Top Volume and Specialists data compiled from company reports, analysts' estimates and Retailing Today research. ( ): Decline or loss e: estimate

<sup>1</sup> Federated Department stores changed its name to Macy's Inc. as of June 1

<sup>2</sup> Figures incl. all company banners

<sup>3</sup> Figures incl. Ross and dd's Discount banners

**WHILE MANY RETAILERS THRIVED ON THEIR OWN DISCOUNT DESIGNER BRAND INTRODUCTIONS, OTHERS STRUGGLED TO FIND THE BEST FIT FOR FASHION IN THEIR STORES.**

## Evolving preferences remodel what is viewed as 'home'

By Mike Duff

**H**ome retailing may have reached a crossroads. New consumer priorities seem to be shifting business, with one consequence being consumer migration from the specialty to the broadline sector of the market.

Although Bed Bath & Beyond had the largest percentage gain among Top 5 sector retailers in *Retailing Today's* Annual Industry Category Census, broadliners other than Sears made significant gains. In percentage terms, Target's gain was almost as large as that of the specialty leader, and in dollar terms, it was larger. Wal-Mart's percentage gain was smaller than any retailer in the Top 5, except

Sears, but again, in dollar terms, the retailer's gain outstripped that of the other leaders by hundreds of millions of dollars.

Broken down by categories, and based on The NPD Group figures, personal care appliances had the greatest—and only double-digit—sales gain, followed by kitchen appliances and housewares. Home environment appliances and home textiles suffered falling sales, although the result may reflect price rather than unit volume erosion.

A number of trends seem to have converged on the home business, but, clearly, consumers aren't spending as lavishly on their homes as they have in the recent past. Recent retail developments indicate that macroeconomic trends are causing an impact. Financial performances, even from home retailers such as Bed Bath & Beyond and Williams-Sonoma who have previously managed economic difficulties, have been affected. So have product initiatives, as exemplified by Macy's Inc.'s decision to drop a merchandising program for its soon-to-launch Martha Stewart line that involved a partnership with a home builder. The decision is further evidence that fewer home sales have led to softening demand for home goods.

Yet, it isn't just the real estate market that is having an impact on home furnishings and housewares. The expansion of broadliners and the programs they've launched in their home departments have had a significant effect, whether as a specific case, as in the expansion of Global Bazaar at Target, or more generally, as in Wal-Mart's years long effort to improve styling and construction in domestics. On top of that, warehouse clubs, home centers and supermarkets have engaged in product, department and format initiatives designed to compete for those parts of the home goods business that are compatible with their own operations.

Still, influences extend beyond the real estate market and competition. "You might even add a third factor," said Wedbush Morgan analyst Joan Storms. "I'm not feeling so good about the consumer overall these days, whether it's higher gas prices or interest rates or whatever."

The consumer is part of that shifting macroeconomic environment as well. Christopher Lowell, the interior designer, author and Discovery Channel television host, is convinced that retailers need to rethink their approach to the consumer as part of a response to the changing environment.

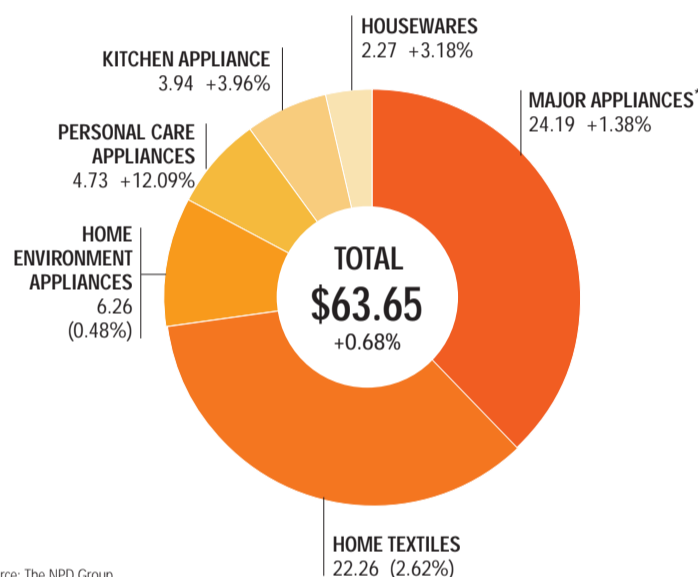
Lowell, who has developed product lines for Office Depot and Jo-Ann Stores and who is a consultant to boutique hotel chains and other corporate clients, has long insisted that retailers need to pay more attention to men's tastes in home goods. And the success of more modern styles and solid colors over the past half decade suggest that his analysis of the market—which concludes that men are having a greater impact on a home's decor even if the buyer is usually a woman—has been on track.

He suggests that cocooning and Sept. 11 both have influenced the marketplace, but that today we're seeing a new phase of development.

