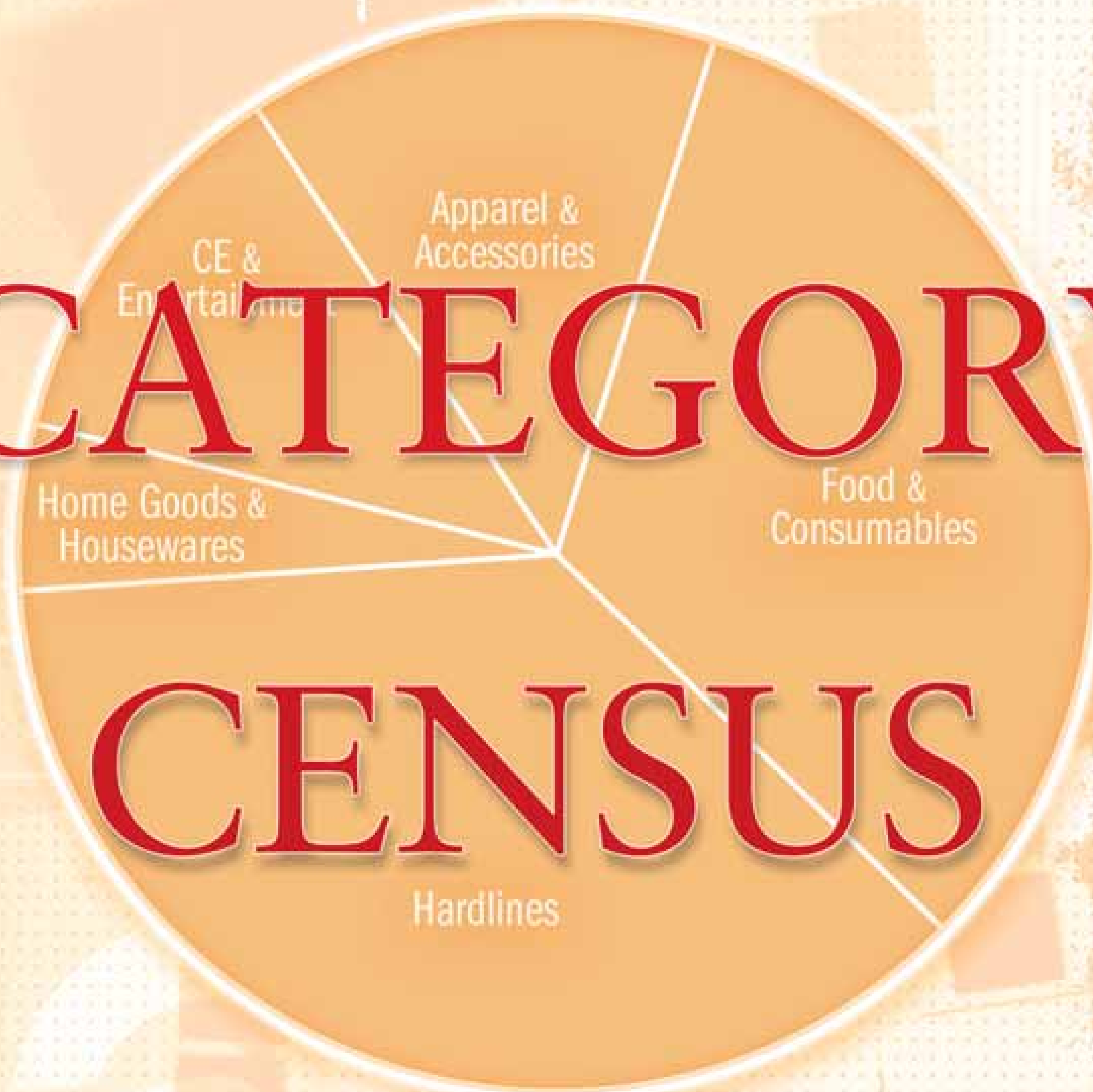
July 2006

Retailing Today

THE CONNECTION TO AMERICA'S LEADING RETAILERS
A LEBHAR-FRIEDMAN® PUBLICATION ™

CATEGORY CENSUS



THE SCORECARD OF THE INDUSTRY'S LEADING PRODUCT CATEGORIES BY SALES VOLUME IN 2005

Apparel&Accessories

Retailers put their most fashionable foot forward

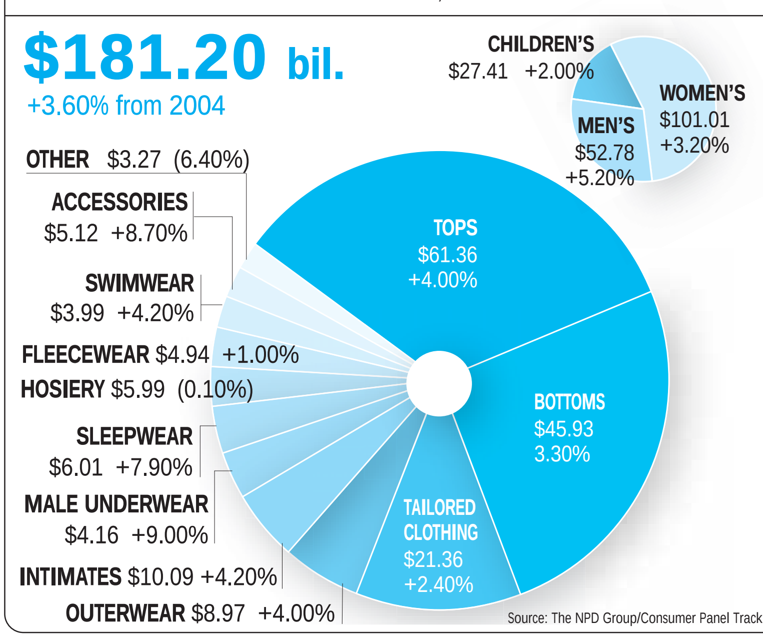
By Kelly Nolan

Apparel performance in 2005 saw its second straight year of growth, posting a moderate 4% sales gain from last year. Men's apparel led the industry's growth with an increase of 5%, reaching nearly $53 billion in sales. Sales in women's apparel grew to $101 billion, a 3% increase from the year before. Children's apparel grew just 2%, posting $27 billion in sales. Overall, the industry brought in $181 billion in top-line sales.

