

CHAIN STORE AGE®

THE NEWSMAGAZINE FOR RETAIL EXECUTIVES

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The recent economic shock has left the industry with fewer players, smaller fleets and weakened offers. Faced with a whole new playing field, retailers are struggling to replace outmoded thinking with relevant new strategies.

A STATE OF THE INDUSTRY REPORT FROM
InterbrandDesignForum

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RESET.

THE NEW FORCES AT PLAY

The length and severity of the downturn has forced companies to confront basic assumptions about the way they've traditionally done business ... it's about time.

The thing about change is it's always overdue. According to many reports, for the past several years people have been losing interest in shopping. Year-over-year comp-store numbers have been generally lackluster. Companies have tried to compensate for middling numbers by opening new store concepts, and now many of those are struggling.

It's taken a crisis — an emotional, social and economic reset of the current environment — to move executives away from the kind of thinking that often leads to mediocrity. Strategies used in the past may not work going forward. Growth will be harder to find. The high cost of capital has increased the importance of leveraging current assets. The changed consumer and a new emphasis on brand experiences present challenge but opportunity as well.

This year, our State of the Industry report examines the new forces affecting the marketplace and takes a look at how retailers are finding ways to profit in the downturn.

Willingness to Change

Of all the new forces brought on by economic upheaval, the first and foremost is retail's greater willingness to change. One of the most common barriers to growth in any economy is resistance to doing things a new way. The volatile market means radical change is needed now, and the best retailers aren't wasting time. This is the moment to reap the advantages of recent technologies, reinvent broken systems and get back in touch with the reasons our stores were built in the first place.

Higher Expectations for Stores

In addition, there's been a change in the general perception of what makes a retail brand. It's no longer a store, it's an experience with multiple touchpoints. Customers expect their retail experience to be accessible anytime anyplace. Jumping gas prices have encouraged online and catalog buying. With traffic down at stores, retailers are bringing solutions to the shopper. Non-traditional retail sites include airports, casinos, cruise ships and college campuses with interruptive formats, such as kiosks, vending machines, mini-formats and pop-up stores.

Have Consumers Changed?

Of course the most challenging of all new factors is the current lack of consumer confidence. Consumers are shopping more for needs than wants. They are far less interested in endless choices and have less patience with clutter. While they are less inclined to add shopping trips or risk disappointment in new item trials, they still enjoy finding or experiencing something new. Retailers are learning to reframe their offerings according to this emergent mind-set. Consumers have also reframed their idea of "value." While price still enters into it, value doesn't always mean least expensive. There are other pretexts to purchase — or not. The challenge for the store is to understand and articulate these reasons in relation to their brand.

Analytic Tools Aid Marketing

Now that the consumer is immediately and digitally connected to his or her own network of information, purchase decisions are being made largely beyond the reach of controlled marketing messages. New shopper marketing techniques, aided by specialized analytic tools, allow retailers to take a deeper dive into shopper behavior. The resulting insights can focus the store's investments only on the things that matter to the customer. Design teams can then create store and shelf principles to improve the brand experience and influence purchase. The high potential return on investment for shopper marketing has captured retail's attention.

Brand is Central to Change and Innovation

If there's any silver lining to the downturn, it's that retailers once securely on the path to mediocrity have had to stop short and re-imagine their businesses. Brand thinking is coming to the forefront. Mining a retail brand for its competitive power and point of difference is essential if a store wants to lift itself above commodity status and develop a winning retail proposition. Brand is also central to the discovery of profitable creativity and innovation.

The era of expansion fueled by cheap-debt is over. The economic reset has left the industry with fewer players, smaller fleets and weakened offers. The way to growth is innovation and productivity in the aisles. Those retailers that look through the eyes of the shopper are going beyond "survival mode" to find efficient, effective ways to make the brand experience work harder.



HAVE PEOPLE CHANGED FOR GOOD?

It's still about winning their hearts and minds.

Yes. Frugality is here to stay.

The loss of jobs and household assets has been a wake-up call for Americans, 16% of whom are living on reduced pay and 5.7 million out of work. Lee Scott, former president and CEO of Wal-Mart Stores asserted that people have indeed changed and have no desire to go back to the debt-driven consumption that imperiled their livelihoods. Procter & Gamble chairman A.G. Lafley believes that spending patterns have been altered forever. Long after the recession, people will continue to repair instead of replace, dine at home instead of eating out, and continually revalidate their brand experiences according to value or sustainability. That will especially be true for the younger generation whose habits are being formed during a time of financial insecurity.

