

MARKET WATCH

AHOLD/DELHAIZE MERGER FALLS APART

BRUSSELS, BELGIUM — Delhaize and Ahold have called off a proposed merger, citing irreconcilable differences. According to reports, merger talks soured between the negotiators because media speculation complicated the companies' positions.

In other news, in order to focus more on its retail business, Ahold will sell its U.S. foodservice division with plans to reduce operating costs by \$638 million by the end of 2009. The move will allow the company to concentrate on retail food markets in the United States and Europe.

HOME DEPOT OFFERS CE PRODUCTS IN STORES

ATLANTA — Home Depot is selling consumer electronics for the holidays, extending what is typically just an online and catalog selection into physical stores. A small assortment of products including DVD players, home theater systems and flat-panel HDTVs is now in all U.S. stores.

POTTERY BARN BOWS FIRST BED/BATH CONCEPTS

SAN FRANCISCO — Williams-Sonoma will expand its Pottery Barn Bed and Bath concept by opening its first three Pottery Barn Bed and Bath retail stores this month. Two are stand-alone stores in Orlando, Fla., and New York City, and one is adjacent to an existing Pottery Barn store in Portland, Ore.

HEALTH KIOSKS ADDED TO 700 WAL-MART STORES

MINNETONKA, MINN. — UnitedHealth Group will place kiosks in 700 Wal-Mart stores to promote its health plans and drug benefits to senior citizens. UnitedHealth sales people will offer the company's Medicare Advantage and drug plans at Wal-Mart stores in 30 states during the Nov. 15 to Dec. 31 open-enrollment period for Medicare.

RETAIL EXECUTIVE NEWS

- Gap Inc.'s outlet division president Diane Neal will leave the company as of Nov. 3.
- Dick's Sporting Goods' evp and cfo, Michael Hines, will resign after the year-end earnings release in March 2007.
- Aéropostale's evp and chief merchant, Christopher Finazzo, has been terminated for cause, effective Nov. 8.
- PetSmart's senior vp and cfo, Tim Kullman, will resign in fiscal 2007, though a specific date has not been named. The company will begin searching for a replacement.

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Kohl's continues image revamp with design office in New York

BY KELLY NOLAN

NEW YORK — It's a long way between Menomonee Falls, Wis., and New York City. And for quite awhile, Kohl's was happy to keep its distance from the nation's fashion capital. The department store retailer had a loyal band of shoppers: Midwestern mothers who bought turtlenecks, pleated khakis, loafers and reindeer sweaters for Christmas.

But times have changed at Kohl's, and the company is now trying to attract an additional consumer base to its stores: young women without children, which the company divides into two groups, "self explorers" and "independent tastes."

But attracting these new customers has required revamped merchandise. After adding several trendy private labels like Apt. 9, Access and Daisy Fuentes to its product mix over the past few years,

Kohl's has also signed major deals in home and apparel with Vera Wang and the Food Network just within the past few months. The merchandise from both of these partnerships will be available in Kohl's in fall 2007.

"We wanted to open a design office in New York's garment district so that we could be closer to Vera [Wang] and the Food Network," explained Peggy Eskenasi, the evp of product development for Kohl's, in an exclusive interview. "To maintain this relationship, it was a necessity that we have people ... in New York communicating back to our team in our home offices in Wisconsin."

The 23,000-square-foot facility, which is expected to officially open in January 2007, will employ a product development team of up to 30 designers and support associates who will communicate back and

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Think Pink. Shop

BY LAURA HELLER

NATIONWIDE RT REPORT — Last month, Chicago's Michigan Avenue was total pandemonium. Was it a rock star? A celebrity? Actually it was both, walking the avenue to promote what may be the most lauded cause marketing event to hit the retail community yet.

(PRODUCT) RED unites retailers, product manufacturers and a financial institution under one cause: fighting HIV/AIDS in Africa through contributions to the Global Fund. A good cause, to be sure, but the hype surrounding this particular marketing program raises several questions, not the least of which is what are the benefits to its sponsors?