Among the sub-segments that enjoyed the most growth were women's accessories, such as hats and scarves (up 11%), women's jeans (up 10%), women's sleepwear (up 10%), and men's tailored clothing (up 7%).

2005 RETAIL SALES BY SUB-SEGMENT

% CHANGE OVER PREVIOUS YEAR, FIGURES IN MILLIONS



Source: The NPD Group/Consumer Panel Track

TOP VOLUME LEADERS (SALES IN MILLIONS)

CHAIN	2005	2004	% CHG.
Wal-Mart [1]	$29,387	$26,749	9.86%
Federated [2]	19,886	19,695	0.97
Gap Inc.	13,620	13,867	(1.78)
Sears Holdings Corp.	10,310	10,653	(3.22)
JCPenney	10,330	10,133	1.94

TOP SPECIALISTS (SALES IN MILLIONS)

CHAIN	2005	2004	% CHG.
TJMaxx/Marshalls	$10,957	$10,490	4.45%
Old Navy	6,856	6,511	5.30
Foot Locker	5,653	5,355	5.56
Gap	5,409	5,510	(1.83)
Ross Stores	4,944	4,239	16.63

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 Sales at domestic discount stores, supercenters and warehouse clubs (membership fees excluded).

2 Excludeds sales from footwear and personal beauty care.

However, apparel headlines in 2005 were less focused on segment sales and more focused on the emphasis of fashion at mass and mid-tier retail. Not surprisingly, Target led the pack with its continued creative marketing and ability to drive buzz in the department. Last summer, the retailer heated up Rockefeller Center by hosting a "vertical" fashion show, featuring models rappelling off the side of the building in Isaac Mizrahi's latest fall duds. Target followed its fall fashion with a limited-edition luxe holiday collection, featuring women's cashmere sweaters and men's cuff links, and a fashion collection by Italian designer Fiorucci. Target also announced that in 2006, it would bring in one limited-edition collection per quarter, designed by an international designer, for its teen shoppers.

Wal-Mart also increased its emphasis on fashion this year, in its attempt to reach the more selective customer who already shops its stores for consumables products. To create buzz in the fall, Wal-Mart held a fashion show in Times Square during New York Fashion Week. The show, sponsored by the now-defunct *ELLEgirl* magazine, featured models from the television program "America's Next Top Model," who wore clothing from the George and No Boundaries lines. The retailer also made the first of several splashes in *Vogue* magazine, with a multipage September spread promoting all its apparel lines.

In October, Wal-Mart introduced a fashion-forward line, called Metro 7, for its modern 25 to 45-year-old selective consumer. The line originally launched in 500 stores, but sold so well that the retailer had to cut back the number of stores the line reached from 1,000 to 860 this February.

With the Sears and Kmart merger complete, the two companies were left to decide how to handle apparel, a category that, particularly for Sears, has seen its share of struggles. Lisa Schultz, formerly the head of Kmart design, was named head of design for both Sears and Kmart in November. Schultz, a former Gap veteran, has merged the fashion departments of both brands and, as of very recently, opened a design studio in New York City's Tribeca neighborhood. While the brands remain separate undertakings for now, nothing remains certain as Sears Holdings continues to figure out how best to operate.

> THE APPAREL INDUSTRY IN 2005 WAS LESS FOCUSED ON SEGMENT SALES AND MORE FOCUSED ON THE EMPHASIS OF FASHION AT MASS AND MID-TIER RETAIL.

With the merger of May Co. complete, and several hundred local department store banners being turned into Macy's by this fall, the success of Federated's future fashion mix seems uncertain as well. Last year, the company announced it would be keeping at least two May Co. private-label brands, Karen Scott and John Ashford. The rest of the private-label brands offered by former May regional stores will be discontinued over time.

While Federated decreased its emphasis on private labels, JCPenney created a new apparel strategy that included creating private labels to suit different customer lifestyle needs in the traditional, modern, trendy and conservative categories. Over the past year, Penney's has introduced nick(it), a dressy, trendy men's sportswear brand; Solitude, a California casual brand for young men; a.n.a., a trendy casual brand for career moms; and most recently, East 5th, a conservative career-oriented brand for women that lands in stores this fall.

In late June, Federated agreed to sell its New York-based Lord & Taylor division to a private equity group NRDC Equity Partners. Federated has not, however, announced a buyer for the bridal division it acquired from the May merger. The bridal group includes 245 David's Bridal, 454 After Hours Formal Wear and 11 Priscilla of Boston stores.

Kohl's continued to thrive as well, with plans to open 500 new stores in the next five years, and a well-laid out private-label strategy as well. Kohl's announced in September

SEE APPAREL PAGE 8

CATEGORY CENSUS

ANNUAL • INDUSTRY • REPORT • PART 2

Home&Housewares

Broadliners, specialists duke it out at home

By Mike Duff

While pundits have continually warned that interest rates would drive consumers to abandon home improvements, trends monitored by The NPD Group demonstrated that, at least in the kitchen, consumers remain willing to shell out the bucks.

More retailers are investing time and space into appliances—with home centers adding large appliances and Wal-Mart recently developing a comprehensive line of small appliances with GE that it can offer as a coordinated set—and sales growth is following.

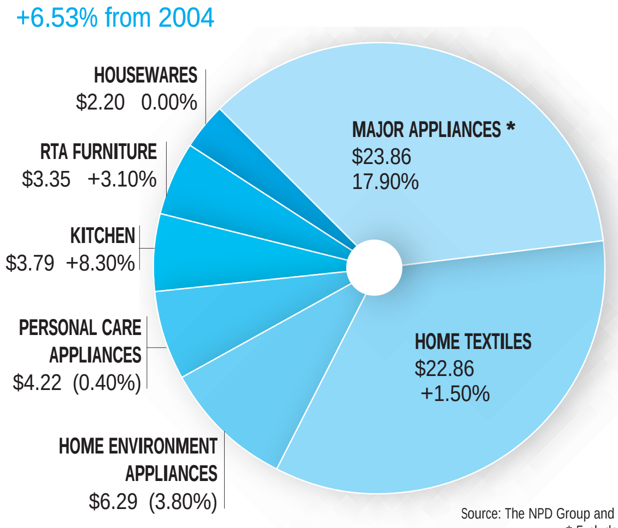
"Major appliances may not be doing as well as they were in the past, but maybe the opportunity in 2006 is for small appliances and dinnerware and traditional housewares and textiles," said Peter Green, president of home at The NPD Group.