Consumers now view their homes as lifestyle

### Home&Housewares

2006 RETAIL SALES BY SUB-SEGMENT  
FIGURES IN BILLIONS, % CHANGE OVER PREVIOUS YEAR



Source: The NPD Group  
\* Excludes room air conditioners and wine coolers

#### Top Volume Leaders (SALES IN MILLIONS)

CHAIN	2006	2005	% CHG.
Wal-Mart	\$33,122 <sup>e</sup>	\$31,470 <sup>e</sup>	5.25%
Target	\$11,303 <sup>e</sup>	9,998 <sup>e</sup>	13.05
Sears	\$ 7,516 <sup>e</sup>	7,651 <sup>e</sup>	(1.76)
Bed Bath & Beyond	\$ 6,617	5,810	13.89
JCPenney	\$ 3,283 <sup>e</sup>	3,098 <sup>e</sup>	5.97

#### Top Specialists (SALES IN MILLIONS)

CHAIN	2006	2005	% CHG.
Bed Bath & Beyond <sup>1</sup>	\$6,617	\$5,810	13.89%
Williams-Sonoma <sup>2</sup>	3,728	2,695	4.60
Linens 'N Things	2,819	13,867	(1.78)
IKEA U.S.	2,750 <sup>e</sup>	2,096 <sup>e</sup>	31.20
Pier 1 Imports	1,623	1,777	(8.67)

ALL FIGURES FOR U.S. OPERATIONS ONLY, UNLESS OTHERWISE NOTED

Source: Top Volume and Specialists data compiled from company reports, analysts' estimates and *Retailing Today* research. ( ) : Decline or loss e: estimate

† Excludes room air conditioners and wine coolers

1 Figures incl. Bed Bath, Christmas Tree Shops and Harmon stores

2 Figures incl. all company banners, retail and outlet

stages, spaces built around socializing and functionality. Consumers are increasingly taking the comforts and amusements they have been enjoying outside the home, whether they involve fine meals, spa visits or boutique hotel visits, and making an investment to bring them into their own living spaces.

In his work with Jo-Ann, Lowell developed outdoor fabrics that coordinate with indoor pieces for people who have created transitional environments that extend living spaces from the home to deck or yard. After all, the consumer who has made an investment in an expensive grill and outdoor furniture set may well want to express the same tastes in the outdoor setting as the indoor.

Working with Jo-Ann Stores grants the opportunity to do things inexpensively. Consumers have become more trend-oriented, and as they become interested in new cultural and social developments—grilling Thai-style seafood, for example, rather than burgers—they increasingly want to outfit a meal in an authentic way. So, they may dress the table with Asian-inspired dishware and linens. But they'll swap out items for new ones as trends evolve and, reluctant to spend too much on any one style, may purchase those square plates they seek at Target.

As with food trends, developments in electronics are having an impact on the home. Once, people spent a lot of time and money purchasing living room furniture, then went out to purchase a television that fit the furniture. Now, many people spend a lot of time and money purchasing and installing a flat-panel TV, then run out to purchase furniture that fits the TV.

Lowell, who four years ago began his program at Office Depot around the idea of creating home office furniture that matched consumer lifestyles, said the home office also has fundamentally changed with electronics trends. As laptops have begun to become the preferred computer format and Wi-Fi has become prominent, people don't necessarily want to be confined to a desk anymore. Now, they need office furniture that acts as a base for support functions. He hinted that this notion would be behind a future update of his Office Depot collection.

In the emerging consumer environment, a broadliner may have an advantage. In the 1990s, discounters had a hot streak going with home office furniture as consumers looked for an inexpensive place to house computers they had just laid out big bucks to purchase.

From a broader perspective, consumers who purchase critical lifestyle items at a broadliner or even at a nearby specialist may well turn to the broadliner's home section for a place to house or at least store their new possessions.

Adaptation to outside trends has been a critical process and has changed the nature of the storage business, which has adjusted as consumers began looking for dedicated products, whether they needed DVD storage or a cooler that suited the deck. What's happened in storage might prove indicative of what will happen to a market that today confronts a generation of consumers who aren't attracted to traditional living patterns. ■

**CONSUMERS NOW VIEW THEIR HOMES AS LIFESTYLE STAGES, SPACES BUILT AROUND SOCIALIZING AND FUNCTIONALITY.**

## Electronics' continued rise music to industry's ears

By Doug Desjardins

**C**onsumer electronics sales continued their relentless rise in 2006, with sales increasing more than 10% and showing no signs of letting up. Sales last year were driven by big gains in flat-panel TVs, mp3 players and emerging sectors like GPS satellite systems and smart phones—areas that should continue to drive growth in 2007.

The largest gains last year were made in LCD and plasma TVs, which accounted for the bulk of sales in the \$29 billion TV/DVD/camcorder category. And, they'll officially enter the mainstream this year when plasma and LCD sets outsell standard

TVs for the first time.

The only downside to the sales boom has been price erosion, with prices on average dropping nearly 30% in 2006 and continuing to fall in 2007.

"I think you'll continue to see high rates of growth again this year, though the industry doesn't expect prices to erode the way they did last year," said Stephen Baker, vp of industry analysis for The NPD Group. "Things should be more stable and I don't think you'll see a repeat of the price cuts at retail we saw in 2006."

Those rapidly falling prices had some unexpected consequences. The price wars of 2006—driven mainly by Wal-Mart's strong move into the market—ruined margins for retailers like Circuit City, which laid off 3,400 workers in March due in large part to lower-than-expected margins on TV sales during the holidays.

Price erosion also was partly responsible for Tweeter's decision to close 49 stores and file for Chapter 11 bankruptcy in early June. Affected to a lesser degree was Costco, which adopted a new, 90-day return policy on consumer electronics in response to customers returning TVs after one or two years and trading up to newer models at lower prices.

Portable audio was another growth area, with a 4.2% increase in sales of \$11.4 billion last year. Apple continued to lead the way by grabbing 72% of the mp3 market, with more than 100 million iPods sold since the format launched nearly six years ago. Attempting to stake a claim in the mp3 sector, newcomer Microsoft celebrated a lesser milestone in June with the sale of its one millionth Zune player.