In the case of (PRODUCT) RED, which includes The Gap, Apple, Motorola, Converse and Emporio Armani, the most obvious benefit is the worldwide publicity garnered from two of the biggest celebrities in their respective fields: U2's Bono and Oprah Winfrey. The stroll Winfrey and Bono



Gottschalks explores options amid shareholders' discontent

BY KELLY NOLAN

FRESNO, CALIF. — Gottschalks may join the ranks of retailers, such as Sports Authority, Mervyns and Toys "R" Us, that have been bought out by private equity groups. After months of speculation that the regional department store might be up for sale, the company officially announced earlier this month that its board of directors formed a special committee to explore strategic alternatives.

"The board is confident in the core

business of the company and wants to ensure that the value of the company is adequately reflected in the public markets," said Joe Levy, Gottschalks' chairman.

The move followed a disgruntled shareholder's letter that was released to the press on business media wires and sent to Gottschalks' board of directors just a few days before they were to meet. The note, from New York-based investment company Thesis Capital Management LLC, highly encouraged the board to pursue a sale of the company or a monetization of

the company's real estate.

"We have stood patiently by management while waiting for signs of an improvement in productivity as well as a contribution of new stores and from the closing of underperforming stores," the letter read. "These initiatives have yielded results that have, at best, fallen short of expectations."

Gottschalks' sales results have certainly seen better days. In September and October, the 61-store retailer reported same-

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Uniqlo flagship sails into Soho

NEW YORK — Uniqlo opened its first worldwide flagship in Soho on Nov. 10. The 36,000-square-foot location boasts three floors with men's and women's fashion basics.

Uniqlo has more than 700 stores in Japan and some 20 others throughout Europe and Asia. The company made its entrance into the United States last year with three stores in New Jersey.

The \$3.5 billion company is aiming to be a \$10 billion retailer by 2010, with \$1 billion coming from the United States.

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RED. What's in a cause?

took down Chicago's Magnificent Mile to shop stores participating in the program drew hordes of screaming fans and such extensive media coverage it seemed like 1964 and the Beatles were arriving at the Ed Sullivan Show. Add to all this Myspace.com as a media partner, and it's a cultural cornucopia of sponsors who matter in today's marketplace.

"What a one-two punch that is," said Erik Gordon, professor of marketing at Johns Hopkins University. "Oprah moves product—she's like a purchasing agent and people trust her. With Bono, there's a strong identification factor."

But the presence of two of the world's most influential figures in popular culture also serves to illustrate just how crowded the playing field is and how high the bar is. Programs like the Think Pink campaign that raises money for Breast Cancer research have been around and growing for years. So many companies offer a product in pink that non-participation is more noticeable than the opposite. Causes are everywhere and its hard to stand out in a field of colored ribbons.

But the RED campaign raises the stakes. First, it
SEE CAUSE MARKETING PAGE 40

Programs such as (PRODUCT) RED raise money for specific causes like HIV/AIDS by selling specially marketed products.



Office product industry well positioned for steady growth

BY MIKE TROY

MIAMI BEACH, FLA. — After posting slightly slower growth in 2006 than in 2005, the U.S. market for school and office supplies stands at an estimated \$332 billion, according to an annual state of the industry report released earlier this month by the School, Home & Office Products Association.

The market grew by an estimated 2.8% this year compared to 3.5% in 2005 and 3.3% in 2004, according to the report, which was prepared for SHOPA by research firm Techno-Metrica Market Intelligence. Company president Raghavan Mayur

School and office products sales trends

Year	Sales in billions
2002	\$294
2003	\$302
2004	\$312
2005	\$323
2006	\$332*

Source: SHOPA State of the Industry Report * Estimate

presented details of the report at PaperworldUSA, the annual trade show sponsored by SHOPA and Messe Frankfurt.

Although Mayur did not forecast a 2007 growth rate, he indicated overall economic growth and job creation bode well for the industry's long-term future, especially considering fields such as health care, technology, finance and professional services are among those expected to experience the greatest growth.

"The good news for this industry is all these groups are intensive users of office supplies," Mayur said.

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Office Depot vision extends to shelves with Worklife papers

BY MIKE TROY

DELRAY BEACH, FLA. — First it was Christopher Lowell office furniture. Then it was Ativa electronics, Foray writing instruments and Break Escapes consumables. Now, the newest introduction to Office Depot's stable of private brands appears to be Worklife specialty papers.

More than a dozen products bearing the Worklife brand are evident on shelves in the paper department of an undetermined number of stores in what a company spokesperson said was a limited pilot.

