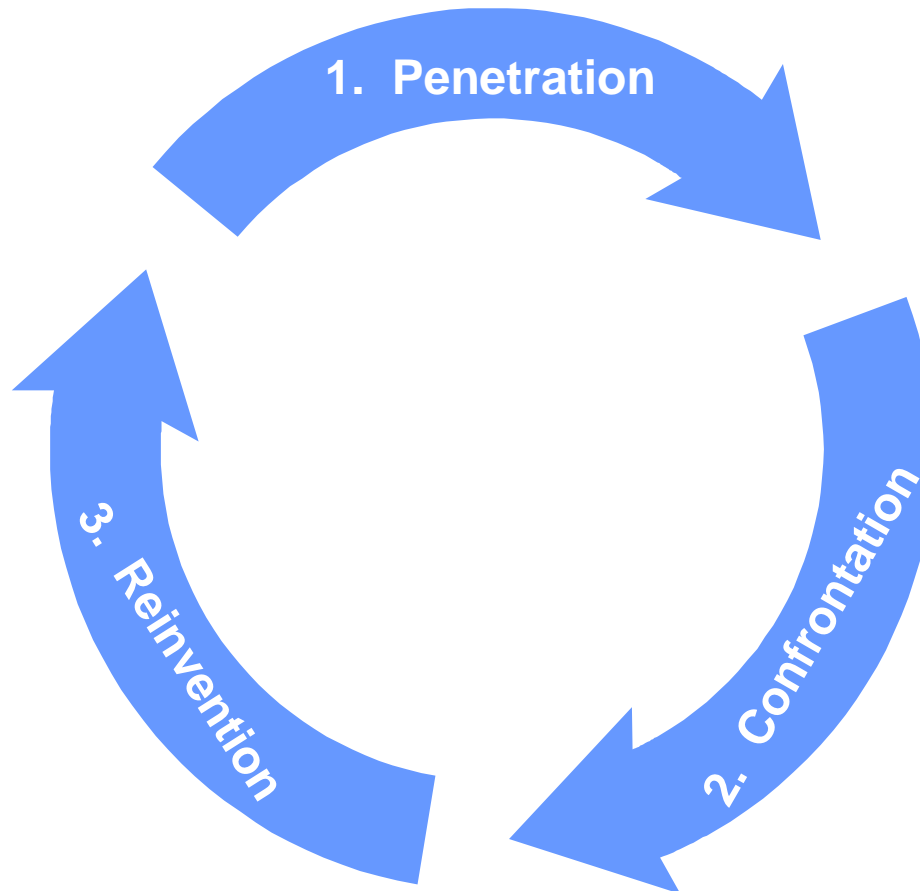


Driving Sustained Success In Retailing

Retailer Growth Strategies

- Most retailers go through distinct phases of growth. The strategic challenges are different within each of these phases.



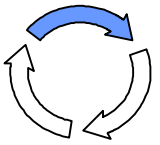
Key Is Mastering the “Growth Cycle”

POWER RETAILING GROWTH CYCLE

	Penetration	Confrontation	Reinvention
Growth Profile			
Source of Growth	Share gain from weak “old concept” retailers	Share gain from peers and survivors	Entry into new areas of opportunity
Basis of Advantage	Superior customer value created by “new concept”	Lower costs of procurement and/or operations	Synergy with base business
Business Model	Simple: same platform in many places	Simplicity 2nd priority to competitive differentiation	Multi-headed: may be 2 or more distinct models with partial overlap