NPD industry analyst Ross Rubin says Microsoft has shown it knows how to sell its products and build market share and that there's no reason to expect it won't duplicate its past successes with Zune. "The company has an excellent track record in making gains in market share in successive years with new products," said Rubin. "And, they have the resources and the expertise to carve out a bigger share of the [mp3] market during the next few years."

After making a soft entry into the market last year, smartphones are expected to make a splash in 2007, on the heels of a media blitz orchestrated by Apple for the June 29 debut of the iPhone. Apple expects to sell up to 10 million units during its first year on the market, pressuring rivals like the Motorola Q and Samsung Blackjack—which had a six month head start—to keep pace.

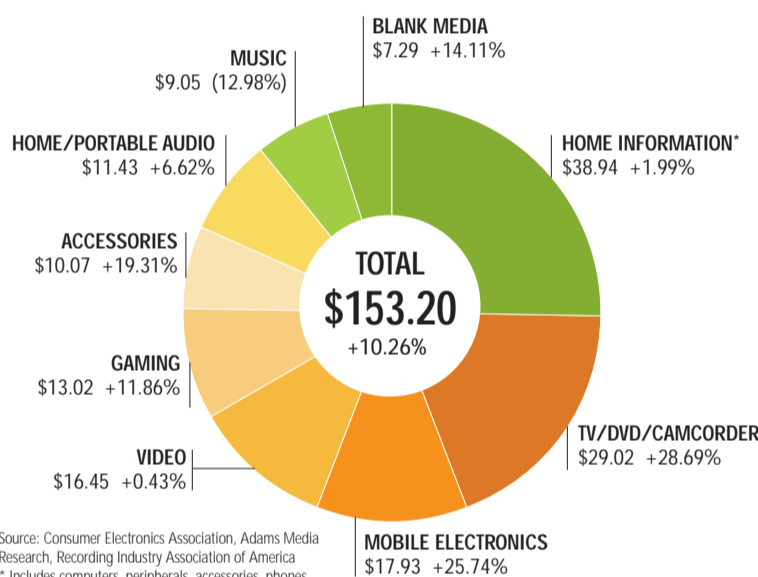
"It's almost a given that Apple will sell through its entire supply of iPhones during its first six months on the market," said Baker. "And, there's no doubt smartphones in general will see strong sales this year."

The home technology sector continued to slow down with a mere 2.1% increase in sales last year as computer sales leveled off along with printers and accessories. Signs of the slow-

### CE&Entertainment

#### 2006 RETAIL SALES BY SUB-SEGMENT

FIGURES IN BILLIONS, % CHANGE OVER PREVIOUS YEAR



Source: Consumer Electronics Association, Adams Media Research, Recording Industry Association of America  
\* Includes computers, peripherals, accessories, phones and answering machines

#### Top Volume Leaders (SALES IN MILLIONS)

CHAIN	2006	2005	% CHG.
Best Buy <sup>1</sup>	\$35,934	\$30,848	16.49%
Wal-Mart	23,460 <sup>e</sup>	20,881 <sup>e</sup>	12.35
Circuit City	12,430	11,514	7.96
Dell <sup>2</sup>	8,009	7,930	1.00
Target	7,213 <sup>e</sup>	6,315 <sup>e</sup>	14.22

#### Top Specialists (SALES IN MILLIONS)

CHAIN	2006	2005	% CHG.
Best Buy <sup>1</sup>	\$35,934	\$30,848	16.49%
Circuit City	12,430	11,514	7.96
Dell <sup>2</sup>	8,009	7,930	1.00
Blockbuster	5,524	5,721	(3.44)
GameStop <sup>3</sup>	5,319	3,092	72.02

ALL FIGURES FOR U.S. OPERATIONS ONLY, UNLESS OTHERWISE NOTED

Source: Top Volume and Specialists data compiled from company reports, analysts' estimates and Retailing Today research. ( ) : Decline or loss e: estimate

1 Figures incl. U.S., Canadian and China operations as well as Future Shop, Pacific Sales Kitchen & Bath, Five Star, Magnolia, Geek Squad and online revenues

2 Figures based on preliminary company guidance due to delayed SEC filing

down were evident at retail this spring when CompUSA closed 126 of its 229 stores, due in part to lackluster sales and tough competition from mass retailers.

Other sectors have been burdened by slumping sales as well. Music retailers watched their fortunes continue to sink in 2006 with CD sales dropping more than 13% to \$9.05 billion with the ongoing migration to digital downloads and its lower prices taking a toll.

The primary casualty in music retail in 2006 was Tower Records, which shut down last October after 45 years in business. Trans World Entertainment, which operates mall-based stores like MusicLand and Sam Goody, is maneuvering to avoid a similar fate by cutting back on CD inventory and bulking up its DVD sections.

But that move probably won't provide the same return it would have a few years back considering that DVD sales rose less than 1% to \$16.45 billion last year and could actually drop this year. Digital downloads are partly to blame—though they account for less than 5% of the market—and lower prices didn't help either.

Meanwhile, high-definition DVD continues to limp its way into retail, hampered by the ongoing format war between Blu-ray and HD-DVD, and confusion among consumers. To date, less than 300,000 players have been sold at retail, though the installed base tops 1 million if the Blu-ray-enabled PlayStation 3 and HD-DVD peripheral drive for Xbox 360 are included in those numbers.