It certainly comes as no surprise that Office Depot is experimenting with new private brands. Senior vp of merchandising Scott Koerner indicated as much several months ago during an interview with *Retailing Today*.

"We don't have private brands in every category, but there is no category we are not looking at," Koerner said.

Sales of private brands are already estimated to account for more than 20% of total company sales—Office Depot not only provides specifics on the penetra-

tion rate—and believed to be headed higher. That's due to attractive margins and the important role private brands can play in differentiating the company, which has prompted Office Depot to become very aggressive the past few years with its strategy of developing and promoting private brands.

The new Worklife brand fits that model but it also carries special significance for Office Depot. Like Ativa, Foray and Break Escapes, Worklife is



Office Dept is conducting a limited test of a line of Worklife paper products.

a made-up word, but it is different from the company's other brands because it serves as the foundation of the company's vision statement. Office Depot last year, under the direction of new chairman and ceo Steve Odland, decided it needed to develop a vision to guide its future growth and used the process of developing its vision statement to unite a restructured senior management team around a common objective. Pursuit of that objective yielded the vision statement, "Delivering winning solutions that inspire worklife."

The concept of worklife is one Office Depot executives arrived at after examining their own lives and those of their business customers. What they found was how in today's world work and life are much more integrated than ever before.

Whether the company applies the Worklife brand to other products remains to be seen, but the name has already been applied in other ways. Earlier this year, Worklife Rewards was the name given to the company's loyalty program, which previously went by the name Advantage. ■

THIS WEEK ONLINE

EXCLUSIVE ONLINE CONTENT

- Macy's spring preview
- American Eagle spring lines
- Aéropostale spring collection
- Viktor & Rolf launch at H&M

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VIKTOR & ROLF

- Plus, Special Online Analysis

What's Ron Burkle up to?

The supermarket mogul has begun to leverage his holdings in Pathmark and Wild Oats. Now some are wondering if Super-Valu isn't far behind?



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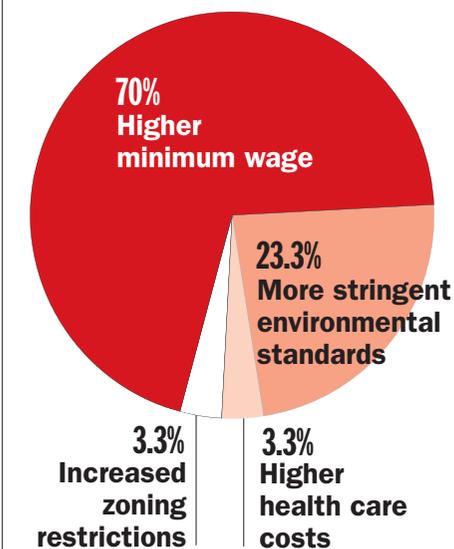
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ONLINE POLL RESULTS

ANTICIPATING A CHANGE IN THE HOUSE

(Based on responses collected 10/30 through 11/10)

Q: IF DEMOCRATS GAIN CONTROL OF THE HOUSE, WHAT WILL BE THE EFFECT ON THE RETAIL INDUSTRY?



READER RESPONSES

"The Democrats will reinvigorate the discussion about health care and roll back the tax breaks for the wealthiest Americans and seek a modest minimum wage increase ..."

"I would hope there would be more stringent environmental standards ... What good is retail on a poisoned and polluted planet? Change is good and inevitable; let's see how the Democrats do before we predict gloom and doom for retail."

"Democrats are not favorable to business. They will increase taxes and increase spending, thus increasing the deficit"

"You forgot higher taxes, as leading Democrats are already saying they will not allow President Bush's tax cuts to survive."

WHAT DO YOU THINK? ... TAKE OUR NEW POLL

How has the recent election affected the outlook for the holiday season?

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CAUSE MARKETING

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launched smack in the middle of October—National Breast Cancer Awareness month—when pink products fill store shelves and proceeds are raised for this cause. In Chicago, buildings such as the John Hancock and Merchandise Mart glow with pink lights all month long in support of the program. Having Oprah stroll arm and arm with Bono down this city's main shopping avenue certainly stole some of that attention.

"It's a sign as to how cluttered the space has become," said Gordon. "Oprah and Bono's func-

tion is really to draw attention to this cause as opposed to all the other causes that are drawing attention. It's a reflection of the increased competition for donor dollars."