2005 RETAIL SALES BY SUB-SEGMENT

% CHANGE OVER PREVIOUS YEAR, FIGURES IN BILLIONS

$66.57 bil.

+6.53% from 2004



Source: The NPD Group and other industry research
* Excludes room air conditioners

TOP VOLUME LEADERS (SALES IN MILLIONS)

CHAIN	2005	2004	% CHG.
Wal-Mart	$31,470	$28,898	8.90%
Target	9,998	9,139	9.40
Sears	7,651	7,880	(2.91)
Bed Bath & Beyond [1]	5,810	5,146	12.90
JCPenney	3,098	3,040	1.91

TOP SPECIALISTS (SALES IN MILLIONS)

CHAIN	2005	2004	% CHG.
Bed Bath & Beyond [1]	$5,810	$5,148	12.86%
Williams-Sonoma [2]	3,539	3,137	12.81
Linens 'N Things [3]	2,695	2,662	1.24
IKEA U.S. [4]	2,096	1,280	63.75
Pier 1 Imports [5]	1,777	1,825	(2.63)

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

1 Figures include Bed Bath & Beyond, Christmas Tree Shops and Harmon locations.

2 Figures include all Williams-Sonoma, Pottery Barn and West Elm locations.

3 Acquired by NRDC Real Estate 2/14/06.

4 Figures converted to USD based on 1 Euro = approximately US$1.29

5 Figures include all Pier 1 N.A., International and Kids.

With spa-oriented products, retailers have been looking beyond a basic strategy of mounting a small everyday assortment that they blow out promotionally for holidays, and trying to develop a more comprehensive merchandising plan.

Target has been shifting personal care and environmental home appliances closer to pharmacy/OTC/HBA and health monitoring devices to create a wellness section. Still, space remains at a premium in-store, so retailers such as Sears have been experimenting with spa and health appliances online that will provide consumers with a broader assortment. In this, bricks-and-mortar retailers have followed television- and Internet-based retailers, who have leveraged cost and assortment advantages.

From a wider perspective, broadliners have mounted a serious counteroffensive against home specialists. An indication of the turmoil among specialists over the past 18 months is the purchase and privatization of Linens 'N Things. Additionally, a struggling Pier 1 is up for grabs as it considers strategic options, and Cost Plus World Market is refocusing on consumables.

Target's Global Bazaar initiative has probably played a role in the problems Cost Plus and Pier 1 have suffered. In addition to Global Bazaar, Target has launched a new furniture line under the Thomas O'Brien name.

Sears, for its part, has launched a furniture line, too. In May the retailer began rolling out ready-to-assemble furniture including products for the living room, dining room and bedroom in three collections.

SPECIALISTS HAVE BEEN STRUGGLING OVER THE PAST 18 MONTHS. LINENS 'N THINGS HAS GONE PRIVATE, PIER 1 IS UP FOR SALE AND COST PLUS WORLD MARKET IS REFOCUSING ON CONSUMABLES.

Yet, the influence of the mass market isn't only demonstrated by retailer initiatives. Brands developed in conjunction with the mass market are having a major influence on how the entire sector is developing. Nothing demonstrates that better than the announcement that Martha Stewart would launch a home furnishings line with Federated Department Stores.

After a revitalization of the home business at its core Macy's stores disappointed, Federated turned to Martha to improve the offerings for its department. But the trend doesn't stop there. Kathy Ireland has developed a home brand that has proliferated throughout retailing and includes everything from upholstered furniture to the recently launched Franz Collection, which includes hand-sculpted, hand-painted porcelain tabletops and decorative accessories.

Although the overall home furnishings industry has seen a slowdown, the best specialty retailers have pulled away from the pack, noted Lehman Bros. analyst Alan Rifkin, and sales indicate that Bed Bath & Beyond and Williams-Sonoma continue to move ahead. As the economy seems to be rewarding affluent consumers more substantially than consumers further down the economic ladder, Bed Bath & Beyond and Williams-Sonoma, which already have their engines tuned, are getting a tailwind by also serving middle- and upper-middle class shoppers.

Both Bed Bath & Beyond and Williams-Sonoma are working hard at new initiatives. Williams-Sonoma announced a new format test called Pottery Barn Bed and Bath. The initial three-store test could jump-start a rollout of as many as 40 to 50 stores, Patrick Connolly, Williams-Sonoma evp and chief marketing officer, said in May.

Bed Bath & Beyond continues to expand two concepts it acquired earlier in the decade, Harmon and Christmas Tree Shops. In both cases, the retailer is using store combinations to boost new units outside their

SEE HOME PAGE 8

Hardlines

Hardware/DIY up 9%, Auto category cruising along

By RT Staff

Strong sales were the rule in most hardlines categories in 2005, led by big gains in home improvement and hardware that were fueled by the now cooling market for home sales. Office supplies continued to build momentum while the aftermarket auto parts segment posted modest gains. And, once again, the exception to the rule was toys, a category that continued to see revenues siphoned away by games and consumer electronics.

Consumers continued to spend big money in the do-it-yourself sector, with across-the-board gains in paint and sundries, hardware and electrical supplies. Those same dynamics also drove lawn and garden sales with spending rising more than 11%. The big winners at retail were The Home Depot and Lowe's, with mass merchants like Wal-Mart and Sears also reaping the benefits.

The Home Depot dominated hardware and lawn and garden with an 10.1% increase in sales to $72 billion in 2005 and continued to expand into urban areas. Lowe's was a distant second with $41 billion in sales but posted an 8% increase in overall revenue as it opened 150 stores. Wal-Mart also registered a double-digit sales gain of 10.4% and Sears and Menards reported modest sales gains.

Hardlines

2005 RETAIL SALES BY SUB-SEGMENT

% CHANGE OVER PREVIOUS YEAR, FIGURES IN BILLIONS

OFFICE SUPPLIES	$205.90	3.52%
HARDWARE/DIY	140.06	9.05
AUTOMOTIVES	56.50	5.80
SPORTING GOODS	51.30	4.10
TOYS	21.30	4.00

TOTAL

$475.06 bil.

+5.45% from 2004

Source: See individual category charts
( ) Indicates decline or loss

Lawn and garden was far and away the biggest revenue generator in hardware with $41.1 billion in sales coming from an increase of 9.5%. Household appliance sales rose a respectable 6.5% to $22.8 billion while paint and sundries reported the biggest sales bump with an 11.9% increase to $14.6 billion.

