

## KOHL'S ON A ROLL

And, that's not a bagel. Coming off of a record year with 2005 sales of \$13.4 billion, up 14.5% from 2004, and with net earnings climbing 19.7% to \$842 million, and comp-store sales up 3.4%, Kohl's announced an explosive beginning to the new year with first-quarter net income soaring 34.1%, to \$167.2 million, from \$124.7 million a year ago, on a sales increase of 16.1% to \$3.2 billion, up from \$2.7 billion. Same store sales grew a whopping 6.9%, and the gross margin jumped to 36.1% from 35.8%, the same quarter last year.

These results simply add fuel to Kohl's aggressive expansion plans as presented at their recent annual meeting. With 749 stores in 43 states, they are planning to open another 500 stores over the next five years in both new and existing markets, stating that by the end of fiscal 2010, they intend to be operating over 1200 stores. While expanding into new markets, Kohl's also continues its program of upgrading their existing stores.

### Sticking To Their Knitting: Part II

And, without "fixing" a sustainable competitive advantage that isn't "broken," Kohl's is simply enhancing their strategic "convenience" advantage with three store prototypes, each designed specifically to better fit the consumers' shopping needs in new and different market locations. The majority of their current stores consist of their "suburban" prototype, which are about 88,000 square feet with first-year sales of \$14-\$16 million. A "small" store prototype is about 68,000 square feet with first-year sales of \$10-\$12 million, and an "urban" store is approximately 133,000 square feet and first-year sales of \$20-\$25 million.

Kohl's opened 95 stores in 2005, including new markets, Buffalo, NY, and Orlando and Jacksonville Florida. They plan to open 80-85 new stores in 2006 and are targeting the Northwest for new markets in Portland and Seattle.

Further true to their "convenience" promise for an easy and satisfying shopping experience, Kohl's organized departments by lifestyle, added signage and graphics depicting key trends, and presented merchandise to suggest how customers can create new looks.

They also continued to improve inventory management to deliver more new product more often, to differentiate line mixes according to geographic preferences, and to assure a "shelf never empty" of products the consumer desires.

### Brands Up

Kohl's is also intensifying its "expect great things" promise to consumers by continuing to strengthen the new beauty program launched last year with the Estee Lauder Companies, and by launching a new apparel strategy, including the addition of several new brands.

The beauty launch included fragrances, skin care and color cosmetics with Kohl's exclusive brands: American Beauty; the Daisy Fuentes fragrance; Flirt; Good Skin; and Grassroots.

The new apparel strategy uses a merchandising plan that tiers a good-better-best offering specifically for the preferences of Kohl's classic, updated and contemporary consumer profiles. Recently introduced, the Chaps classic women's brand, designed by Polo Ralph Lauren exclusively for Kohl's, was reportedly the biggest women's launch in Kohl's history. Chaps men's brand has been highly successful and they plan to expand the brand into boys' and footwear.

They are launching private women's brands, West End for the classic profile and AB Studio for contemporary. An exclusive men's and women's brand, Stamp 10, by Liz Claiborne will be introduced in 300 stores.

Kohl's also inked an exclusive agreement with famous skateboarder, Tony Hawk, to be designed for boys' and young men's merchandise by Quiksilver Inc., and introduced in all stores during 2006.

## The JC Penney Factor

While JC Penney has been getting a lot of press lately regarding their many initiatives, and as stated several times in the Robin Reports and other publications, as well as a quote from Penney's CEO, Mike Ullman himself, one of their primary initiatives, along with leveraging their 3-channel strategy, is the expansion of their free-standing, smaller, off-mall "neighborhood" store format. This strategy could be considered directly aimed at Kohl's.

Ullman's statement regarding this strategy as quoted by WWD a few months ago: **"I don't think it's a big secret that Kohl's has the advantage of building the business around moving outside the radius of many malls. It's fair to say that mall construction in the 80's and 90's was excessive. So, when Kohl's started, they essentially went outside the radius of the existing malls and captured the emerging suburban growth. We have the same opportunity. It's just that Penney's was not in a wonderful situation during this period. (However, now) we can do as much sales per square foot as anybody else in that (off-mall) format. We intend to grow aggressively in that direction, with 22 stores already off-mall, 18 more this year (2005), next year 25-30 and there is no reason to slow that expansion across the country."**

Since that statement, JC Penney has stated their plans to build 150 stores over the next three to four years, most of which will be their smaller off-mall format. And, Crain's Chicago Business reported that they plan to open 14 of these stores in the Chicago area where they currently have 11 stores vs. Kohl's 43.

## Who's On The Biggest Roll?

"Show me the money."

Given the numbers coming out of 2005, Kohl's is growing faster, including comp stores, and more profitably: total sales growth: Kohl's, 14.5%; JC Penney, 9.6%; comp store growth: Kohl's, 3.4%; JC Penney, 2.9%; operating margin: Kohl's, 10.6%; JC Penney, 8.4%; sales per square foot: Kohl's, \$252; JC Penney, \$221; net earnings: Kohl's 19.7%; JC Penney, 48.7%\*.

Ditto the first quarter. Total sales growth: Kohl's, 16.1%; JC Penney, 2.5%; comp store growth: Kohl's, 6.9%; JC Penney, 1.3%; net income: Kohl's, 34.1%; JC Penney, 22%.

However, while Kohl's is on a bigger roll, JC Penney is still the biggest roll at \$18.7 billion in annual sales vs. Kohl's at \$134 billion.

But, for how long?

\* A part of JCPenney's net income for 2005 is a result of various gains and/or losses from the sale of Renner, a Brazilian department store chain, and the Eckerd drug chain in the U.S.

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