Other than raising money for a good cause, the financial benefits to sponsors are harder to quantify. "There's no way to measure it," said Jack Trout, president of Trout & Partners, a marketing strategy firm. "Good will is good will, end of story."

Joe Marconi, author of "Cause Marketing" and professor at DePaul University disagrees. He believes that well-conceived cause-marketing programs absolutely help the bot-

tom line in terms of increased sales, customer loyalty that translates into long-term stock stability and in recruiting more qualified employees.

Companies declined to comment on expectations from participating in (PRODUCT) RED, financial or otherwise, but Apple has already released a second version of its red Nano due to the color's popularity. Motorola's red RAZR phone marks that product's introduction with a new carrier, while a retailer like the GAP has a long history of partnering with celebrities that donate their image to an ad campaign in order to help a cause.

But (PRODUCT) RED may

be the first of a new breed of cause-marketing efforts, one designed to monetarily benefit more than a charity.

(PRODUCT) RED was conceived by Bono and Bobby Shriver, a California politician and member of the Kennedy family (whose mother founded the Special Olympics). And while a portion of the proceeds from product sales (which vary by company) is donated to the Global Fund, participating companies are encouraged to make a profit. Shriver told *The New York Times* that making the program a financial success for its partners will help ensure it becomes a sustainable success for the Global Fund. ■

GOTTSCHALKS

CONTINUED FROM PAGE 4

store sales increases of only 1%, and results from June, July and August same-store sales declined or were essentially flat. At the end of September, the company closed a store in Seattle as part of a plan to improve overall store performance.

Thesis also expressed dismay at the performance of Gottschalks' stock, which it called "appalling when compared to its department store peer group."

However, it may be unrealistic to compare Gottschalks to other department stores, because it has a relatively small footprint by comparison. The retailer only has about 61 stores in California, Oregon, Nevada, Alaska, Washington and Idaho. Even stacked up against other surviving regional department stores, Gottschalks pales in comparison. Mervyns, which is also based out West, has 189 locations in 10 states, while Dillard's, which is based



Gottschalks is pondering a sale because of poor financial results and pressure from shareholders.

in Little Rock, Ark., has about 330 locations.

Other regional players, like Bon-Ton and Belk, have benefited from recent department store consolidation, too. Belk acquired 38 Parisian stores from Saks Inc. in August, five of which it turned around and sold to the Bon-Ton stores, which had already acquired the Northern Department Store Group from Saks in March. Bon-Ton now has about 270 stores, while Belk has a little over 300, including Parisian locations.

Selling Gottschalks is not the only option for the company. The company's management said in a statement that the company would also consider "operating partnerships, joint ventures, strategic alliances, share repurchases, a recapitalization or merger of the company." The main goal, according to a statement from Levy, is to maximize shareholder value and continue to improve the company's performance.

Gottschalk's has also considered selling the company before, according to various reports. In the spring 2005, its stock jumped 36% when the sale of the retailer to JCPenney was mentioned in a *Barron's* report.

JCPenney isn't a likely buyer this time, though, according to analysts. A hedge fund or private investors are likely to gobble up the regional retailer, most analysts' reports have suggested. ■

PAPERWORLDUSA

CONTINUED FROM PAGE 5

He also forecast that the number of home offices, currently about 34 million, would continue to grow, small businesses will expand and school enrollments will climb. On the latter point, Mayur noted that enrollment in charter schools is increasing, year-round schools are becoming popular and student diversity will continue to increase, all of which present opportunities for suppliers and retailers.

Mayur's optimistic view of an office products industry achieving steady growth that is well-positioned for future gains stood in contrast to the event at which he presented the information. PaperworldUSA, or the SHOPA Show as it was known prior to last year, has experienced a steady decline in attendance thanks largely to consolidation among retailers and suppliers that has reduced the pool of potential attendees. Meanwhile, increased collaboration on the part of the industry's largest players has altered how new

products are brought to market and diminished the role of conventional trade shows.

"There still is a sector of this industry that wants some type of event, but it's no secret that the traditional trade show format has evolved," said SHOPA president Steve Jacober. "It is difficult to pinpoint and define the need to determine the most appropriate approach." One thing is for certain though, according to Jacober, "anything that is not sales or customer focused falls by the wayside."