But the weak link in the hardlines sector was toys, where sluggish sales continued to dog the industry, dropping 4% in 2005 to $21.3 billion. While the drop was attributed to a variety of reasons, the driving force appears to be age compression

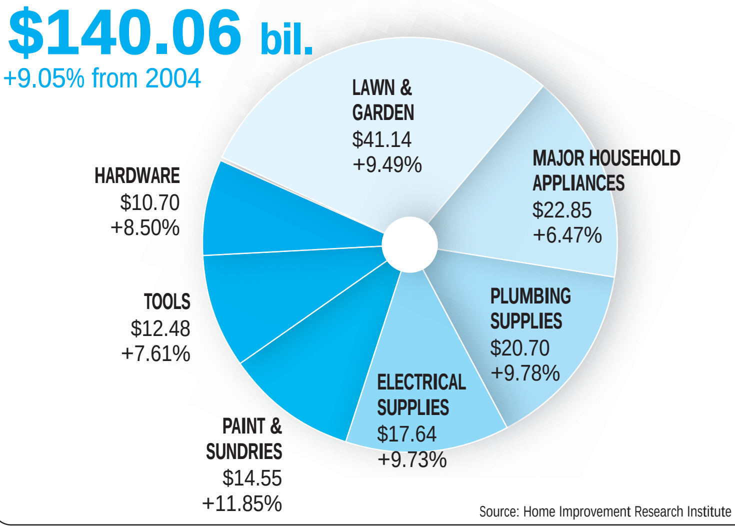
Hardware/DIY

2005 RETAIL SALES BY SUB-SEGMENT

% CHANGE OVER PREVIOUS YEAR, FIGURES IN BILLIONS

$140.06 bil.

+9.05% from 2004



Source: Home Improvement Research Institute

TOP VOLUME LEADERS (SALES IN MILLIONS)

CHAIN	2005	2004	% CHG.
The Home Depot [1]	$71,911	$65,294	10.13%
Lowe's [2]	40,643	34,464	17.93
Wal-Mart [3]	17,882	16,200	10.38
Sears/Kmart [4]	11,500	11,500	0.00
Menard's	7,455	7,000	6.50

TOP SPECIALISTS (SALES IN MILLIONS)

CHAIN	2005	2004	% CHG.
Home Depot Stores (U.S.)	$72,044[e]	$64,981[e]	10.87%
Lowe's	43,243	36,464	18.59
Menard's	7,455[e]	7,000[e]	6.50
McCoy's	535[e]	485[e]	10.31
Meek's Building Centers	475[e]	475[e]	0.00

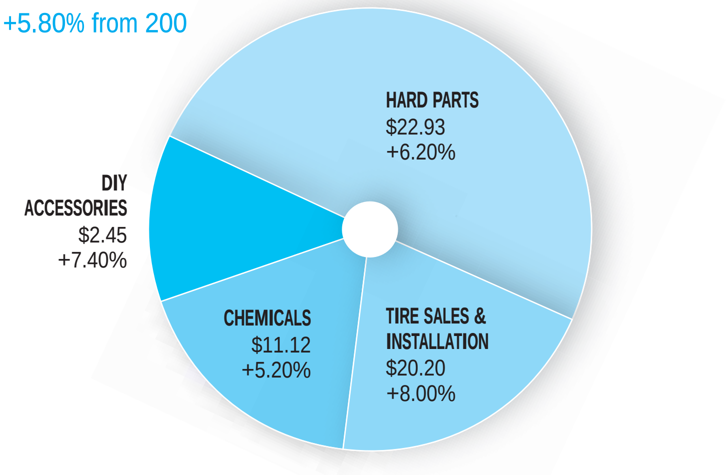
Automotives

2005 RETAIL SALES BY SUB-SEGMENT

% CHANGE OVER PREVIOUS YEAR, FIGURES IN BILLIONS

$56.50 bil.

+5.80% from 200



Source: Automotive Aftermarket Industry Association, Aftermarket Business Car Care Center Study 2005

TOP VOLUME LEADERS (SALES IN MILLIONS*)

CHAIN	2005	2004	% CHG.
Wal-Mart [5]	$12,140	$11,000	10.36%
AutoZone	5,711	5,637	1.31
Advance Auto Parts	4,265	3,770	13.13
Sears/Kmart [6]	2,423	2,423	0.00
Pep Boys	2,235	2,270	(1.54)

TOP SPECIALISTS (SALES IN MILLIONS)

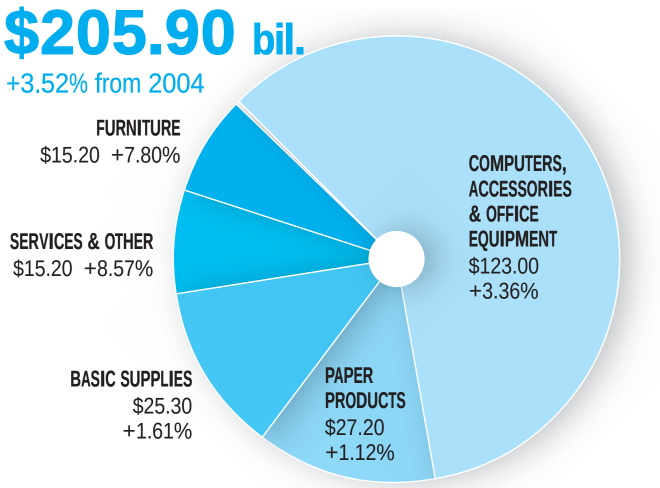
CHAIN	2005	2004	% CHG.
AutoZone	$5,711	$5,637	1.31%
Advance Auto Parts	4,265	3,770	13.13
Pep Boys	2,235	2,270	(1.54)
O'Reilly Automotive	2,045	1,721	18.83
CSK Automotive [7]	1,621	1,577	2.79

* Figures include merchandise and service revenue, unless otherwise noted

Office Supplies

2005 RETAIL SALES BY SUB-SEGMENT
% CHANGE OVER PREVIOUS YEAR, FIGURES IN BILLIONS

$205.90 bil.
+3.52% from 2004



Source: SHOPA and *Retailing Today* estimates

TOP VOLUME LEADERS (SALES IN MILLIONS)