No. Americans spend to enjoy life.

Experts in public affairs and psychology point to the fact that although most of the population has been truly frightened by the economic crisis, they're not in a trauma state. Some aversion to debt will remain, but it's human nature to adjust to context very, very quickly. Behaviorists believe that a couple years discomfort isn't going to make people resist the purchases that they perceive will help them enjoy life and social status. After all, people are riding out the recession with flat screen TVs, iPhones and Wiis. There is a lot of money currently sitting on the sidelines that will flow with the return of consumer confidence.

At least for the short term, customers are no longer on auto-pilot. They are examining their brand loyalties and narrowing their decision criteria. The change in their choice behavior means every decision is an opportunity to steal market share. The retailer who responds with the strongest proposition has the best chance to win.



GETTING THE STORE BACK ON TRACK

Driven off course by short-term tactics, stores are regrounding themselves in the basics of a great shopping experience.

You would think that with all the belt tightening, price competition and lack of trust, we'd find ourselves in an era of reduced expectations for the store. In fact, it's just the opposite. With everyone competing fiercely on price, consumers

can afford to become more particular. And they are much less tolerant of poor service and indifferent shopping experiences.

The Home Depot views the economic downturn as an opportunity to create a more engaging brand experience. It's investing \$3 billion to develop new systems, improve stores and hire skilled associates. This is one of the rare times when a company as large as this home improvement giant is willing to push for change. The risk is low, and the upside is clear. The plan is to renovate stores for easier navigation and add more training to fix Home Depot's reputation for poor customer service. When customers finally begin to feel the effects of a recovery, they will find knowledgeable service and the merchandise they want in stock. CEO Frank Blake believes a downturn is a terrible thing to waste.

Macy's CEO Terry Lundgren concurs. "There's no resistance to trying new things; everyone is anxious to stimulate sales and get the customer shopping again." Macy's has been using the time to test and refine its localization initiative, a program that caters its department store offerings to local shoppers' tastes. The revamped stores, each with a different layout, will be "prototypical instead of a prototype."

Budget-conscious customers are no longer looking for endless choices. They are also sticking to familiar brands. There is less patience for clutter, and a stronger desire to simplify their lives and consolidate their shopping trips. Retailers who've picked up on this new dynamic have realized that "less is more." Some merchants are expected to slice SKUs by at least 15%. A few of the largest retailers, such as Walgreens and Walmart, are responding by reducing assortments in favor of those that are most relevant, a strategy that is lifting overall sales.



ENHANCED STORE EXPERIENCES ADD VALUE

Giving the shopper what she really needs: inspiration.

Arts and crafts retailer Michaels is seeing a pronounced impact from an engaging new store experience designed to spark the shopper's imagination. By mapping the shopper journey and asking shoppers why they purchased, not just what, when and how much, the craft retailer discovered their need went beyond crafting materials to a desire for inspiration and fun. The store's brand positioning became "Where Creativity Happens." Brand and shopper insights enriched the new design of Michaels from the category level all the way through to the shelf.

The company concentrated its efforts on five store categories with the highest business potential. The jewelry section is one of the five seeing the most dramatic reaction from shoppers. Design, merchandising and staffing gave it a boutique feel;

shelf organization has more relevant breakups, flow and SKU placement. Crafters are delighted, and blogs are buzzing about the fun and inspiration to be found in the new design.

Almost any retailer can find a way to add value to the experience by auditing the store. Year after year, the most common criticism leveled against stores is that they are hard to shop. Supermarkets and big boxes in particular have been known to fill aisles with pallets and displays for shoppers to dodge. Customers have even come to expect out-of-stocks.

In any downturn, the tendency is to add more promotional messaging than is really needed. Things tend to creep onto the sales floor that have nothing to do with the retail brand and no relevance to the target segment. Only the most determined brands refuse to let the economy force them into clutter or opportunistic buying. A fresh look at the space and new insights into how customers want the brand to serve them are working for Michaels.

WHAT'S IT WORTH?

The definition of value is fluid. Despite the recession, price is only part of it.

By now most people are familiar with the Radiohead story. The band offered their album online for download, which resulted in 1.5 million downloads in the first week and an estimated \$10 million in profits, more than the sales of their first three albums combined. Remarkable because fans were allowed to set their own price for the album, including zero. Radiohead essentially asked the customer at transaction time, "What is this worth to you?" The fact that they paid on average \$8 per album clearly demonstrates how value has moved from the company to the customer.