The evolution of the trade-show format and the altered structure of the industry prompted SHOPA several years ago to pursue the type of events popularized by a company known as ECRM that arranges meetings where the guesswork of trade shows is eliminated because supplier participants are guaranteed appointments with retailers. SHOPA launched its own version of the guaranteed-appointment, no-booth trade show format several years ago called SHOPA Buyer to Seller and has since expanded the concept internationally. ■

in the store and they are overwhelmed," Power said. "How do we make the experience less stressful?"

"A lot of these customers don't know everything we have," notes elf Megan Green. "For example, portrait studio services. A grandparent might like a family portrait. We have a spa as well, and we can say, 'Why don't you get a gift certificate for a spa visit?'"

The elves base of operations is the Wish Station in each of Sears Canada's approximately 125 locations. The Wish Station includes Sears Wish Trees, that feature present requests from underprivileged children that customers can redeem, and gift products and packages many of which are linked to charitable donations. Sears holiday registries also are affiliated with the Wish Stations.

Sears Canada is thinking about expanding the program to other holidays, with Mother's Day and Father's Day looking like the most likely candidates for their own elves. The Sears Elf program, launched on Nov. 4, will run through the end-of-year holidays. ■

KOHL'S

CONTINUED FROM PAGE 4

forth with Vera Wang and the Food Network offices, who are already based in New York. The team will also be able to collect trends firsthand by attending New York's fashion week.

Although partnerships with Wang and the Food Network will certainly help differentiate Kohl's in the marketplace, the retailer is not the first discounter to open a design office in Manhattan. Wal-Mart opened up a trends office in the Garment District in late 2003, while Sears Holdings opened a design center, which hosts more than 100 employees, for both its Kmart and Sears brands in Tribeca in May.

And while Kohl's certainly is narrowing its focus a bit more on fashion, and a lot more on younger customers, it hasn't forgotten about its loyal customer base.

COSTCO

CONTINUED FROM PAGE 1

of cheese and fish along with an extensive array of prepared meals. "With so many people living within walking distance, we think they'll be a popular item here," said Sinegal.

Though the store is expected to attract throngs of customers from the downtown area, Costco expects it to perform even better with business members. "We've found that to be the case with our store in San Francisco, which is one of our busiest stores, and that's one of the reasons we chose this site," said Sinegal. "You have a lot of small businesses, shops and restaurants down here."

The new store isn't likely to impact others in the area, since Costco's locations in Richmond and Grandview are about a 20-minute drive from downtown Vancouver.

Costco's store in San Francisco was its first attempt at operating in an urban area and, like Vancouver, has a two-level parking garage attached to the store. But that warehouse is a stand-alone and doesn't have a residential complex built into the site, which makes Vancouver

unique for Costco and for most retailers experimenting with urban concepts.

Sinegal said Costco will be looking for opportunities in other cities if Vancouver works out as expected. Though it's relatively new at operating urban stores in North America, it does have some experience overseas. "We've dealt with similar issues with our stores in Japan and Taiwan and I think those experiences helped us," said Sinegal.

Costco is part of a growing list of big-box retailers experimenting with urban formats. Wal-Mart opened its first Urban 99 store in Tampa, Fla., two years ago and opened another in White Plains, N.Y., this summer. Those stores have a footprint just under 100,000 square feet and carry an edited selection of products.

The Home Depot has taken a similar approach to entering dense urban markets with a mix of formats that includes multilevel stores. It entered New York City in 2004 with two urban prototypes and is due to open another in 2007. The only difference with Costco is that it's managing to open stores that are about the same size as a standard warehouse with a full selection of merchandise. ■

SEARS ELVES

CONTINUED FROM PAGE 3

Power. "Too snooty," he explained. Sears launched its elf program as a solution for hurried holiday shoppers. In this case, elves really are helpers, ready to provide time-pressed customers with advice.

Shoppers can take the advice or an elf can help them walk the store and make selections. In Sears' flagship store in downtown Toronto, the elves even have a room set aside for consultations with customers.

However, helpfulness remains the key: no hard sell and no charge.

That being said, one of those holiday questions has a generous answer: Yes, Virginia, the elves do get paid. Power said a special budget had been established to finance elf activities. Many of the elves are existing store associates who have a reputation for providing excellent customer service and some are seasonal hires.

"The idea is that these customers don't shop Sears the rest of the year, and they come