The one bright spot is that player prices are coming down—now at \$299 for HD-DVD and \$499 for Blu-Ray—and several individual titles like "The Departed" have exceeded 100,000 units in sales. Plus, prices should drop even further during the holiday season and into early 2008, at which point a clear winner is likely to emerge.

On the upside, video gaming is expected to post huge gains this year after increasing 9.2% to \$13 billion in 2006. Prices are already dropping on next-generation players like the PlayStation 3 and Nintendo Wii and publishers are releasing dozens of new games for those consoles along with Xbox 360 and portable systems like Nintendo DS, GameBoy and the PlayStation Portable.

"The growth has been slow so far because there still aren't that many games on the market for next-generation consoles," said David Cole, president of research firm DGC Intelligence. "But, that will change when publishers really start releasing games this summer and fall." ■

**THE ONLY DOWNSIDE TO THE SALES BOOM IN CONSUMER ELECTRONICS HAS BEEN PRICE EROSION, WITH PRICES ON AVERAGE DROPPING NEARLY 30% IN 2006 AND CONTINUING TO FALL IN 2007.**

## It's traditional versus alternative as regional, national lines blur

By Mike Duff

**A** recent magazine article suggested that consumer packaged goods companies were scrambling to find alternative growth vehicles after Wal-Mart announced that it would scale back supercenter growth. But lamenting Wal-Mart's demise as a market driver in food is quite premature, as a close look at the numbers in *Retailing Today's* latest Annual Industry Category Census will tell you.

For starters, the article failed to quote a single CPG producer as saying that Wal-Mart was becoming less relevant to growth plans. Rather, it cited only a single consultant, who believed that it was preferable for major suppliers to pursue food retailers such as Costco, Target, Kroger and Supervalu over Wal-Mart. Given their growth, though, it would be more surprising to discover that the suppliers were solely fixated on Wal-Mart and weren't pursuing opportunities with those food retailers.

Shaking a head or fist at Wal-Mart is an easy way to garner attention, but the fact of the matter is, Wal-Mart continues to dominate food retailing, and its growth outstrips anything in the market. Even by scaling back to between 190

and 200 new supercenters, as this year's plans now call for, Wal-Mart will annually open as many supercenters as Target operates in total. With 200 new supercenters, the new stores alone will generate somewhere around \$15 billion in sales, which would land them at No. 24 on *Retailing Today's* Top 150 Annual Industry Report list. In other words, those 200 supercenters will constitute a larger food retailing entity than HEB, Wakefern or Albertsons.

It should be noted, when Wal-Mart's management announced that it would scale back supercenter expansion, they shook up the retail community considerably, even temporarily driving up shares of supermarket stocks.

Still, the scope of the reaction seems some-

what exaggerated. Wall Street had, after all, been after Wal-Mart to pay more attention to measures that might boost the bottom line as a step toward bolstering an anemic performance by its shares. So, some action to leverage capital resources as a means of improving returns, productivity and sales from its stores in the United States can be regarded as consistent with market expectations and, as Wal-Mart's management might anticipate, should rally analysts and investors around the stock. In October, Wal-Mart said it would open between 265 and 270 supercenters over the course of the current fiscal year, only to later scale that back to between 190 and 200. Over the next three years, Wal-Mart now says, it plans to open about 170 supercenters annually—a considerable number even if it is fewer than originally planned.

At the company's annual meeting, Eduardo Castro-Wright, president and ceo of Wal-Mart Stores U.S.A., said that the retailer intended to pursue high-return opportunities "by focusing on markets where our customer segmentation approach offers the best opportunity to cre-

ate a more competitive position for Wal-Mart and drive higher comparable-store sales. In addition, our U.S. plan includes a variety of initiatives designed to improve labor productivity and enhance margins."

If new tactics prove effective, Wal-Mart may have fewer supercenters than anticipated come October, but it also may become an even more effective competitor in the 4,000 units it currently operates. Wal-Mart's prowess in distribution and data management remain the standard for the industry. Even if Wal-Mart is opening fewer supercenters, the number of those units operating in the United States and, now, Canada, continues to grow.

In the United States, Target surpassed Meijer as the second-largest supercenter operator this year, although both chains continue to add combination units. Target's grand opening schedule for this year—with 30 to 35 supercenters slated to bow—will put more SuperTarget units into operation than any other before it, Target Stores president Gregg Steinhaffel noted in a conference call earlier this year.

Now operating about 180 supercenters (with its first

California SuperTarget preparing to open), Target also is gaining operationally by preparing its first-ever food distribution center in Florida, which should be up and running next summer. Long-time food distribution partner Supervalu will have a hand in steering it.