Price is part, but not all, of the value message today. During the pre-recession bubble, value propositions went far away from price to fashionable aspirations. Once the downturn hit, most retailers went straight to the sticker. But price competition is not sustainable because the definition of value is fluid.

It includes ideas around purchase such as occasion, quality, convenience, experience, current finances, time, reputation, availability or rarity, taste, comfort and simplicity. When a shopper is at the shelf, the question he is most likely to ask himself is not, "Is it the least expensive?" but "Is it worth the price?" And "worth" has come to mean "value" plus "reason."

It's retail's challenge to articulate the reason to buy. The solution is a balanced value proposition



unique to the brand. Crucial, because without it a brand's power to create demand is diluted.

Retailers are delivering value or "worth" in many ways. For example, people are dining out less. This allows a grocer the chance to boost its category by filling a different role, such as providing suggestions on how to make a great dining experience in the home. With consumer creativity, choice and self-sufficiency at an all-time high, value must have a reason.

CAN LUXURY SURVIVE THE ECONOMY?



The new role of luxury is to help people feel comfortable with wealth.

Jewelry, autos, designer clothing — the whole point of extravagance is delight in its display, which at the moment may appear insensitive. Many wealthy consumers have scaled back their spending, and those who haven't are being more discreet. Analysts report that spending at luxury retailers is down a staggering 30%.

Apparel retailers forced to slash prices so drastically to get rid of inventory left people questioning how much things should really cost. Venerable brands, such as Tiffany & Co. and Hermes, are wooing shoppers with messages of fine craftsmanship, history and heritage. Others are adding simpler, smaller versions of indulgent items to their mix in order to make their customers feel comfortable.

Experts predict the global luxury market will begin stabilizing in the second half of the year, resulting in a net decline of 10% overall for cosmetics, fragrances, apparel, jewelry, watches and accessories. On the up side, a recent study reveals a trend among luxury shoppers to remain loyal to their top-of-mind brands even though they are currently switching to lower-price-point items.

VALUE STORES ENJOY THE SPOTLIGHT

Gaining sales through price and accelerating growth through a better experience.

Extreme-value retailers and dollar stores are happily stealing share from all channels, attracting consumers across all income level with their low, low prices. The value players are taking advantage of the opportunity to serve a wider swath of thrifty customers by investing in the shopping experience with things such as wider aisles, better lighting and improved signage.



The collapse of real estate rents and remodeled stores are allowing these largely urban/rural/strip mall players to move into better suburban locations. Closeout retailer Big Lots has added branded consumables to its mix, remodeled its store for improved merchandise display and put in place a new organizational system for getting deals quickly and easily onto the floor. It plans to open more stores in 2009 than it has in the last three years combined.

Discount giant Walmart is attracting more affluent consumers. Seventeen percent of the company's store traffic comes from new households who are spending 40% more than the average Walmart customer. Problems associated with navigation and checkout lines are being addressed in newly remodeled stores, and future discretionary dollars will be wooed with an enhanced portfolio of brands and an improved overall shopping experience.



NEW RETAIL PLAYS

Even though resources are limited and tension is high, there are signs of entrepreneurship and creativity.

“Is anybody buying anything except food?”

That was the plaintive question asked by one retail expert who noted that food retailing seems to be the only recession-proof category. Consumables were the strongest performers for supercenters, warehouse clubs and dollar stores. Target is expanding its groceries to include about 90% of the SKUs found in traditional supermarkets.

Convenience is still king. Maybe emperor.

Stop & Shop is counting on technology in the form of handheld scanners to improve the customer shopping experience. The device calls out sale prices, provides a running total and reduces time spent in checkout. Drug chains are on the convenience forefront: CVS/pharmacy has 500 retail-based MinuteClinic units — open 7 days a week, some even for 24 hours — integrated into its pharmacy care services. It is currently enhancing its CVS.com offering, working through Google Health to allow customers to better store, organize and manage their prescription history online.

Is it bad timing or good strategy for high-end deals?

Procter & Gamble moves into prestige retail via the acquisition of the 36-store men’s grooming chain, The Art of Shaving, a destination that offers, among other items, \$150 razors. It will be interesting to see if P&G keeps the chain small to preserve its cachet. Even though Staples’ same-store sales dropped 8% in a recent quarter, the office products superstore just introduced 25 exclusive co-branded office products from OXO Good Grips that cost up to five times more than the store’s own brand. The exclusive arrangement may yield strategic gains by differentiating Staples from its rivals.



