

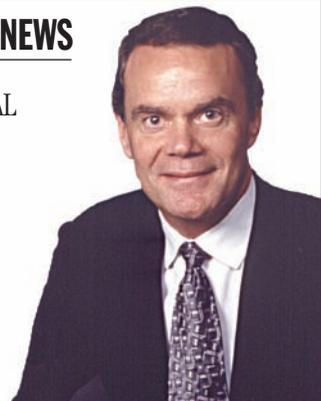
DSN Retailing Today

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

PEOPLE IN THE NEWS

INTERNATIONAL HOUSEWARES ASSOCIATION PRESIDENT DISCUSSES INDUSTRY EVOLUTION

PHIL BRANDL



Staying relevant amid industry evolution

BY MIKE DUFF

CHICAGO — The Housewares Industry has been rapidly changing over the past decade. With the growth of Asia manufacturing, the challenges in shipping, closer product development cooperation between retailers and vendors and changing consumer needs, the housewares industry requires a forum today that accommodates a wide variety of expectations. Two years ago, the International Housewares Association



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Health screenings found in bulk at warehouse clubs

BY DOUG DESJARDINS

NATIONWIDE DSNRT REPORT — Pharmacy revenues account for just a fraction of total sales at warehouse clubs but they're one of the fastest-growing ancillary sectors. That's why warehouse clubs have ramped

up in-store health screenings and seminars to bring new customers into the fold.

Costco has been doing that for the past five years and the results speak for themselves. In 2005, it generated \$2.3 billion in pharmacy revenues—a 12% increase from

the previous year—and registered a record \$1.1 billion in prescription sales writing more than 21 million scripts. Low prices were a driving force behind the double-digit sales hike but so were in-store services like free seminars

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NEXT-GEN SUPER DRUG STORE

The products and programs turning chain drug retailing into a destination for GM and food.

Big 3 drug chains finesse front end

BY DOUG DESJARDINS

NATIONWIDE DSNRT REPORT — Drug stores are in a constant battle to maintain market share in general merchandise and it hasn't gotten easier with price pressure from everyone from mass merchants to dollar stores. That's why they're refining their approach to GM sales with new programs and store formats that fine tune merchandising.

While general merchandise accounts for about one-third of total sales at chains like Walgreens and Rite Aid, it still represents billions of dollars in sales. And with new stores trending smaller, they've become more creative with products like food, greeting cards, digital photo and seasonal items.

Rite Aid is recreating its store dynamic with its new Customer World format, which places health and beauty products in the center of the store with general merchandise spread around the perimeter. While the merchandise is not that different than a regular store, food is given a bigger role. "We've expanded convenience foods and added more coolers," said Rite Aid spokeswoman Jody Cook. "That's allowed us to bring in more products like ice



Drug chains, like this Rite Aid, are refining their front-end mix to gain market share.

cream and beverages."

The trend toward fast and convenient food was noted in a recent report on channel blurring from ACNielsen and, according to Todd Hale, senior vp of consumer insights at the research firm, drug retailers "have

shifted emphasis to product categories once owned exclusively by

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HOW THE BIG 3 STACK UP	
PERCENT OF SALES FROM GM	
Walgreens	25%*
CVS/pharmacy	15%**
RITE AID	29%†

* Fiscal year ended Aug. 31, 2005
** Fiscal year ended Dec. 31, 2005
† Fiscal year ended Feb. 26, 2005

Source: Company reports

Lampert says Sears has 'solid base to build on'

BY LAURA HELLER

HOFFMAN ESTATES, ILL. — Sears Holdings marked the beginning of its second year as a company in a markedly different manner than it did the first: by hosting a shareholder meeting that offered little news or insight into retail efforts but offering much-needed interaction with the company's chairman, Edward Lampert. Lampert hosted the meeting from the podium, engaged attendees and fielded questions for nearly two hours, while still finding time to



Aylwin Lewis, left, and Edward Lampert.

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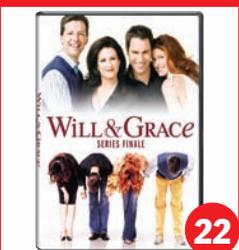
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Dollar Store Report II

HEALTH TESTS

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and health screenings.

In March, Costco tested a new heart disease screening program in two stores in Florida that's more sophisticated than the Healthy Heart tests it introduced in 2004. "It's a test that measures a type of cholesterol in the skin," said Michael Mastromonica, assistant gmm of pharmacy for Costco. "It's incremental to other tests we do and should help us produce a better risk profile for heart disease."