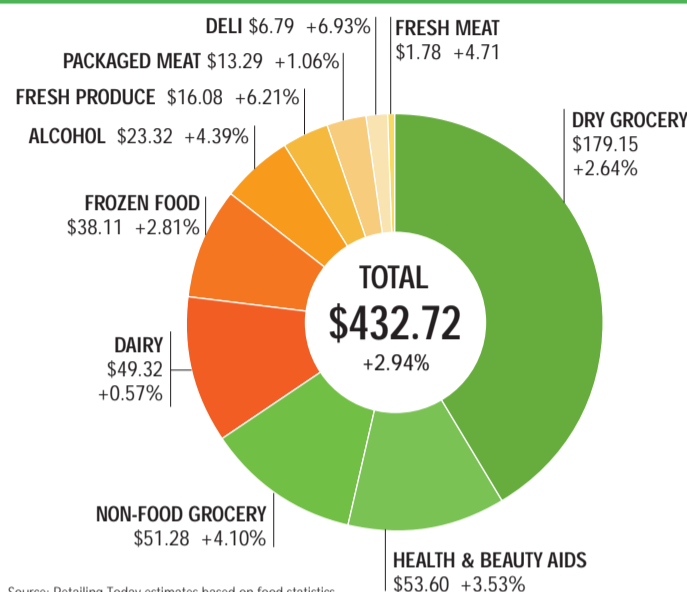
To put developments in the supercenter market in perspective, Meijer, with 176 supercenters, is the 24th largest retail chain in the United States by sales, according to *Retailing Today* estimates, while SuperTarget, as an independent entity, would rank at about 30. Only six supermarket operators—Delhaize America, Publix, Safeway, Ahold U.S., Supervalu and Kroger—generate higher sales than Meijer, and only seven (the six noted plus HEB) garner greater revenues than SuperTarget.

Meijer has become the most intense innovator among the supercenter operators, as evidenced this May with the opening of its first LEED certified "green" unit in Allen Park, Mich. The Allen Park unit uses construction and landscaping techniques to make it more environmentally friendly. The store serves as a good

see FOOD

## Food, HBC & Consumables

2006 RETAIL SALES BY SUB-SEGMENT  
FIGURES IN BILLIONS, % CHANGE OVER PREVIOUS YEAR



Source: Retailing Today estimates based on food statistics from ACNielsen for the 53-week period ended 12/31/06

ALL FIGURES FOR U.S. OPERATIONS ONLY, UNLESS OTHERWISE NOTED

( ) : Decline or loss

e: estimate

## Food | CONTINUED

### Top Volume Leaders (SALES IN MILLIONS)

CHAIN	2006	2005	% CHG.
Wal-Mart	\$111,370 <sup>e</sup>	\$101,944 <sup>e</sup>	9.25%
Kroger	\$ 57,712 <sup>e</sup>	\$53,472 <sup>e</sup>	7.93
Supervalu	\$ 37,406	34,763 <sup>e</sup>	7.60
Safeway	\$ 34,721 <sup>e</sup>	33,569 <sup>e</sup>	3.43
Costco	\$ 26,172 <sup>e</sup>	25,831 <sup>e</sup>	1.32

ALL FIGURES FOR U.S. OPERATIONS ONLY, UNLESS OTHERWISE NOTED

Source: Top Volume data compiled from company reports, analysts' estimates and *Retailing Today* research.

( ): Decline or loss

e: estimate

### Top Specialists: Supermarkets

CHAIN	2006	2005	% CHG.
Kroger	\$54,446 <sup>e</sup>	\$49,759 <sup>e</sup>	9.42%
Safeway	40,185	38,416	4.60
Supervalu Supermarkets <sup>1</sup>	28,016 <sup>e</sup>	10,635 <sup>e</sup>	163.43
Ahold U.S. <sup>2</sup>	22,437 <sup>e</sup>	22,547 <sup>e</sup>	(0.49)
Publix	21,655	20,589	5.18

### Top Specialists: Supercenters

CHAIN	2006	2005	% CHG.
Wal-Mart Supercenters	\$189,544 <sup>e</sup>	\$158,600 <sup>e</sup>	19.51%
Meijer	14,100 <sup>e</sup>	14,020 <sup>e</sup>	0.57
SuperTarget	10,234 <sup>e</sup>	8,430 <sup>e</sup>	21.40
Fred Meyer/Marketplace	7,721 <sup>e</sup>	7,239 <sup>e</sup>	6.66

ALL FIGURES FOR U.S. OPERATIONS ONLY, UNLESS OTHERWISE NOTED

Source: Top Specialists data compiled from company reports, analysts' estimates and *Retailing Today* research.

( ): Decline or loss

e: estimate

<sup>1</sup> 2005 figures do not reflect Albertsons acquisition

<sup>2</sup> Figures calculated as \$1 = Euro 1.3173

testing ground for the company in terms of deciding how to incorporate energy-saving measures and other green elements at new and renovated stores, Mark Murray, the company's president, told *Retailing Today*. Meijer, for the time being, plans to leverage investments it has made in existing markets, including Chicago, Cincinnati and Detroit, in the immediate future, keeping its grand opening schedule modest for next year, but picking up the pace as the decade closes.

Developments in food retailing could spell big trouble for traditional supermarket operators that lack deep pockets. Research has shown that supercenters tend to drive out food retailers who have fewer economic resources than their competitors in a given market. The trouble is a lot of superior food retailers are gunning for the edibles market share and are specifically aiming at weak supermarket operators.

Despite changes in top management, warehouse club operator BJ's has rededicated itself to winning market share from supermarket operators by creating leaner, more focused operations. In the meantime, Sam's Club has backed away from its

emphasis on the business customer to target the broader consumer landscape. (It even started to make its own cookies!) And Costco, already formidable in many ways, has inked a deal with Martha Stewart for a co-branded product line linked to its Kirkland private label. The move isn't a departure but rather represents another take on a popular program that already includes a Newman's Own line.

Costco is hard at work trying to gauge and address evolving food trends on a regional and national basis. For example, it has added items like Brazilian and Egyptian green grapes to its expanded produce operation. Costco has developed more elaborate walk-in cold storage for produce items, as well, to make the department more attractive to its generally affluent membership. Additionally, Costco has developed packages that allow its members to isolate more convenient serving sizes from its bulk packages, to make using the products it sells more convenient for everyday occasions.