CHAIN	2005	2004	% CHG.
Staples	$16,078	$14,448	11.28%
Office Depot	14,278	13,564	5.26
OfficeMax[8]	9,157	8,852	3.45
Wal-Mart[9]	5,478	4,565	20.00
Costco	1,647	1,414	16.48

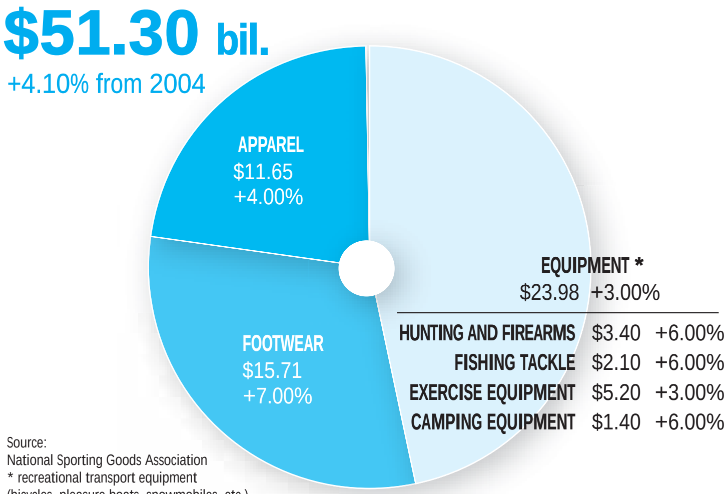
TOP SPECIALISTS (SALES IN MILLIONS)

CHAIN	2005	2004	% CHG.
Staples[10]	$16,078	$14,448	11.30%
Office Depot	14,278	13,564	5.30
OfficeMax[8]	9,157	8,852	3.50

Sporting Goods

2005 RETAIL SALES BY SUB-SEGMENT
% CHANGE OVER PREVIOUS YEAR, FIGURES IN BILLIONS*

$51.30 bil.
+4.10% from 2004



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

TOP VOLUME LEADERS (SALES IN MILLIONS)

CHAIN	2005	2004	% CHG.
Wal-Mart[11]	$6,297	$5,754	9.44%
Dick's Sporting Goods[12]	2,625	2,110	24.41
Bass Pro Shops	2,625[e]	1,989	31.98
The Sports Authority[13]	2,509	2,436	3.00
Cabela's	1,800	1,556	15.68

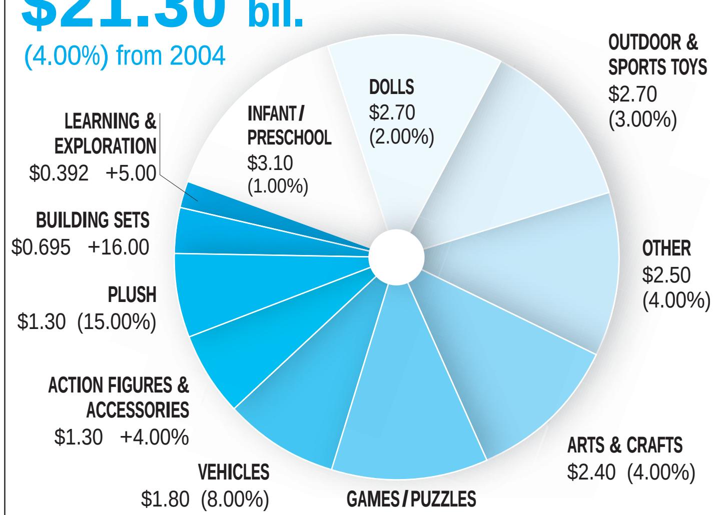
TOP SPECIALISTS (SALES IN MILLIONS)

CHAIN	2005	2004	% CHG.
Dick's Sporting Goods	$2,625	$2,109	24.47%
Bass Pro Shops	2,625[e]	1,989[e]	31.98
The Sports Authority[13]	2,509	2,436	3.00
Cabela's	1,800	1,556	15.68
Academy Sports & Outdoors	1,193[e]	1,102[e]	8.26

Toys

2005 RETAIL SALES BY SUB-SEGMENT
% CHANGE OVER PREVIOUS YEAR, FIGURES IN BILLIONS

$21.30 bil.
(4.00%) from 2004



Source: The NPD Group

TOP VOLUME LEADERS (SALES IN MILLIONS)

CHAIN	2005	2004	% CHG.
Wal-Mart	$5,250	$5,100	2.94%
Toys "R" Us	4,625	4,650	(0.54)
Target	4,500	4,400	2.27
Sears/Kmart	1,025	1,100	(6.82)
KB Toys	475	550	(13.64)

ALL FIGURES FOR U.S. OPERATIONS ONLY, UNLESS OTHERWISE NOTED ( ): Decline or loss e: estsimate

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

1 Excludes service revenue and international sales but includes all other sales from domestic, traditional and alternative store formats.
2 Excludes installed sales.
3 Based on *RT* estimates, excluding international sales.
4 Based on *RT* estimates, including prior-year comparisons reflecting combined Kmart and Sears sales pre-merger; sales from all domestic formats, including Sears specialty hardware stores and Great Indoors units.
5 Includes estimates for supercenters, discount stores, Sam's Clubs, Neighborhood Markets and Lube & Tire Express revenues.
6 Includes estimated contribution pre-merger for 2004.
7 Figures include Murray's Discount Auto acquired 12/19/05.
8 2004 sales figures excludes $4,928 from discontinued paper, forest products and timberland assets that were sold 10/29/04; sales from contract and retail only.
9 Includes Sam's Clubs and domestic stores only.
10 Figures include U.S. and international operations.
11 Figures exclude athletic apparel and footwear.
12 Figures include Galyan's acquired 6/21/04.
13 Figures include The Sports Authority, Gart, Sportmart and Oshman's locations; company acquired by Leonard Green & Partners LLP 5/3/06 and subsequently taken private.

with kids migrating from traditional toys at a younger age into traditional teen sectors like video games and electronic gadgets. That trend was evident in areas like plush dolls, where sales declined 15%, and games and puzzles, where sales fell 9%.

On the retail front, Wal-Mart continued to dominate the toy sector, generating more than 25% of industry sales through relentless expansion and low prices. Leading toy specialist Toys "R" Us registered flat sales—due in part to a drop in the video game sector—but strengthened its position with the closing of 87 underperforming stores this spring. And Target continued to close the gap on Toys "R" Us last year with the opening of 158 stores that included 22 new SuperTarget outlets.