Mastromonica said that Costco wrapped up the pilot program in April and is now deciding whether to add the new test to its existing program, which uses a blood sample for a lipid profile and blood pressure measurement to assess a customer's risk for heart disease.

While most of Costco's health screenings are performed by outside companies, the followup is always done by the pharmacists and is usually conducted in small consultation rooms—private areas that are about 80 square feet in size and are now in more than 200 pharmacies. "It's a good opportunity for our pharmacists to meet one-on-one with customers and develop a relationship," said Mastromonica.

Sam's Club is also testing in-store events and screenings at its 441 pharmacies. Last fall, Sam's offered flu shots for the first time and in February hosted a Healthy Heart event in stores that offered free blood pressure and cholesterol screenings, samples of heart-healthy foods and educational information about risk factors for heart disease.

"We're finding that these events help drive traffic into the pharmacy area where people can see our low prices on prescription drugs and other products," said Sam's Club spokesman Olan James.

BJ's Wholesale is still fairly new to pharmacy and currently has departments in 40 of its 163 stores. In its most mature markets in Georgia, BJ's provides free blood pressure tests and health awareness seminars every other Saturday to bring customers into the pharmacy area.

While screenings and tests are an effective way to introduce club members to pharmacies, the execution isn't as easy as it may seem. With limited space to work with and hundreds of stores to serve, even a simple test can be too complicated. "To do anything like this at retail, it has to be simple and reproducible in every store," said Mastromonica. "If the screenings require extra equipment or take too much time, they usually won't work." ■



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tion shifted its annual show from January to March, and since then it has been looking at ways to update the annual convention amid increasing competition from other events. Phil Brandl, president of the IHA, has reviewed results from the most recent show and shared his observations of how the show is striving to pace industry evolution.

DSNRT: Today, what are the strong points of the Housewares Show?

BRANDL: The show continues to enjoy the participation of a broad global audience. The successful recruiting of global market leading exhibitors across all categories has made the show the key market for buyers and senior executives representing U.S. and global retailers of housewares and home products.

DSNRT: What do you hear from retailers about the show and how are you responding to their concerns?

BRANDL: The show receives feedback from key retailers through two retailer advisory councils who meet at the show. We also visit many retailers throughout the year and stay close through phone and broad-based survey.

We address their concerns about show operations and seek their opinions on issues such as show timing, location and content.

At our recent show our retailer advisory council com-

mented on the large number of new products and the positive feeling about the future among exhibitors. They also recommended that we should focus on bringing all key industry exhibitors to the show and they confirmed our strategy to continue to make the show their key destination for home products.

DSNRT: What are your exhibitors telling you works best and what new features and initiatives are they asking for?

BRANDL: Based on many discussions, what they are not looking for is redundancy of shows and markets.

Regarding the International Home & Housewares Show, many have applauded the growing presence of independent retailers to complement the strong presence of larger retailers at the show. Independent hardware, specialty housewares, gift and home furnishings stores have attended in significantly greater numbers in recent years.

In addition, the show has added several programs that offer exhibitors the opportunity to gain broader recognition both at the show and beyond. Those include several design recognition initiatives, speaking opportunities and a ramped-up focus on reaching the consumer through show coverage. We estimate that the 2006 show will create more than 60 million consumer impressions, many of them focused on specific exhibitor's products.

DSNRT: How would you characterize the Housewares Industry today from a perspective of it meeting the needs of the consumer?

of latent, pent-up love for these brands, but we have to get to the level where we can deliver."

It is a process that is very much a work in progress as Sears continues to reformat stores into the latest Sears Grand prototype unveiled last month in South Carolina, with more stores slated to open in May. Additional Kmart stores will be remodeled to its own prototype that debuted in fall 2004 in White Plains, N.Y.

"The portfolio of stores that have been remodeled have exceeded our hurdle rates, which are in the double digits," said Lampert. "We'll be seeing many more Kmart remodels this year than last, separate and apart from our conversions to Sears Grand."

Lampert also addressed the company's shift away from Sears Essentials. "The early version of Sears Essentials was compromised on a lot of levels," he said. "We probably made a dozen mistakes from the labor model to the selection of merchandise in the stores." The bottom line was that Essentials confused customers in ways management believes Sears Grand will not.