Yet, despite changes in the marketplace, major supermarket chains, particularly those that have adapted to

the changing marketplace, are just as big a threat to their counterparts—particularly smaller regional and local operators—as are alternative food retailers. Kroger has been particularly dynamic and has developed and begun rolling out a variation on its standard Ralph's stores dubbed Fresh Fare. In mid-June, it opened its latest 54,000-square-foot Ralph's Fresh Fare in Irvine, Calif., to offer that community, the company stated, the finest food products, most innovative retail features and customer-friendly service. This, in a market where Safeway has been enjoying success with its Lifestyle stores; where Supervalu seems poised to make a major investment to bring its Albertsons Southern California division in line with its well-regarded Jewel and Shaw's businesses; and where Tesco is poised to open Fresh & Easy, a convenience-oriented grocery operation that many observers believe represents the first phase in a larger plan by the British company to develop multiple formats in Southern California. ■

# CATEGORY CENSUS

ANNUAL • INDUSTRY • REPORT • PART 2

## Hardlines

2006 RETAIL SALES BY SUB-SEGMENT  
% CHANGE OVER PREVIOUS YEAR,  
FIGURES IN BILLIONS

OFFICE SUPPLIES	\$333.00	3.10%
HARDWARE/DIY	152.65	8.99
AUTOMOTIVES	58.33	2.89
SPORTING GOODS	52.12	3.52
TOYS	22.30	0.45

**TOTAL \$618.40**  
+4.41%

## As U.S. economy goes, so goes hardlines sector

By Mike Troy

**S**olid growth was seen across the board in 2006 for the wide range of businesses that fall under the umbrella of hardlines, according to *Retailing Today's* Annual Industry Category Census.

As has been the case in recent years, business classifications such as hardware and office supplies were the strongest performers, tending to mirror the performance of overall U.S. economic growth. However, all categories registered sales growth, even though in some cases it was modest.

Each of the major retail players in the hardware business, which includes categories such as lawn and garden, supplies, plumbing, electrical, paint and

tools, reported solid growth, despite the rather dramatic fall in demand late in the year when the housing market tanked. Retailers such as The Home Depot and Lowe's saw weak fourth-quarter sales as a result, but taken as a whole, 2006 was a great year for the lawn and garden category as trends related to outdoor living remained solidly in place. The category, already the largest segment of the hardware industry, increased 10.6% to \$45.5 billion. Other segments related to the maintenance and upgrading of homes also saw double-digit growth. Electrical supplies increased nearly 13% to roughly \$20 billion, while the painting category grew 10.6% to more than \$16 billion.

While the red hot housing market that brought tremendous benefits to

the hardware industry and home center operators has cooled, it doesn't mean sales in the category will evaporate, as the ongoing cycle of home maintenance, remodeling and lifestyle trends such as outdoor living provide a solid base for continued growth amid a slower market for sales of new and existing homes.

A similar situation exists in the office supplies category where there is a strong correlation between the growth of segments such as basic supplies, office furniture and business machines with the broader U.S. economy. That proved to be the case last year as total category sales increased 3.1% to an estimated \$333 billion. Spectacular double-digit top-line growth is hard to come by in the office products space, but that doesn't mean

profits aren't good. As with the hardware category's lawn and garden segment, office products retailers are selling more stuff at a higher rate of profitability due to the proliferation of private brands sourced from overseas markets. In hardware, that means high-quality stainless steel grills and patio sets are selling at or below prices from a few years ago. Meanwhile, in the office products space, that trend is changing the composition of the product mix found at the leading operators of office superstores. For example, even though total sales in the category defined as basic school and office supplies grew at slightly more than 1%, it was a good year from a profit standpoint because office superstore chains are aggressively growing their private brand offerings. Each of the three main operators — Staples, Office Depot and OfficeMax —

already have private brand sales that account for more than 20% of their total sales. The penetration rate is headed higher, too, as Staples has indicated its target rate is 30%.

The fastest-growing segment of the office supplies industry has nothing to do with physical product, but the provision of service to core small business customers. Retailers are selling more services such as technology repair and aggressively expanding capabilities of in-store print and document services departments.

Beyond the solid and predictable growth of the hardware and office supplies industries, businesses such as sporting goods, automobiles and toys faced a tougher time. In the sporting goods channel, growth among the various segments tends to be more volatile as brands such as Under Armor and Heely's got hot while entire segments are challenged by modest or declining growth in participation levels. Last year saw an increase in categories such as hunting and

fishing as the rapid pace of expansion by retailers such as Cabela's, Gander Mountain, Sportsman's Warehouse and Bass Pro Shops gave consumers greater access to an expanded assortment of product. Conversely, the fitness category dipped slightly after many years of solid growth driven by strong sales of treadmills related to aging baby boomers living longer and staying more active.