Meanwhile, the office products space remains one of the most active of hardlines segments, offering leading players attractive growth prospects from market share gains in what continues to be a fragmented industry.

Nowhere was this more evident than with Staples, Office Depot and OfficeMax who, after two decades of growth, now operate a total of approximately 3,500 stores in North America and generate total revenues of $40 billion. These companies expect much of their growth to come from further expansion of retail operations; even greater contributions are expected to come from operating divisions that cater to the needs of larger corporate clients who order products from catalogs or online and have merchandise delivered to their offices. These catalog and contract businesses achieved a milestone last year as they and the international operations of Staples, Office Depot and OfficeMax now represent slightly more than half of the combined sales of three companies who continue to be best known for their U.S. retail operations.

Competition in the space isn't limited to these companies alone. Other interesting developments included a stepped-up effort by Sam's Club to expand its office products assortment and the introduction of an office products catalog that included items beyond those available in clubs. The industry's growth potential also caught the eye of FedEx Kinko's, which began experimenting with a new retail concept in which an expanded assortment of office products is intended to improve its positioning relative to office superstores who are encroaching on it's core business by upgrading the capabilities of their copy and print departments.

SEE HARDLINES PAGE 8

CE&Entertainment

Flat-panel TVs, iPods dominate as sales drivers

By Laura Heller

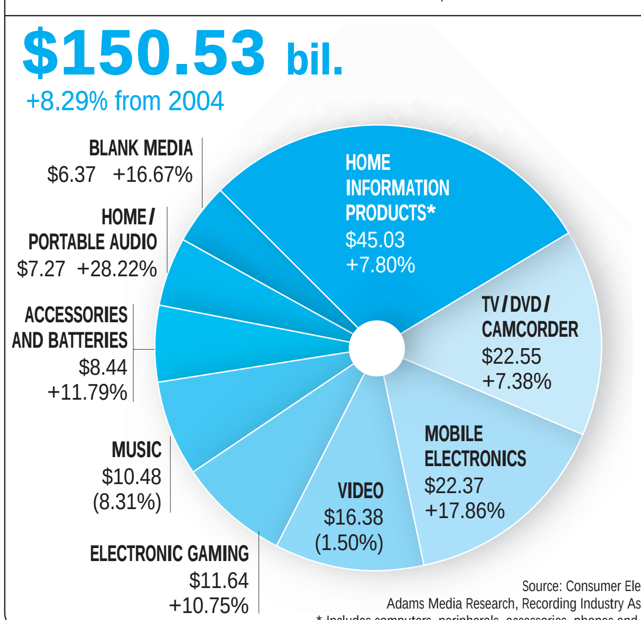
Consumers' desire for all things electronic continued through 2005, driven by both the small and portable and, conversely, the big and flat. Positive sales were driven by entertainment content in both music and video.

According to the Consumer Electronics Association, total sales for 2005 grew 8.3% to approximately $150.5 billion, and there's more of that to come with sales projected to grow another 8% in 2006.

Of course the real star of 2005 was TV as consumers exhibited a nearly insatiable demand for flat-panel and digital televisions, driven by reduced prices and increased content. It's been good news for retailers in all channels and even with steadily falling prices, no one seems concerned that the profit will be siphoned out of the category anywhere nearly as quick as it was with DVD players shortly after that product introduction. DTV sales grew approximately 60% in 2005, according to the CEA, which is projecting another banner year with sales growing from $17 billion to $23 billion, for 2006.

2005 RETAIL SALES BY SUB-SEGMENT

% CHANGE OVER PREVIOUS YEAR, FIGURES IN BILLIONS



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	2005	2004	% CHG.
Best Buy [1]	$25,737	$23,139	11.23%
Wal-Mart [2]	20,881	18,983	10.00
Circuit City [3]	10,970	10,020	9.48
Dell [4]	7,930	7,601	4.33
Target	6,315	5,966	5.85

TOP SPECIALISTS (SALES IN MILLIONS)

CHAIN	2005	2004	% CHG.
Best Buy [1]	$30,848	$27,433	12.45%
Circuit City [3]	11,598	10,470	10.77
Dell [4]	7,930	7,601	4.33
Blockbuster	5,864	6,053	(3.12)
RadioShack	5,082	4,841	4.98

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

1 Figures include U.S., Canadian, Magnolia and Figure Shop locations, as well as online revenue; financials do not reflect '06 acquisition of 14 Pacific Sales Kitchen & Bath Centers nor the 136 units acquired from China's Five Star.

2 Defined as 'electronics' at Wal-Mart Stores division

3 Store counts include mall-based and superstores

4 Figures reported as "total U.S. consumer sales"

There's no question that the iPod's impact was dramatic last year, with sales of portable products soaring nearly 200% according to the CEA. "It's hard to ignore the effect the iPod has had on the electronics business," said Stephen Baker, vp of industry analysis at The NPD Group. "It's unlikely they can repeat those kinds of growth numbers, but it will remain one of the top categories in revenue growth this year."

Sales of attached products were extremely healthy, giving rise to a robust, high-margin business of its own as consumers snapped up headphones, docking stations, carrying cases and gift cards to music sites. It's a category and trend that benefits retailers across specialties from CE chains to mass merchants, independent retailers and Internet sites, with seemingly enough business to affect everyone's bottom line.

The hunger for all things portable extended to notebook computers, which has been growing considerably every year for the past four years, to the tune of nearly 40% in unit sales year-over-year, according to NPD. "And unlike some other categories, the price reduction in revenue growth is not quite keeping place with unit growth," said Baker. "There's still a good dollar spend and a lot of margin left. It's a good way to get people into stores for something they really want; consumers see a lot of utility in being mobile and wireless."

Another area of growth, albeit more modest growth, was GPS systems as the portable craze extended to the car. Baker fully expects this category to continue climbing as the systems become more hearty and shift to more fully featured devices complete with content beyond maps.

> IPOD'S IMPACT WAS DRAMATIC LAST YEAR, WITH SALES OF PORTABLE PRODUCTS SOARING NEARLY 200%, ACCORDING TO THE CEA.

"It's a small star in a big universe, but it did grow very rapidly last year," Baker said. "While we're not talking the kind of billions of dollars that iPods and notebook computers generate, it's been a relatively limited market that's expanding."