Strength lies in flexibility.

Who knew the current climate was hospitable to high-priced yoga pants? Vertically integrated Lululemon Athletica is thriving with 113 stores and plans for slow but steady expansion, thanks to its success in an underserved market in women’s athletic wear.

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APPAREL CONCEPTS STUMBLE

Specialty apparel isn't special enough.

Fashion retail is the most challenging of all categories, since predicting the style whims of the population comes with significant risk. Weak brand propositions are being culled from the herd. Jones Apparel Group will shutter 225 units, Ann Taylor plans to close 163 stores, Abercrombie & Fitch is abandoning its 29 Ruehl stores, and Pacific Sunwear closed its d.e.m.o. and One Thousand Steps divisions.

Companies such as Zumiez, American Eagle Outfitters and Aéropostale are eyeing opportunities in the volatile market, although American Eagle's 28-unit apparel concept, Martin + Osa, may not survive. Aéropostale closed Jimmy'Z but launched a tween concept, P.S. from Aéropostale with a reported potential for 500 locations.

A concept like the Limited Group's playful Pink brand resonates with its target more effectively than many of the intimate apparel entries at the malls. Perhaps because there are more aesthetic, rational and emotional dimensions associated with it.

Failure of many of the fashion retail concepts is being blamed on failure of niche segmentation and the current squeeze on credit cards. The 2009 Most Valuable U.S. Retail Brands report from Interbrand Design Forum suggests that there's not enough differentiation or defensible identity among brands. When you have little to spend, there's no reason to buy the high-priced polo shirt instead of a lower-priced version with the right value equation.



Used Lululemon items have high resale value on eBay, where even its shopping bags, free in the store, sell for \$5.

Less continues to be more.

Some retail experts are advising chains to close 5% to 20% of their stores and invest those resources in keeping the remainder of the fleet healthy. For the past three years, OfficeMax has been slowing the pace of its expansion but recently opened three new smaller-concept stores called Ink Paper Scissors. Its 2,000-sq.-ft. format is cheaper, requires less inventory and fewer employees. Downsized concept stores not only allow companies to enter new markets, they feel more personal, especially now when there is such a thing as too much variety.

Big ideas are often small.

Opening stores during the downturn comes with a risk, but when done carefully and strategically positions retailers for success when the economy turns. The Whopper Bar is a brand innovation for Burger King with a hip youthful flair. The intimate and fun concept offers the chain new opportunities because of its ability to adapt to smaller footprints in non-traditional retail areas.

You are known by the company you keep ... or acquire.

Amazon.com purchased online shoe retailer Zappos for \$807 million to bolster its offering in apparel. T-Mobile teamed up with RadioShack, now rebranding itself as The Shack, to sell phones and services in more than 4,000 of RadioShack's stores where it joins Alltel, AT&T Mobility and Sprint Nextel. Toys "R" Us is now associated with a premium brand through its purchase of FAO Schwarz. It also acquired eToys.com, babyuniverse.com and ePregnancy.com to conquer more of the market and become the No. 3 toy retailer after Walmart and Target.



GIVE MY REGARDS TO BROADWAY

JCPenney is in Herald Square.

Top retail talent has transformed J.C. Penney from its image as a quality-and-value clothing store to a style destination with exclusive fashionable private brands. One of Penney's latest, the "Joe" by Joseph Abboud men's label, will be found exclusively at the Manhattan store ahead of a nationwide launch. The flagship expects to do big business for the retailer, potentially \$90 million annually once it hits its stride, providing healthy competition for Macy's across the square.



THE RISE OF SHOPPER MARKETING

Advertising is broken. PR and digital reign. The economy is anemic and shoppers wary. What's a marketing team to do?

Back when shopping was still offline and all media was mass, marketers considered the store just a tactical channel for price and value promotions. No one looked beyond the day's receipts and traditional marketing surveys to measure what was going on in the store.

Now that the digital revolution has given media power to the consumer, too many things are vying for her attention, and too many media platforms make it difficult for her to narrow her focus. Shoppers need help finding, simplifying and justifying their decisions. That's why, in addition

to its traditional role as a builder of awareness, marketing has become by necessity a form of listening and facilitation.