From a trend standpoint, the sporting goods industry continues to be challenged by the growth of the consumer electronics industry where increasingly elaborate and affordable games and devices consume a greater percentage of the discretionary time available to young people. The ongoing fascination with all things electronic by the nation's youth hasn't been good for the sporting goods industry, however it has benefited the toy business where electronics are increasingly becoming integrated into products such as games, dolls and even sports-oriented toys, making them more

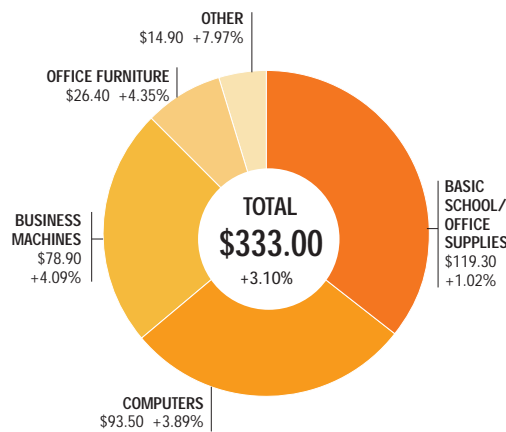
fun for kids. In fact, the strongest-growing segment of an otherwise flat toy industry was the youth electronics segment where sales surged 26%. Conversely, categories such as plush, games and puzzles and action figures saw single-digit declines.

Rounding out the collection of traditional hardlines business is the automotive category. Similar to the hardware and office supplies industries in that its performance is linked to the broader U.S. economy, the automotive businesses grew at an estimated 3% last year to total slightly more than \$58 billion. The fastest-growing segment was do-it-yourself accessories, followed by chemicals, with tire sales and installation turning in a respectable 2.5% sales increase.

Since the success of so many hardlines categories are tied to U.S. economic growth and the continued existence of solid long-term trends, a 2007 forecast of low single-digit growth for hardlines businesses is a low risk proposition. ■

### Office Supplies

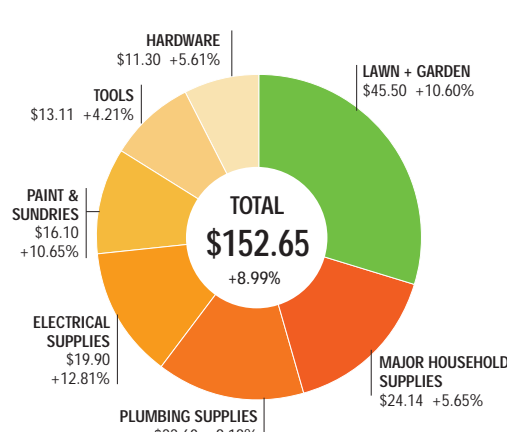
2006 RETAIL SALES BY SUB-SEGMENT  
FIGURES IN BILLIONS, % CHANGE OVER PREVIOUS YEAR



Source: SHOPA and Retailing Today estimates

### Hardware/DIY

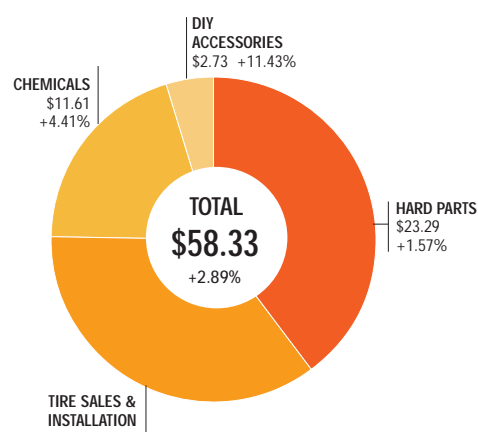
2006 RETAIL SALES BY SUB-SEGMENT  
FIGURES IN BILLIONS, % CHANGE OVER PREVIOUS YEAR



Source: Home Improvement Research Institute

### Automotives

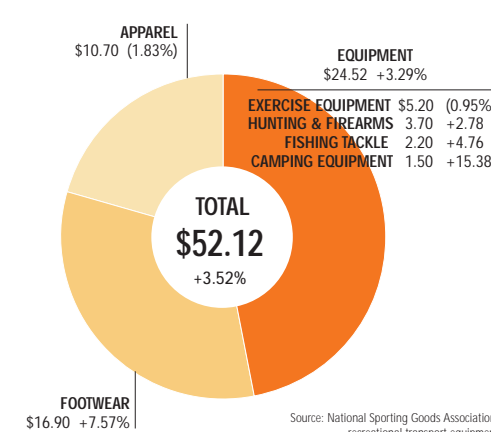
2006 RETAIL SALES BY SUB-SEGMENT  
FIGURES IN BILLIONS, % CHANGE OVER PREVIOUS YEAR



Source: Automotive Aftermarket Industry Association

### Sporting Goods

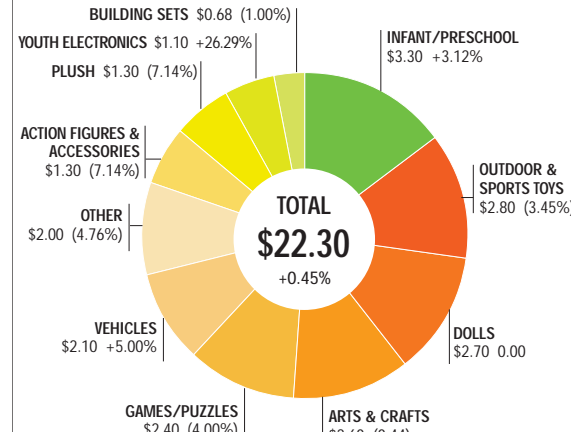
2006 RETAIL SALES BY SUB-SEGMENT  
FIGURES IN BILLIONS, % CHANGE OVER PREVIOUS YEAR



Source: National Sporting Goods Association: recreational transport equipment (bicycles, pleasure boats, RVs, snowmobiles, etc.) is not included in industry total