Phases Of Growth

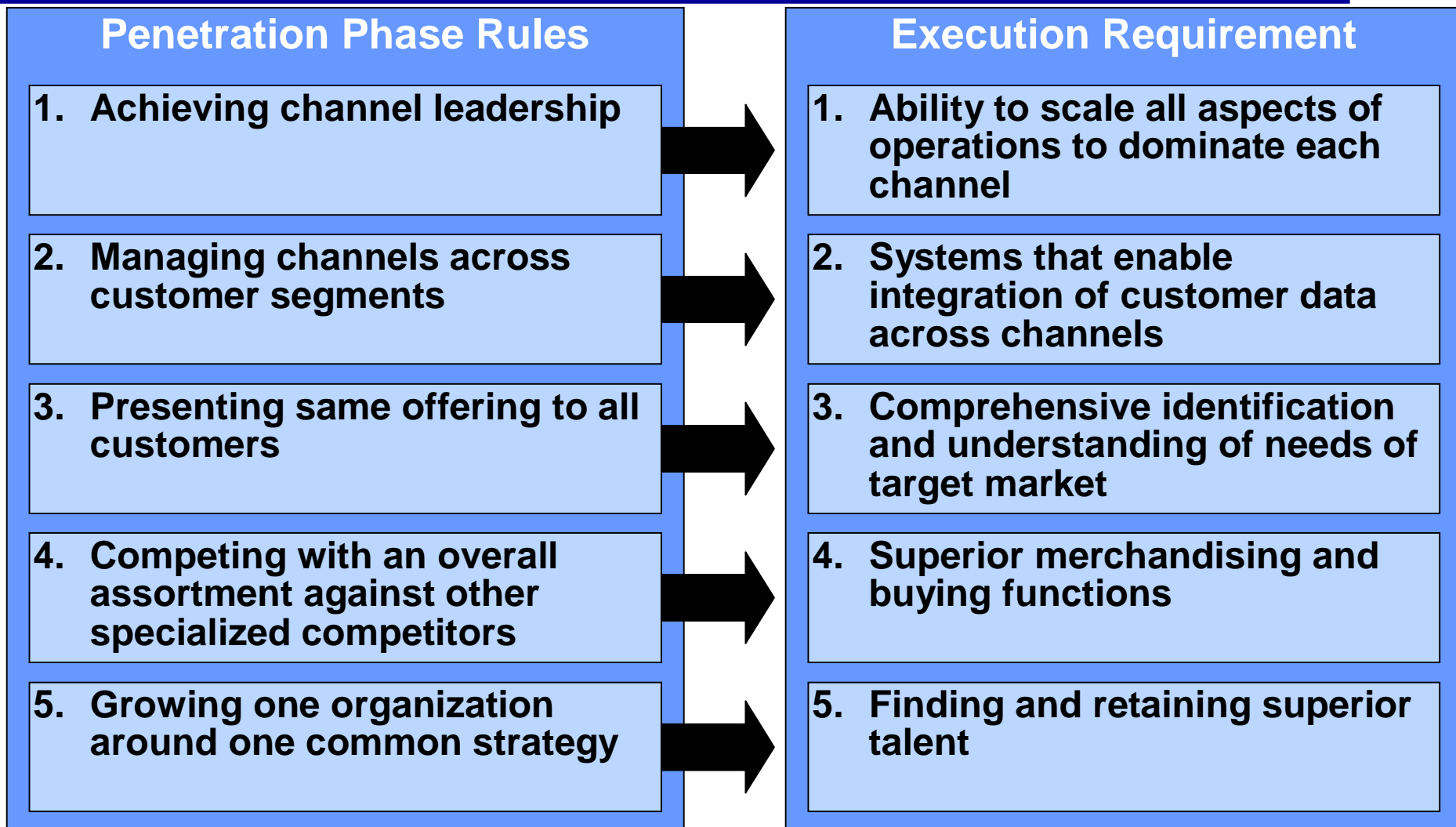
1. *Penetration*



- Growth of retailer results from building more stores:
 - in new geographic markets
 - with one common retail format
 - displacing smaller, ineffective competitors
- Growth is asset-driven, enjoying double benefit
 - comp growth
 - new store growth
- Business model of company is simple
- Primary competition is weak
- Penetration Phase comes to an end when the building of additional stores results in significant cannibalization

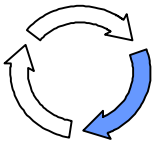
Penetration Phase Requires Superior Execution

Rules Of Success



Phases Of Growth

2. *Confrontation*



- Eventually all attractive trade areas are saturated
- Only a few strong competitors with similar capabilities and offerings are left
- These competitors invade each other's territories
- Overcapacity, price cutting, and lack of differentiation begin to erode industry profitability
- The strategic focus shifts
 - From penetration to confrontation
 - From asset-driven to customer-driven
 - From simple to complex business model
- Growth becomes a key challenge

Winning In The Confrontation Phase

The New Rules Of Success

From Old Rules...