Shopper marketing is the study of how shoppers behave in the store, where the majority of purchase decisions still take place. The insights are applied to the creation of high-performing stores through merchandise planning, adjacencies, shelf strategies and packaging. New plans can be modeled and measured to control cost and manage outcomes, making it one of the most efficient and effective marketing tools available today.

Economic pressure is leading to big shopper-centered changes. Even though the retail investment in shopper marketing is currently low, the search for growth will spur greater adoption of its principles.

ANALYTICS, INSIGHTS AND DESIGN

Consumer and Shopper are not one and the same. The behavior is different, and so is the segmentation.

Retailers now know that shopper differences abound by category, by brand and by mission, and they can only be revealed by a study of the shopper. “Shopper” is the word used to describe the consumer once they’re inside the store actively making decisions.

Research has discovered that people alternate between two mind-sets when they experience brands. In consumer-mode, we passively receive the media message about the brand. As we move through the store, we work through decision criteria right up to the point where we’re standing at the shelf.



This shopper mind-set is where more of the smart marketing budgets are going — the exploration of what the shopper needs from the store experience to make a choice. Specialized research and retail analytics can now uncover her choice drivers, purchase-decision hierarchy and sources of dissatisfaction — that’s exciting, because those sources of dissatisfaction are the opportunities for innovation and growth.

Applied shopper insights result in a more effective selling space.

Marketers often misunderstand their customers, believing they shop in a manner opposite to what they really do once inside the store. For example, say a small-format beauty store has used a traditional consumer segmentation approach to slot its customers into four categories: Sensible, Fussy, Vain and Perfect. The shelves are set assuming they all share one similar shopping style. Shopper behavior study reveals that the four segments exhibited two different shopping styles. Sensible and Perfect are “purposeful” shoppers after particular products. Vain and Fussy are “thrill me” shoppers looking for a reason to stop and select. Drilling down further reveals that once the purposeful shopper makes her selection, she switches to thrill-me mode, with no urgency to leave the store. And what they both need/want is education about the benefits of a new regimen and possible creative product combinations.

But the real breakthrough is realizing the importance of a well-understood target shopper and the impact that deep insights have on store design and merchandising decisions.



THE HUMAN TOUCHPOINTS

More stores emphasize brand engagement.

The reason retailers need to devote attention and resources to their people and culture? These individuals are empowered touchpoints who can keep shoppers coming to the store — even when everything in the store is available elsewhere.

To make sure they're true ambassadors of the brand, The Cheesecake Factory holds daily meetings and tests its staffers regularly on their menu knowledge. Job applicants are quizzed on Cheesecake culture before they are hired. Workers are well trained and generously compensated. The goal is to have employee enthusiasm bubble up into customer enthusiasm. It must be working. The Cheesecake Factory has become a billion-dollar chain, and part of its success can be attributed to its brand engagement program.

A RETAIL EXPERIENCE IS THE SUM OF ITS TOUCHPOINTS

Retailers continue to underestimate the number and importance of their brand's touchpoints.

Mobility and the Internet have exploded the traditional structures of retail. Shoppers are assembling their own experiences from online, catalog and digital tools to build the store they want. In reaction, companies are exploring ways to create communities around their brands through the use of social networks, word of mouth, Web 2.0 tools such as Twitter, pop-up stores and branded events.

The store is becoming more of a relationship than a destination — more of a community of interest around the things being offered by the business. Now that the tools are available to do so, forward-thinking stores are co-creating with their customers, giving them opportunity to engage.

Ikea devotees find the store experience, the catalog and the online experience to be filled with inspiration, serene style and beauty — not to mention affordability — even though they have to haul the flatpacks home and assemble the furniture themselves. The touchpoints are so effective, they forget about the pain points. And Ikea fans will be further enraptured by the company's investment in renewable energy, and its commitment to water and energy conservation. It has even recently launched a pay-as-you-go mobile service.

U.K. retailer Marks & Spencer raised eyebrows recently when it terminated its in-store ordering and pickup service, justifying its removal by saying that shoppers can order online or by phone for delivery. The thinking seems to be at odds with the trend toward enhancing service in the downturn.

The economy has called on consumers to research, budget, manage time and evaluate options, which they do via a complex network of information. Every point in the network could become the means of a better shopper relationship.

A BALANCING ACT FOR PRIVATE BRANDS

In a shopper-centered landscape, more private labels are vying with national brand names for shelf space.