And it's a category at the beginning of its growth cycle, unlike the portable music player market. Entertainment options are expected to be added to GPS systems that will better enable digital music storage and playback as well as Bluetooth connections, cellular phones and options that will direct subscribers to the nearest movie theater for the film showing of their choice. "It's hard to know how far it's going to go, but there's a lot of things happening to keep the category pretty robust," Baker said. But competition from the pre-installed automotive market and difficulty selling service options could hinder some anticipated growth.

For all the negative press pertaining to music sales, the category is still stout as retailers find better means to sell digital files. According to Mike Vitelli, senior vp of consumer electronics at Best Buy, sales of prerecorded music are indeed declining year over year, but "we're seeing the category grow in total for Best Buy." Retailers are experimenting with CD and DVD burning stations and are increasingly partnering with online music stores to recoup the business lost in prerecorded discs.

For 2006, demand for portable music players is expected to slow, replaced by interest in more multifunction devices like new cell phone technology that plays music, accesses the Internet and allows for some manipulation of work product such as document reading and editing.

With so many product cycles remaining healthy thanks to new content and consumer interest, and categories like GPS and DTV at the beginning of what everyone expects to be great growth curves for many years to come, CE looks to remain a very attractive category for retailers of all stripes. ■

CATEGORY CENSUS

ANNUAL • INDUSTRY • REPORT • PART 2

Food&Consumables

Healthy eating ignites sales and innovation

By Mike Duff

It has been a busy year in the food industry with the continued expansion of health and wellness categories as well as the emergence of gourmet foods driving new products and promotions. At the same time, powerful new players staked out positions in the retail marketplace.

In the healthy eating segment, products such as 100-calorie packs—developed to meet the need for portion control—from snack and cookie makers have been big sellers. Still, in many ways, it is the advance of organic and natural foods that is the most scrutinized indicator of consumer commitment to wellness.

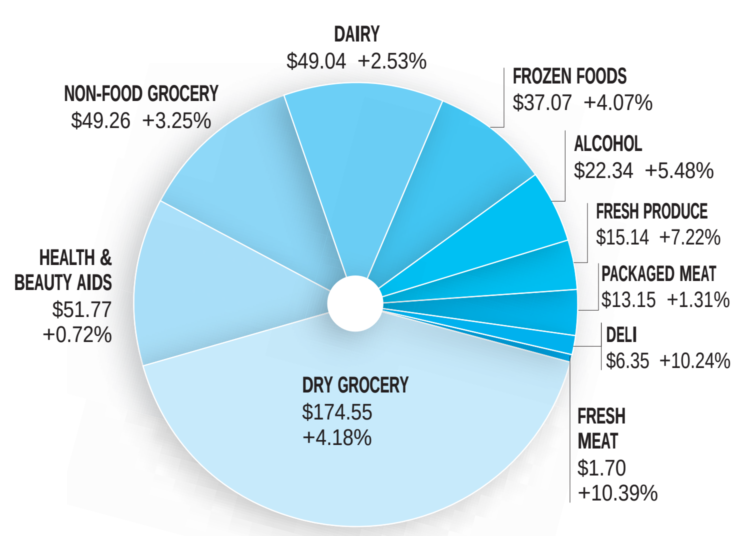
The Organic Trade Association's 2006 Manufacturer Survey indicated that organic food sales reached nearly $14 billion in 2005, representing 2.5% of all retail sales of food, up from 1.9% in 2003, a significant advance. Even if organics are a small proportion of food consumed in the United States, they have a lot of room to grow.

2005 RETAIL SALES BY SUB-SEGMENT

% CHANGE OVER PREVIOUS YEAR, FIGURES IN BILLIONS

$420.38 bil.

+3.62% from 2004



Source: *Retailing Today* estimates based on food statistics from ACNielsen for the 52-week period ended 12/31/05

TOP VOLUME LEADERS (SALES IN MILLIONS)

CHAIN	2005	2004	% CHG.
Wal-Mart [1]	$101,944	$88,519	15.17%
Kroger [2]	53,472	51,106	4.63
Supervalu [3]	34,763	10,553	N/A
Safeway [4]	33,569	31,463	6.69
Costco [5]	25,831	23,183	11.42

TOP SPECIALISTS: SUPERMARKETS

CHAIN	2005	2004	% CHG.
Kroger Supermarkets	$49,759 e	$46,961 e	5.96%
Safeway	38,416	35,823	7.24
Supervalu Supermarkets [3]	34,763 e	10,553	N/A
Ahold Supermarkets	22,547	22,585	(0.17)
Publix Super Markets	20,589	18,554	10.97

TOP SPECIALISTS: SUPERCENTERS

CHAIN	2005	2004	% CHG.
Wal-Mart Supercenters	$158,600 e	$133,040 e	19.21%
Meijer	14,100 e	13,565 e	3.94
SuperTarget	8,430 e	6,858 e	22.92
Fred Meyer/Marketplace	7,239 e	6,450 e	12.23

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 Sales from "grocery, candy and tobacco" and "hba" at discount stores and supercenters as well as "food" and "sundries" at warehouse clubs (membership fees excluded)
2 Excludes convenience store sales, jewelry division, manufacturing sales and gasoline revenues
3 Purchased 1,124 stores from Albertsons on 1/22/06
4 Sales from U.S. retail grocery business
5 Food and sundry sales from U.S. clubs; excludes membership fees

Demand for organics tends to be driven by a variety of factors that differ from population to population. For example, hormones used in the production of milk or beef seem to be an emerging concern in the United States. Indeed, demand for organic milk has increased so much that manufacturers of cheese and other organic dairy products lately have had problems nailing down sufficient supply.

Whatever factors are getting them to consider organics, consumer interest is growing and OTA projects that U.S. sales of organic foods will reach nearly $16 billion by the end of 2006.

Interestingly, consumers are considering factors other than traditional concerns about agricultural chemicals and other "unnatural" elements when expressing a preference for organic and natural foods. For example, organic coffee has been a big success lately, in part because it is promoted as more authentic and of better quality than other coffees, because of an association with fair trade practices and because Paul Newman has become the in-store face of the segment. With Newman's Own brand as a big part of the business, organic coffee sales gained 40% last year, rising to $89 million.

