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View from the Top

State-of-the-store insights into critical issues shaping retailing from five leading CEOs.

By Joe Skorupa

Where is the national economy heading? Will a challenging retail environment continue to foster uncertainty? What role does IT play? What are the major trends for 2005 and beyond? These are the big questions, the kind many of us ponder as we search for signs and indicators to guide our decisions.

Who could possibly know answers to questions like these? Many people have opinions, but one elite group of retailers has all the answers — chief executive officers (CEOs). Decision-making is part of their job description, as they shape the destinies of organizations and assume ultimate responsibility for their business performance.

So, we went right to the top for this month's gathering of key insights and tapped the following CEOs:

Marty Allen, CEO of Party America, which has grown from 30 stores 18 months ago to 300 today.

Brian Devine, Chairman of Petco, the \$1.6 billion pet supplies giant that has more than 700 stores.

Judy George, founder and CEO of Domain Home Fashions, a privately held division of AGA Foodservice Group, that had year-over year growth exceeding 30 percent.

Steve Odland, CEO since 2001 for AutoZone, the \$5.6 billion auto parts leader with more than 3,600 stores.

Kevin Turner, CEO of Sam's Club, the \$34.5 billion member's warehouse retailer that's part of the Wal-Mart empire.

RIS: What direction do you see the national economy heading in 2005?

Steve Odland, CEO, AutoZone: The economy will likely continue its moderate growth path over the next few years. The steady improvements in productivity, derived from capital investments, are driving a sustained GDP growth while maintaining a low inflation rate.

Judy George, CEO, Domain: I have high expectations that the economy will improve. Unemployment has fallen, after-tax income is up and household wealth is at an all-time high. With inflation, interest and mortgage rates remaining low, the strong housing market will continue to stimulate solid demand for home furnishings and furniture.

Marty Allen, CEO, Party America: I believe that it will continue to improve as much of the correction, including the 'get rich without proving value' mentality is over. Businesses are working hard for their profits. And growth will be steady.

RIS: How would you describe the level of contribution IT makes to your organization?

Brian Devine, Chairman, Petco: Our systems are at the core of several strategies in areas of the company ranging from supply chain to marketing. They enable us to ensure the products our customers want are readily available in stores, just as they provide us with tools to communicate directly with those customers using our P.A.L.S. loyalty card program.

Allen: IT is like electricity. It runs everything in our company. When it's on, we run great, when it's off, it is very dark at Party America. Therefore, it needs to be on all the time.

George: Domain's retail spending profile in 2004 for IT improvements was relatively flat. In 2005, Domain plans to increase IT budgets by 5.8 percent over last year. Planned investments in retail-specific application technology will help support the goal of profitable differentiation, creating valuable information for our customers and better store experiences.

RIS: How would you describe an optimum go-forward strategy for IT in retailing?

Odland: Find ways to leverage IT investment to improve customer service. An example is our ability to deliver information that enables our AutoZoners to provide customers with trustworthy advice. When a customer's check-engine light is on, we can help them diagnose the problem for free. Our AutoZoners can pull the code, look it up in our system, help diagnose the cause, tell the customer where the component is located on the car, test the old component, look up the replacement part, and sell the customer a solution. This wouldn't be possible without the application of technology.

Devine: In retail, you are constantly investing in IT systems because it is a logistics-driven business. To have great systems is a competitive advantage that leads to higher inventory turns and optimal pricing, which directly enhances capital efficiency and profitability. Petco's proprietary systems are an important resource for our managers, who are able to monitor merchandising trends and customer behavior in real-time, and share this information with our vendor partners.

RIS: How heavily involved do you get in IT decision making?

Allen: I continue to get more involved as IT is all about my customer. Better registers, quicker checkout. Better reports, better buys. Better replenishment, less out-of-stocks. They all create a better customer experience. It is all about the customer experience, and technology can improve that piece.

George: We operate today with a strong and passionate IT group that truly understands Domain's vision and information technology challenges. My commitment to technology is to recruit and hire the best possible people I can find and let them design and execute a solid IT program that addresses Domain's customer-centric strategy.

Devine: I sometimes joke around that if I were not CEO I would have been a programmer. But as much as I would like to be hands-on in the decision-making and implementation of new systems, I leave it up to my dedicated team who is focused on maintaining and enhancing Petco's systems on a daily basis. Occasionally, however, I will surprise someone and ask about the coding-level detail supporting a replenishment system, for example.

Odland: I am involved with IT since it allows us to gain significant leverage in customer service and enables us to drive cost out. But since it is a scarce resource, we maintain considerable control to make sure that we maximize its effectiveness.

RIS: How would you describe your company's attitude toward the adoption of new technology?

Devine: We are always evaluating advances in technologies and processes to further improve overall performance. As I see it, you really want to be at the cutting edge and not the bleeding edge. For example with RFID, there is still a lot to learn in terms of the best applications of this new technology. And we will probably not be the ones testing everything. The important thing to keep in mind is that for all technological advances, you have to be creative and think about how to leverage them in a way that enhances your particular business.

George: Our IT team is always looking for new ways to improve our information systems. For Domain we have more of a wait-and-see attitude. Before we jump into anything new we want to see how it has performed with others. The risk is too great for us to be the first out with new ideas, systems and concepts in IT.

RIS: What is a major focus for you and your organization in 2005?

Odland: Profitable revenue growth continues to be a focus at AutoZone through a combination of opening new stores, increasing tickets through category management, and driving traffic through innovative advertising. But driving revenues without profits doesn't make much sense, so we continue our relentless focus on profits. Through efficiency improvements in every area of the company, we continue to raise our productivity, which has enabled us to consistently deliver profit growth well in excess of the top-line growth.

Allen: We are all about customers and their needs. End of subject. If you do that well, all that other stuff we call top-line growth, bottom-line growth, comp sales, margin, etc., takes care of itself. Profits come from customers, not the other way around.

George: Recruiting and selecting the right individuals to build relationships with our customers is a big focus. Consumers are more educated, and they know what they like. The aspirational customer shops many stores before they purchase, and we need to appeal to this fast-growing no-nonsense, "I haven't the time to shop" consumer. It's a delicate situation marketing to these consumers and getting them into your store can be a challenge. Domain has great loyalty among its customer base but is challenged constantly

to bring in new, younger customers that we can have a relationship with over a long period of time.

RIS: What major trends do you see shaping retailing in 2005 and beyond?

Odland: The increasing ethnicity of the consumer base and the workforce provide challenges and opportunities. The increase in English as a second language challenges us to not only hire and retain talented AutoZoners, but to make sure that we speak the language of the customer as well. The same goes for our signage, advertising and sensitivity to cultural differences. We see this as an opportunity to stand out in the customers' eyes if we do this well.

Allen: Customer Service. The consumer has more choices on where to spend money than anytime in the history of retail. If we all bought on price and price alone Wal-Mart would be even bigger. Those who pay extra for anything are paying for some type of value. It may be no lines, better selection, better environment, neater stores, better trained people and the list goes on. At the end of the day, business is all about customers and customers are about people. And people want to be treated fairly and with respect. Do that, and in retailing today, you will own the lion's share of your market.

George: Successful alliances and enduring partnerships with manufacturers here in the U.S. and offshore will ensure economic growth. In 2004, retailing saw the continuation of price deflation and more direct sourcing from Asia. I believe 2005 will see major improvements and the consumer will be happier and spend more than in previous years, as long as we understand that it always was and still is about price. With the jobs outlook improving and Americans feeling better about the economy, consumer confidence will grow, which leads to more sales and more profits.