Spurred by penny-pinching consumers, 2008 saw a 9.3% increase in private and value labels compared with a 4.5% rise for name brands. Hundreds more private-label items have flooded onto shelves this year alone, particularly in food. And some mass retailers have found that strategically cutting inventory can lift sales and profits, opening more shelf space for house brands.

A rush to react to the new marketplace dynamics could lead both manufacturers and retailers to make decisions that may weaken their respective brand equities. For example, a strictly copycat house brand may only borrow momentum from the famous name beside it on the shelf, rather than build equity for its retailer. CPG companies

may think the answer is brand extension, when product innovation might be the best way to grow distribution.

Today's shrinking economy is opening the door for more collaboration between retailers and their manufacturing partners to find a rationalized mix that will increase share, save marketing/trade money and make life easier for the customer.

Department stores have carried their own brands for years as a method of relevant differentiation and increased margins. This summer, Saks Fifth Avenue devoted a corner window to the store's own line of menswear in place of the designer collection that would normally occupy that spot. Bloomingdale's will put its moniker on a new line for men, affordable but still upscale, aiming to attract a new customer. Despite the backlash against designer goods now perceived as overpriced, luxury department stores still need the mystique of European labels. The optimum balance of national, exclusive and owned brands has never been more urgent and challenging.

PREDICTION: THE CENTER STORE WILL DISAPPEAR

Shoppers are going online for commodities.

"Cans are hot!" declared *Brandweek* magazine in July. For the first time in five years, consumers are turning their attention from the supermarket's fresh and frozen perimeters to the main aisles where non-perishables are stacked on "shelves and facings ad nauseum." There's not a lot of reason to shop it when you can afford not to.

As grocery experts point out, the center store hasn't changed in 100 years. A total re-think is a century overdue. How can that space work better

for the customer and the store brand rather than just the vendors?

The fact that Amazon.com and Peapod have experienced an increase in online ordering and delivery of basic, mundane "replenishment" products has prompted some experts to predict, or perhaps just hope, that center store will disappear, creating a double value-add experience for the consumer.



WE'VE GOT THE CRISIS. WHERE'S THE INNOVATION?

History indicates that game-changing technologies or business models appear during downturns.

Where are all the flying cars, personal jet packs and robot housemaids promised by modern technology and downturns? As for innovation in the store, the last game-changer was the self checkout. Are there any new ideas?

Yes, but they fall more into the category of "small and meaningful" than "revolutionary." Instead of

waiting for the next iPhone to come over the horizon, retailers are gaining ground through small ideas with big impact.

Service touches are earning Zappos.com a loyal following. Sending an e-mail or calling to say the shoes you want are now in stock in your size, or secretly upgrading delivery to overnight is delighting Zappos customers.

Walmart has a "site to store express" for its online orders that allows unlimited free shipping to the store of your choice with a small annual fee.

American Apparel is enjoying positive results from its adoption of item-level RFID tagging. Inventory accuracy means being able to keep the retailer's sales floors stocked, which helps boost sales, in one store by an estimated 15%.

Sunglass Hut introduced a new retail concept called SocialSun, where customers snap photos of themselves trying on sunglasses, post them or send them to friends. It's clear the idea is engaging, as it is encouraging the retailers' 20-something customers to return to the store.



Some great ideas have come out of company operations, such as Trader Joe's ability to continually source new inexpensive and interesting food.

Making it easier and simpler for your customers to be environmentally responsible, appealing to their social concerns, is a small idea with a potentially big return for the right brand. Patagonia tracks its goods from design to distribution to determine

environmental impact and posts the results on its Web site. It measures water consumption as well as energy consumption, waste, carbon emissions and distance traveled for some products — perhaps

starting a trend that other vertical retailers will follow.

And for the urban dweller, Best Buy, the store that never stops innovating, will begin selling the Brammo electric motorcycle in a few of its West Coast stores this year.

Apple sends its receipts by e-mail, which not only saves paper but allows an additional touchpoint after the sale transaction. The store has also dispensed with

fixed registers and has given all its staff handheld registers so customers don't need to stand in the dreaded line.

To encourage savings, Bank of America has a "Keep the Change" check card program, which rounds up purchases to the nearest dollar and transfers the difference to the customer's savings account.

There are many societal issues caught up in retail today. The credit crunch has people questioning the wisdom of their devotion to fast fashion and cool consumer electronics. Analysts speculate that the retail innovations that appear over the next decade will have to respond to a different set of criteria: localization, lower margins, lifestyle shopping and sustainable consumption.



