Bucking the trend

By David Heaton, Contributing Editor

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Times have changed in the retail world. During the past year it seems hardly a day has gone by without at least one retail store either going belly-up or laying off its employees. However, some companies are finding success amidst the recent turbulence.

Kohl's, Walgreens and Lowe's Home Improvement have each enjoyed a strong economic performance and rapid expansion in the past year. All three publicly traded companies have a specific plan that is reinforced with each store that opens.

Kohl's: Keep it simple

When it comes to department store chains, few can match the performance of Kohl's. The Menomonee Falls, Wis.-based retailer is enjoying its most successful year to date and plans to open 50 to 60 new stores this year, including major expansions in Atlanta and Boston.

Kohl's philosophy is simple, said Susan Henderson, vice president of public relations for Kohl's. The company asks itself, “How can customers buy more and spend less time in our stores?”

This translates into a low-key atmosphere, according to industry observers. “Kohl's offers no thrills,” said Fred Marx, retail analyst and partner with Farmington Hills, Mich.-based Marx Layne Public Relations. “You will get no red-carpet treatment, but you will get a company that is well-branded, basic and brings an ease to discount shopping.”

A typical Kohl's store is approximately 86,000 sq. ft., which is almost half the size of most department stores. An estimated 89% of Kohl's stores are on a single floor. These factors have helped Kohl's achieve higher sales per square foot than JCPenney and Sears, noted company officials.

Aside from offering discount prices and national brands such as Bugle Boy, Nike and Adidas, Kohl's provides customers with an interesting store layout. Stores are designed like a racetrack. The format is not new — in fact, many retailers use this type of format — but industry analysts agree that Kohl's implements this concept better than other retailers.

“They know how to promote; therefore, you cannot ignore them,” said Marx. “They have caught Sears and JCPenney sleeping because their concept is so clear and consistent. The stores just hum.”

Help from closings

Kohl's also has capitalized on the bankruptcies of retailers Montgomery Ward and Bradlees, and the subsequent closing of their stores. The company has entered into a joint agreement with The Home Depot, Atlanta, and Bentonville, Ark.-based Wal-Mart to collectively purchase the rights to occupy 35 former Bradlees stores. If the deal is approved, Kohl's will acquire 12 stores in the Boston market and three stores in New Jersey. Kohl's plans to remodel the stores and open them by spring 2002. The remaining 20 stores will be divided between Home Depot and Wal-Mart.
Industry analysts say that Kohl's has kept its nose to the grindstone during the past decade. “While some retailers have coasted along during the past 10 years, Kohl's did its homework and has responded incredibly while others rested on their laurels,” said Faith Hope Consolo, vice chairman of New York-based Garrig-Aug Associates Store Leasing Inc. “It is making discount fashionable.”

How much longer can Kohl's keep up its success? Only time will tell. For now, though, Kohl's continues to thrive.

**Walgreens: Busy building**

As opposed to its primary competitor, CVS Corp. of Woonsocket, R.I., which has a heavy East Coast presence, Walgreens Co. is expanding at a furious pace across the nation. The Deerfield, Ill.-based drugstore chain is in the process of opening 500 new stores and is on pace to build 6,000 stores by 2010. Walgreens, which began as a neighborhood drugstore in Chicago in 1901, currently has 3,343 stores in 43 states and Puerto Rico.

“We're not fearful of overbuilding,” said Carol Hively, director of corporate communications for Walgreens. “We've done our research and we're confident the stores we're building will be successful for years to come.”

Walgreens' philosophy is quite simple, according to Hively. “We don't acquire drugstores,” she said. “Typically, we build new freestanding stores on the corners of busy intersections. Many of our older stores, which are often located in strip shopping centers, are in the process of being relocated to freestanding buildings with drive-thru pharmacies.”

Industry analysts agree that Walgreens' method of expansion differs from that of other drugstores.

“Other companies, such as Rite-Aid and Eckerd, have expanded through acquisitions, store closings and re-openings. Walgreens does not do that,” said Howard Mackler, chairman and COO of Excess Space Disposition Inc., which is based in Lake Success, N.Y., and Huntington Beach, Calif.

**A quick stop**

The ideal location for a Walgreens store is at the corner of “Main and Main Street,” Hively said. “We like a location with easy access to major afternoon commuter traffic because many customers stop in on their way home from work.”

Walgreens is designed for customers looking to do some quick-stop shopping, said Fred Marx, retail analyst and partner with Farmington Hills, Mich.-based Marx Layne Public Relations. “Walgreens has a managed-growth plan,” Marx said. “The company only wants high-visibility locations, where customers can get in and out of the store within 10 minutes and be on their way.”

The average customer spends only a few minutes in the store, coming in for one or two items and leaving with three or four, according to Hively. A typical non-pharmacy transaction is $10.