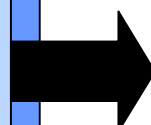
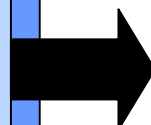
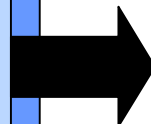
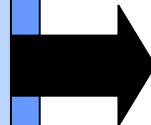
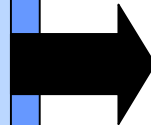
1. Achieving channel leadership

2. Managing channels across customer segments

3. Presenting same offering to all customers

4. Competing with an overall assortment against other specialized competitors

5. Growing one organization around one common strategy



...To New Rules

1. Gain and defend leadership in individual Market Arenas

2. Manage customer segments across channels

3. Tailor different offerings to different customer segments

4. Compete in individual product categories against specialized competitors

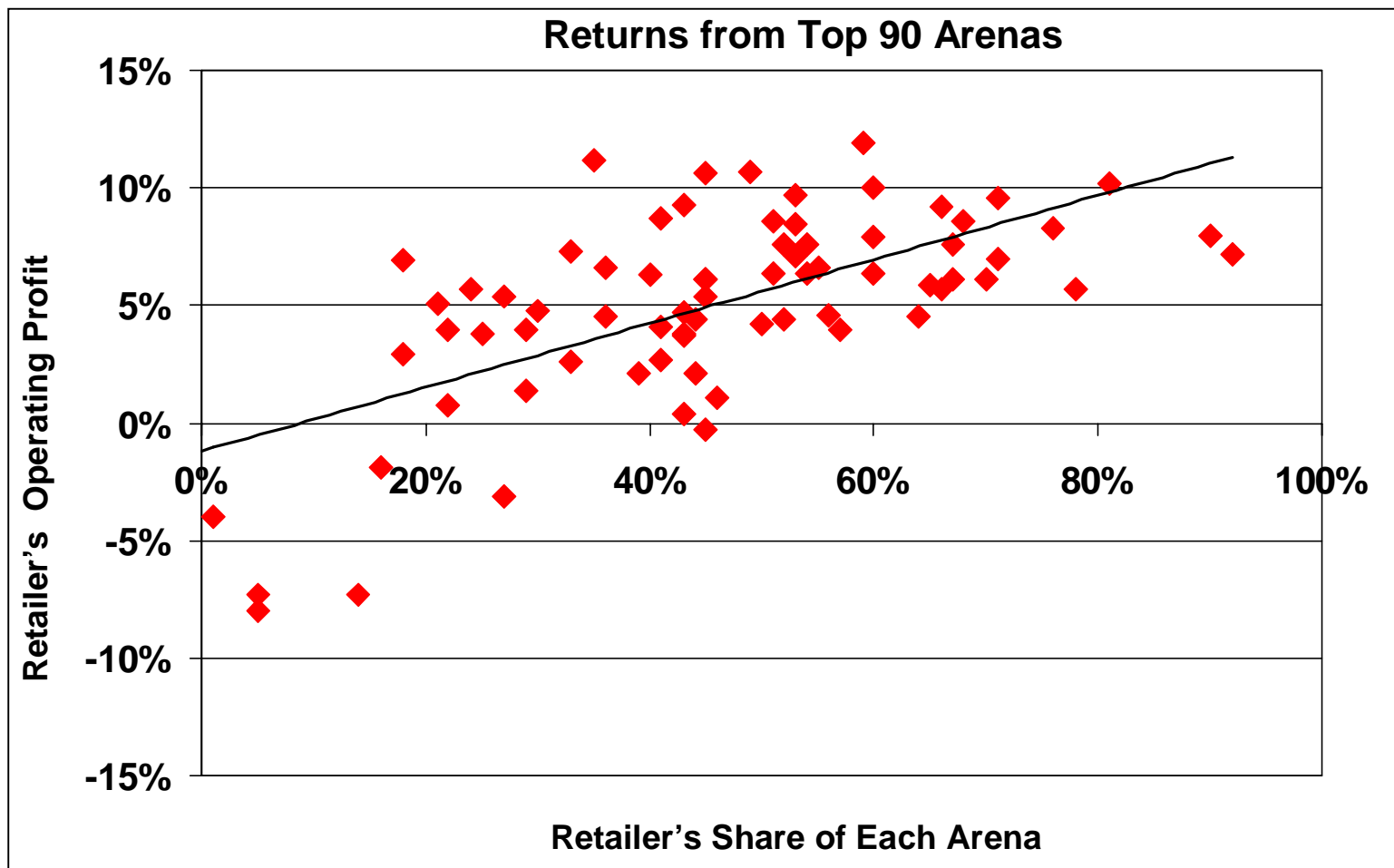
5. Align multiple organizational units to deliver multiple strategic goals