### Toys

2006 RETAIL SALES BY SUB-SEGMENT  
FIGURES IN BILLIONS, % CHANGE OVER PREVIOUS YEAR



Source: The NPD Group

#### Top Volume Leaders (SALES IN MILLIONS)

CHAIN	2006	2005	% CHG.
Staples	\$18,161	\$16,079	12.95%
Office Depot	15,011	14,279	5.13
OfficeMax	8,966	9,158	(2.10)
Wal-Mart	6,179 <sup>e</sup>	5,478 <sup>a</sup>	12.80
Costco	1,869 <sup>e</sup>	1,647 <sup>e</sup>	13.48

#### Top Specialists (SALES IN MILLIONS)

CHAIN	2006	2005	% CHG.
Staples <sup>1</sup>	\$18,161	\$16,079	12.95%
Office Depot <sup>2</sup>	15,011	14,279	5.13
OfficeMax	8,966	9,158	(2.10)

ALL FIGURES FOR U.S. OPERATIONS ONLY, UNLESS OTHERWISE NOTED

Source: Top Volume and Specialists data compiled from company reports, analysts' estimates and *Retailing Today* research. ( ) : Decline or loss e: estimate

1 Figures incl. U.S. and Int'l operations  
2 Figures incl. U.S. and Canada operations

#### Top Volume Leaders (SALES IN MILLIONS)

CHAIN	2006	2005	% CHG.
Home Depot <sup>1</sup>	\$79,027	\$77,022	2.60%
Lowe's <sup>2</sup>	46,927	43,243	8.52
Wal-Mart	19,762 <sup>e</sup>	17,821 <sup>e</sup>	10.89
Sears/Kmart	12,111 <sup>a</sup>	11,500 <sup>a</sup>	5.31
Menards	7,880	7,455	5.70

#### Top Specialists (SALES IN MILLIONS)

CHAIN	2006	2005	% CHG.
Home Depot <sup>1</sup>	\$79,027	\$77,022	2.60%
Lowe's <sup>2</sup>	46,927	43,243	8.52
Menard's	7,960 <sup>a</sup>	7,450 <sup>a</sup>	6.85
McCoy's	535 <sup>e</sup>	535 <sup>e</sup>	0.00
Meek's Building Centers	475	475	0.00

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1 Figures for all operations in Retail Segment, U.S. and Int'l  
2 Figures incl. Canadian operations

#### Top Volume Leaders (SALES IN MILLIONS)

CHAIN	2006	2005	% CHG.
Wal-Mart	\$12,989 <sup>a</sup>	\$12,140 <sup>a</sup>	6.99%
AutoZone	5,948	5,710	4.17
Advance Auto Parts	4,617	4,265	8.25
Sears/Kmart	2,786 <sup>a</sup>	2,423 <sup>a</sup>	14.98
O'Reilly Automotive	2,283	2,045	11.64

#### Top Specialists (SALES IN MILLIONS)

CHAIN	2006	2005	% CHG.
AutoZone	\$5,948	\$5,710	4.17%
Advance Auto Parts	4,617	4,265	8.25
O'Reilly Automotive	2,283	2,045	11.64
The Pep Boys	2,272	2,238	1.52
CSK Automotive <sup>1</sup>	1,900	1,651	15.08

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1 Figures incl. all company banners; figures based on preliminary disclosures as SEC filings were delayed as of press time

#### Top Volume Leaders (SALES IN MILLIONS)

CHAIN	2006	2005	% CHG.
Wal-Mart	\$6,964 <sup>a</sup>	\$6,297 <sup>a</sup>	10.59%
Bass Pro Shops	3,181 <sup>a</sup>	2,625 <sup>a</sup>	21.18
Dick's Sporting Goods	3,114	2,625	18.63
The Sports Authority	2,900	2,509	15.58
Cabela's	2,064	1,800	14.67

#### Top Specialists (SALES IN MILLIONS)

CHAIN	2006	2005	% CHG.
Bass Pro Shops	3,181 <sup>a</sup>	2,625 <sup>a</sup>	21.18%
Dick's Sporting Goods	3,114	2,625	18.63
The Sports Authority	2,900	2,509	15.58
Cabela's	2,064	1,800	14.67
Academy Sports & Outdoors	1,319 <sup>a</sup>	1,193 <sup>a</sup>	10.56

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Source: Top Volume and Specialists data compiled from company reports, analysts' estimates and *Retailing Today* research. national sporting goods association ( ) : Decline or loss e: estimate

1 Figures incl. all company banners; figures based on preliminary disclosures as SEC filings were delayed as of press time

#### Top Volume Leaders (SALES IN MILLIONS)

CHAIN	2006	2005	% CHG.
Wal-Mart <sup>1</sup>	\$7,834 <sup>a</sup>	\$7,265 <sup>a</sup>	7.83%
Toys 'R' Us <sup>1</sup>	5,894	6,431	(8.35)
Target	5,057 <sup>a</sup>	4,735 <sup>a</sup>	6.80%
Sears/Kmart	1,067 <sup>a</sup>	1,100 <sup>a</sup>	(3.00)
KB Toys	530 <sup>a</sup>	720 <sup>a</sup>	(26.39)

#### Top Specialists (SALES IN MILLIONS)

CHAIN	2006	2005	% CHG.
Toys 'R' Us Stores, U.S.	\$5,894	\$6,431	(8.35%)
Toys 'R' Us, International	3,130	2,815	11.19
KB Toys	530 <sup>a</sup>	720 <sup>a</sup>	(26.39)

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1 Figures incl. supercenters and discount stores only