Walgreens, which uses a basic store blueprint of 14,500 sq. ft., is experiencing some competition from big-box
retailers such as Target, Wal-Mart and Kmart, which are adding their own pharmacies. However, the company's brain trust remains unfazed by these moves.

“Walgreens does not think the big boys will pose much of a threat,” Marx said. “It's all about time and convenience. If people want to get in and out in a hurry, they will not go to Target or Wal-Mart, but to Walgreens.”

Walgreens at a glance

- Walgreens is a Deerfied, Ill.-based retailer that operates neighborhood drugstores.
- NYSE symbol: WAG
- Price as of 4/25/01: $41.27
- 52-Week High: $45.75
- 52-Week Low: $25.81

Going forward, the drugstore chain has several objectives, Hively said. The company wants to enter new markets, increase its presence in its existing markets and renovate existing stores. Walgreens also seeks to explore international opportunities as well as offer an online drugstore completely integrated with its brick-and-mortar stores.

The drugstore chain is predicting continued success, in part because of demographics and increased lifespans. As the baby boomer generation ages and the elderly live longer, the demand for prescription drugs is increasing dramatically, Hively said.

“People of all ages are living busy, active lifestyles,” she said. “Part of Walgreens' success has been our ability to adapt to the changing needs and shopping habits of customers and anticipate those trends.”

Lowe's: Not backing down

For years the home improvement market has been dominated by the familiar orange color of Home Depot, but times are changing. Now there is blue on the horizon, the logo color of Wilkesboro, N.C.-based Lowe's Home Improvement. Lowe's is still the nation's No. 2 do-it-yourself chain, but the company is giving Home Depot a run for its money.

Lowe's is in the most aggressive expansion phase in its history. The company intends to grow its square footage by 18% to 20% a year during the next three to five years, according to Chris Ahern, director of public relations for Lowe's. The home improvement chain will focus primarily on growth in major metropolitan markets.

Lowe's plans to build approximately 120 stores this year. The chain currently has more than 650 stores in 40 states, while Home Depot has 1,100 stores worldwide and in 46 states.

In the Northeast, where Lowe's currently has 50 stores, the company plans to open more than 75 stores during the next five years, including 25 in Boston. The growth will challenge the market dominance of Home Depot, which currently has 192 stores in the region.

Lowe's also will expand in Florida and on the West Coast, Ahern said. “We bought the former Eagle Hardware & Garden stores on the West Coast and are currently converting those stores.”

However, the company does not have any immediate plans to expand internationally. “We feel there is plenty of opportunity for growth in the United States,” Ahern said. “Lowe's does have relationships with international companies that we share information and ideas with, but we have no plans to go across U.S. borders at this
Lowe's employs rigorous standards when evaluating a potential site, Ahern added. “There are about 450 factors we look at when choosing a site,” she said. “We want to be where the homeowners are.”

The chain's success can be attributed in part to its store design, said Jule Eller, a Lowe's spokesperson. “Our aisles are wider and brighter which makes the stores easier to shop,” she said. “Also, instead of just telling customers where an item is located, our store clerks will actually take you to where the product is located.” An average Lowe's store is about 150,000 sq. ft.

Lowe's at a glance

- Lowe's is a Wilkesboro, N.C.-based retailer that operates home improvement stores.
- NYSE symbol: LOW
- Price as of 4/25/01: $56.60
- 52-Week High: $64.50
- 52-Week Low: $34.25

Part of Lowe's appeal is its atmosphere, according to industry observers. “Lowe's has a small-town feel to it, much like a Wal-Mart,” said Fred Marx, retail analyst and partner with Farmington Hills, Mich.-based Marx Layne Public Relations. “You can't ignore them. They might not be at your best locations, but they are surviving and doing quite well.”

A bitter battle

The home-improvement chain is not backing down from Home Depot. Both companies are claiming the other has higher prices. Both guarantee they will beat a competitor's price by 10% if a customer finds the same item priced lower elsewhere.

Home Depot has started an aggressive radio and TV ad campaign that blasts Lowe's for having higher prices for sprinklers, tools and other products. Lowe's is retaliating with its own campaign.

“When is an orange really a lemon?” queries a radio ad for Lowe's, referring to Home Depot's familiar orange color. “It's when Home Depot tries to convince you that by temporarily reducing their prices on a few advertised items, as they've done recently, that they have the lowest prices.”

These ads follow Home Depot's surprise 10%-off sale at Christmas that helped clear out slow-moving merchandise, a campaign that Lowe's matched. Both companies hope the ads will nudge consumers who have cut back on home improvements in recent months because of the slowing economy.

Lowe's may never overtake Home Depot, but the second-largest home improvement chain is not sitting still. The company is attempting to match every move its competitor makes, often building right across the street from its archrival.

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