Market Arena Dominance Critical To Success In Confrontation Phase

- Market arenas are defined by Metropolitan Statistical Areas (MSAs) or similar proximate areas
 - Common media coverage
 - Common distribution
- In the most attractive market arenas competitors will build stores until capacity exceeds demand
- Store profitability will increasingly depend on strategic position within market arena

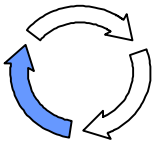
**Key strategic goal for confrontation phase:
Secure superior competitive position in
most attractive market arenas**

For Example In Specialty Retail, Performance Influenced By Competitive Position In Arena



Phases Of Growth

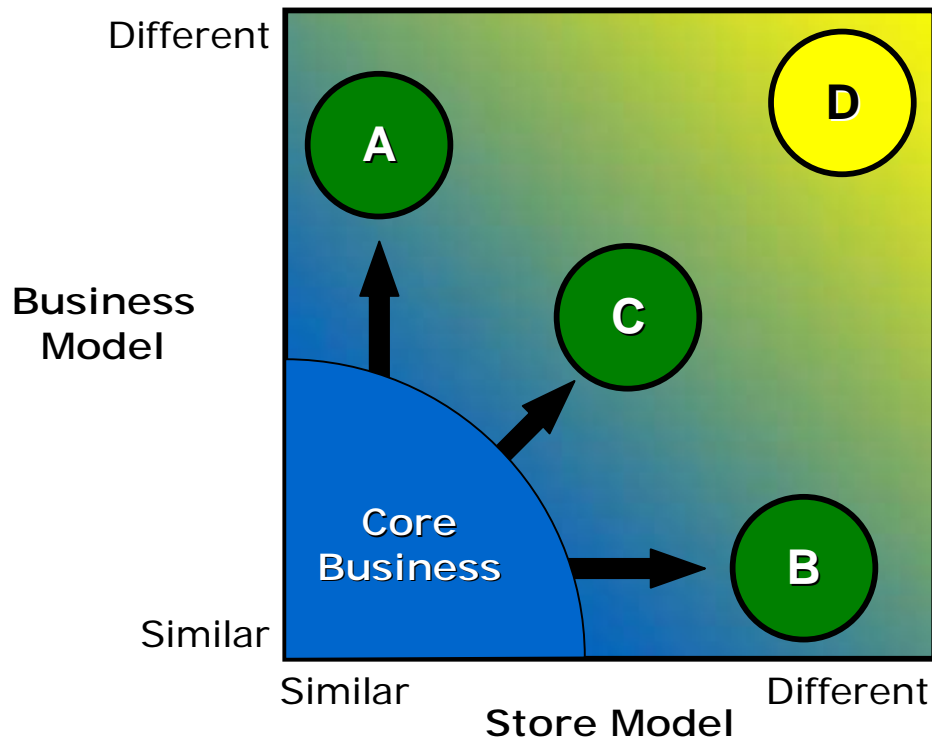
3. *Reinvention*



- Process of “Retail Renewal” is ongoing:
 - Consumers perceive all concepts as becoming stale over time
 - New players enter, redefine the market, and begin Penetration Phase anew by launching novel store or business models that change the game
- Concept lifecycles continue to shorten, driven by:
 - Enhanced management information tools, enabling free flow of information
 - Availability of capital to finance new ideas
 - Entrepreneurial drive to serve unmet consumer needs by launching new concepts
- Retailer’s goal must be to reinvent concept before competitors do
 - Done at the risk of further cannibalizing existing business

Options For Reinventing The Business

Categorization Framework for Expansion Initiatives



- **Core Business:** North American retail business based on traditional store concepts
- **A:** New businesses leveraging the traditional store concept (e.g., new product or service lines)
- **B:** Complementary new store formats with similar value proposition (e.g., urban stores)
- **C:** Related new businesses (e.g., category killers)
- **D:** Unrelated new businesses

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