> THE OTA PROJECTS THAT U.S. SALES OF ORGANIC FOODS WILL REACH NEARLY $16 BILLION BY THE END OF 2006.

Organic coffee demonstrates one way that organic and gourmet trends have become intermingled, a fact that is true at retail as well as among manufacturers.

Whole Foods Markets and Trader Joe's both have a commitment to quality natural foods but take completely opposite approaches when it comes to pricing strategy. Whole Foods provides gourmet nationally branded groceries and restaurant-quality perishables at almost-restaurant prices. On the other hand, Trader Joe's offers almost-gourmet private-label groceries and supermarket-quality perishables at prices competitive with value-oriented supermarkets.

In many cases, organic is just an element in a gourmet strategy, so while Trader Joe's is known for organic and natural products, its merchandise mix combines both conventional and exotic items such as mango-flavored drinks and Asia meal-replacement products. The retailer's success lies in the ability to define itself to a particular consumer group while staying on message.

Target wants to establish its private-label products as upscale and at the same time inexpensive, a la Trader Joe's. Target develops and subsequently grows or dumps private labels but always uses national brands as its core draw. With the growth of its supercenters and, perhaps more significantly, the expansion of food and consumables to an entire wing of its discount stores, Target is taking deliberate steps to establish a differentiated version of limited-assortment food retailing.

"Target is using relatively inexpensive food and consumables to drive traffic," said McMillan/Doolittle analyst Neil Stern. "In 2005 they used more food to drive more traffic.

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APPAREL

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it would launch both Stamp 10, a contemporary men's and women's brand in partnership with Liz Claiborne and Tony Hawk, and a young men's and boys' line designed by Quiksilver, as exclusives in spring 2006. In addition, the company plans to bring its well-performing private labels, such as Nine & Co., Apt 9 and Candie's, into its home department this fall and spring. Kohl's will also extend its Chaps collection to women's and boys' departments next spring.

While its mass and mid-tier competitors capitalized on fashion, Gap, a former destination for trendy apparel, struggled to define the proper fashion mix in its stores. The specialty retail giant posted repeated negative comp numbers across all of its brands throughout the year. But there is hope for the future: last fall, Gap launched Forth & Towne, a brand that targets the 35-plus consumer, a brand that company officials insist has positive results thus far. The company also tested a new store design for its Gap brand in several major metropolitan markets, a design it plans to implement further this year. ■

FOOD

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On the gourmet front, though, many food retailers are trying to combine both bargain and upscale elements to satisfy consumers and stand apart from supermarkets and supercenters that are fighting it out on the basis of price.

In combining upscale and inexpensive options, Wegmans divides its wine shop into two elements: one super upscale with several bottles over $1,000, and the other with good quality at a sharp price. And that strategy is likely to play out if trends continue in 2006 as they did in 2005.

In alcoholic beverages, sales gains for the category were around 4.8%, well ahead of the 3.1% for food and beverage overall. Given the tendency of Americans wanting to live well but at a bargain price—just ask warehouse clubs about that—balancing budgets for many shoppers has become a problem of where to save and where to splurge.

According to ACNielsen, splurge products, including ales and stouts, imported table wine, Irish whiskey and rum, drove 2005 sales in adult beverages in the food, drug and mass market. The trend provided a certain advantage to retailers such as Wegmans who can offer bargains on the good stuff and the opportunity to indulge in the even better stuff.

The love of saving money—and time, for the consumer who considers one-stop shopping the best use of precious seconds—has continued to fuel the success of supercenters.

The strength of Wal-Mart's everyday-low-price model is evident in initiatives by traditional food retailers like Supervalu, Kroger and Delhaize as they develop formats that challenge the retailer's value proposition.

Indeed, a significant argument for Supervalu's acquisitions of a number of food retailers from Albertson's Inc. is so it may compete better against Wal-Mart, much like Kroger has been noted for. By acquiring key chains, Supervalu has become an operator that can use systems and size to lower prices and take a position that is competitive with the world's largest retailer. ■

HARDLINES

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Another solid category in the hardlines segment was sporting goods which enjoyed another year of moderate growth, with sales reaching a record high of $51.3 billion, according to the National Sporting Goods Association. Sales are expected to grow another 3%, reaching $53 billion, in 2006.

Among sporting goods segments, athletic footwear enjoyed the most growth at 7%, reaching $15.7 billion in sales. Apparel followed closely behind at 4%, ringing in $11.7 billion in sales, with sales particularly strong in golf and tennis apparel. Equipment, which accounted for $24 billion in sales, showed a 3% gain, although billiards, downhill skis and water skis all showed negative sales declines within the category.

On the retail side, Dick's Sporting Goods finished the year on top, with the full conversion of 44 Gaylan's stores and a net sales increase of 24% to $2.63 million. The Sports Authority announced in May that it would be going private, courtesy of Leonard Green & Partners LLP, who has also bought Neiman Marcus and Rite Aid. And the Finish Line said it would debut a new concept aimed at stylish women ages 25 to 40, called Paiva.

It was something of a mixed year for retailers in the aftermarket auto parts segment. The category overall posted a gain of 5.8%, with tire sales and installation showing the strongest growth at 8%. Impulse items and DIY accessories continue to provide some much-needed category gains and margin, growing 7.4% to $2.45 billion.

Retail results were all over the place as CSK Auto struggles to overcome its accounting issues and post year-end results while O'Reilly continues to grow at the fastest pace among specialists, with a very healthy 18.8% bump in sales for the year thanks to a growing private-label and commercial business.

According to the Automotive Aftermarket Industry Association, commercial sales at DIY automotive retailers have been growing at a faster clip than sales to consumers; a trend that is expected to continue this year. On the consumer front, retailers are benefiting somewhat from higher gas prices as shoppers seek out discretionary items such as locking gas caps and more fuel-efficient scooters and all-terrain vehicles. ■

HOME

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traditional core markets—northern New Jersey, in the case of Harmon, and New England in the case of Christmas Tree Shops.

In early June, for example, the company debuted a Bed Bath & Beyond and Christmas Tree Shop combination—the two concepts share a wall, a grand opening and cross promotions—in the southwestern New Jersey town of Cherry Hill. The Cherry Hill Christmas Tree unit is the most distant yet from other New England units.

It is likely that for the foreseeable future home specialists and mass retailers will pursue new opportunities in merchandising and store formats as they compete for stronger sales in the home category. ■