RESET OR RENAISSANCE?

Brand is the business case for change.

They say you can't learn from success. So if the recession has accelerated the failure of mediocrity, that's arguably a good thing. It means there's a lot of learning going on right now.

Those retailers still battling fear and inertia can look to brand to help them build a business case for change. Latent competitive advantages often lie in a retailer's most important business asset — the heart, name and face of the company.

An understanding of how your own brand works helps determine the way forward in good times and bad. Its animating principles can help improve functional alignment. The ideas around a brand that inspire and endure can become the source of innovation — and deliver measurable business results to boot.

Brand can lead the way to a new attitude or a new design that signals a change in the way business is being conducted. In a departure from the chain mentality that has robbed it of some of its cachet in





recent years, Starbucks is looking to blend in better with its local environs. The chain is testing a format whereby stores will be named for their surrounding neighborhood, with the Starbucks name nowhere to be found. The prototype, called 15th Avenue Coffee & Tea, is in Seattle and has a rustic look. The design is eclectic and raw, featuring locally sourced and reused materials that are one-of-a-kind.

In the same vein, a group of 13 department stores in Italy is being redesigned in a way that speaks perfectly to the power of brand. La Rinascente, whose name appropriately means rebirth, has undergone a makeover from “clunky contessa to chic chick.” The first store to be reborn is the Milan location right next to the recently restored Duomo cathedral.

The transformation is inspiring on every level. The department store fills a gap in the marketplace, as Italy has little to offer between the extremely high end and the low cheap-and-cheerful retailers; La Rinascente occupies the middle ground. Its merchandise mix is hip and exciting, a perfect match for the fresh contemporary pulse of Milano.

It took great courage to gut the building’s 150-year-old interior and reorient the traffic flow, in a way that encourages shoppers to explore and experi-

ment without pressure, and be inspired by the store’s merchandising creativity. Most importantly, the brand ideals of La Rinascente led to the creation of a highly individual identity, one that’s vivacious and able to engage its patrons who enjoy life and beautiful design.



And because the Mediterranean culture is strong on socializing, conviviality is encouraged by the food hall and stunning restaurants with windows overlooking the Duomo’s spires. Adding to the beauty: sales are up 30%.

Predictions set the number of U.S. store closures this year at 4,600 on top of almost 7,000 last year. In a smaller landscape with tougher competition for share of wallet, there’s no hiding mediocrity. Remaining stores must work harder and stay focused on brand experience, which does not require mountains of capital or undue risk. The good news is creativity, innovation and meaningful change are more possible — and more likely to be appreciated by the shopper.

ACKNOWLEDGMENTS

InterbrandDesignForum

For more than 30 years we have been creating retail brand experiences for companies around the world.

Interbrand Design Forum's talent for game-changing innovation spurred us to create a business model that integrates analytics-based strategy into what began as a design and architecture group — the first and only company with such a comprehensive offering. This unique ability to address retail's growing complexity led many of the world's top companies to our doorstep and propelled Interbrand Design Forum to the forefront of the industry.

In 2008, we added Interbrand to our Design Forum name to reflect our place in the world's largest branding consultancy; we have been part of Interbrand since 2002. Today, we have 1,200 associates in almost 40 offices around the globe and a practice that brings together a diverse team of insightful right- and left-brain thinkers. This deep talent pool makes our business both rigorously analytic and highly creative.

As a result, we have changed the dialogue, defined the meaning of brand management, and continue to lead the debate around brand as a valuable business asset and what that means to retailers. By making brand central to our clients' strategic business goals, we help them create, manage and grow the value of their brands.

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Online, chainstoreage.com covers the industry 24/7, with daily retail news updates, breaking news, interactive media, detailed reports, expert analysis and category-specific e-newsletters, including TechTalk Tuesday, SiteTalk and SPECS Talk, as well as a weekly news roundup.

Chain Store Age produces the annual SPECS conference, the industry's premier event dedicated to store planning and design, construction and facilities management (specsshow.com). It also produces Executive SPECS, a management development and networking event for senior-level executives involved in store planning, construction, facilities, operations and real estate, and the Retail Store of the Year design competition.

For more information on *Chain Store Age*, contact Gary Esposito, associate publisher, 212-756-5118, gesposito@chainstoreage.com. The mailing address is: Chain Store Age, 425 Park Avenue, New York, NY, 10022.