BRANDL: Based on what we witnessed at the recent show, the industry has clearly heard the consumer's voice and has employed design to create distinctive solutions for those consumers. Our metrics indicate that this was a significant growth year for the introduction of new products.

DSNRT: How is the show helping the industry do that?

BRANDL: The show's focus on design and innovation has grown steadily over the past several years beginning with our student design competition, our Design Theater where industry experts share with exhibitors and attendees and the many new design education opportunities such as The Designed Table, focusing on award-winning uses of the latest tabletop and decor products; Design Defined, a celebration of noteworthy product design by show exhibitors; the Inventors Corner, where imagination meets the real world; and Design-ALIVE, an on-floor interview opportunity for working designers to discuss what motivates their latest creations.

DSNRT: Clearly, the realities of the production cycle and shipping are having a big impact on the housewares industry, but how are you helping exhibitors and retailers address those concerns in the context of the show and the association?

BRANDL: In the context of the International Housewares Association we are providing access to savings for both retailers and suppliers through several shipping cost discount programs. Suppliers may take advantage of lower costs on LTL and container freight.

And both suppliers and independent retailers can access IHA discounts on several FedEx services.

The show presents educational opportunities for both retailers and suppliers in areas as diverse as product development and store management.

DSNRT: Looking back at the latest Housewares Show, what do you regard as the more critical of new features that you have added?

BRANDL: Clearly, the most important additions were more buyers and key new exhibitors.

In terms of new features, the show's educational offering focused on design has grown over the past few years. In addition, we have stayed apace of trends in color through our heavily attended sessions on color trends presented annually by color guru Lee Eiseman and her Pantone color forecast which is matched to exhibitors products in the ColorWatch by Pantone display.

DSNRT: When you consider the feedback you've been getting about the show, what sticks in your mind and what criticisms are you most eager to address?

BRANDL: One of the challenges we are facing is a persistent flow of requests from both exhibitors and retailers, primarily but not exclusively independent retailers, to offer them more time to do their business. They cite the fact that most key international shows extend to five days and say that they are not able to meet with all potential partners in the time the show is currently open. We continue to work toward a solution that will work for all parties. ■

SEARS

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meet the press and press some flesh, afterward.

In all, Sears Holdings has had an impressive first year, improving bottom-line performance, integrating Kmart and Sears from an operations standpoint, combining branded merchandise from both stores and expanding the Sears Grand format. Going forward, 2006 will be all about getting back to basics. "There's no silver bullet," said ceo, Aylwin Lewis. "It's blocking and tackling."

In response to queries about the lack of top-line growth, Lampert said, "We think more sales are better than less, as long as they're the right kind of sales. But you have to have a solid base to build on."

For that, management has stressed getting Sears' stores in order by implementing better in-store management tools including a new allocation of labor as well as merchandise replenishment and product assortment. "We can't call the customers back until we can deliver," said Lewis. "We have a lot

Sears is still examining its merchandise mix, adjusting apparel offerings to eliminate duplication, and will upgrade the presentation of Lands' End product in Sears, but it will not be placed in Kmart stores.

Negotiations with Martha Stewart are ongoing, but with four years left on their contract to carry Martha Stewart Everyday at Kmart, Lampert will not add MSE merchandise into Sears stores given the uncertain future of their partnership. "It doesn't make sense to do something in the short term only to have it yanked away," he said.

Addressing the current negotiations to buy Sears Canada, Lampert told attendees that the company had a better chance of maintaining profitability in an increasingly competitive Canadian market as part of the larger Sears Holdings, rather than a separate entity.

"We are not going to be able to stop Lowe's from opening or Wal-Mart from expanding, but the chances of Sears Canada being successful are a lot higher on an integrated strategy than alone," he said. Lampert offered no new in-

"WE HAVE A LOT OF LATENT, PENT-UP LOVE FOR [SHLD'S] BRANDS, BUT WE HAVE TO GET TO THE LEVEL WHERE WE CAN DELIVER."

— AYLWIN LEWIS,
CEO, SEARS HOLDINGS

sight into the negotiations but was optimistic the deal would go through.

Sears Holdings is still a work in progress, but Lampert made it clear to shareholders that the work goes beyond the monetizing of real estate. "There's always been an opportunity there, but it's never been the reason for the merger," he said. "We took a company rich with heritage and brand and merged it with a company rich with real estate. That merger has opened up a lot more opportunity for both, [and] the opportunities are looking even better today than a year ago." ■