

# WWDBEAUTY

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## THE BEAUTY REPORT

### Smaller Target and Wal-Mart Units Could Spark Beauty Battle

by Faye Brookman

The recent news that Target and Wal-Mart are aiming for smaller units in urban areas may shake up the corner drugstore.



Wal-Mart store.

Photo By Courtesy Photo

And, beauty could emerge as one of the biggest battlefields, as the reduced footage could put the nation's two largest retailers in a direct collision course with major drugstore chains with established stakes in urban markets. Even some specialty retailers could feel the pinch with more exclusive beauty brands built up in mass doors.



TARGET

Photo By: Courtesy Photo

Within the last two weeks, Wal-Mart Stores Inc. and Target Corp. announced blueprints for smaller stores that can be slipped into urban or “near” urban markets. Beyond New York City, these stores are slated for areas such as Seattle, San Diego, Baltimore, Miami, Portland, Ore., and San Francisco. “It will be interesting to see how well the retailers can figure out what works. A store in an office area is different than a neighborhood,” said Candace Corlett, president of WSL Strategic Retail, adding, “The [product] mix will have to be edited.”

Wal-Mart plans an aggressive push into markets it hasn't been able to tackle with superstores that often span 195,000 square feet. The more city-friendly stores such as its Neighborhood Market format zeros in on food, pharmacy, beauty and other convenience needs. These stores are 42,000 square feet and under.

Target revealed plans for an urban prototype consisting of 60,000 to 100,000 square feet versus its traditional 125,000- to 180,000-square-foot design. “We've never been a cookie-cutter retailer, but we are increasingly realizing one size doesn't fit all,” said John Griffith, executive vice president of property management at Target. He added the chain is making the store fit the site, not the site fit the store. These strategies help expansion in markets that had been unreachable, especially as the suburban landscape fills up.

Corlett said the new mass stores “definitely will compete with drugstores, less so with specialty beauty or department stores because people have chosen their brands and will shop for those brands by price.”

But the blueprint of urban cities makes them appealing for retailers, said **Faith Hope Consolo, Chairman, Retail Leasing, Marketing and Sales Division for Prudential Douglas Elliman Real Estate in Manhattan.** **Consolo** thinks there's ample opportunities for these discounters to find spots in the New York metro area. “There are 250 retail districts in the New York metro area and discounters could easily have a dozen or two dozen in strong neighborhoods without overwhelming the market,” she said. “There are good sites available.”

And yes, the smaller discount store formats could prove formidable challenges for drugstore chains since the merchandise carried overlaps. Drug chains, such as Duane Reade in Manhattan, now offer convenience foods including sushi. On the other hand, discounters have added pharmacies and more beauty including

proprietary offerings such as Target's Sonia Kashuk and Boots or Wal-Mart's Hard Candy. Wal-Mart also has an exclusive line in the works with Physicians Formula.

Big-box retailers might believe the lure for urban shoppers is food, but Wendy Liebmann, principle of WSL Strategic Retail, cautions against overlooking the power of beauty. "They [discount store executives] might think food and convenience drive the shopping trip, but I think beauty is a real opportunity, especially when you can customize it like Target has done in Harlem."

In that regard, the urban markets could become what Liebmann dubs a "combat zone," with discounters and drugstores vying for the same consumer. She said mass merchants have to do more than just offer a three-foot section while drugstores have to do more to make their beauty offerings compelling. She credited Duane Reade with doing a good job of balancing food, private label and key brands in beauty.

Even before the invasion of the mass marketers, many drug chains had started taking beauty up a notch.

"I think that is why you've seen some drug chains go more upscale such as the Look Boutique at Duane Reade," said Allan Mottus, industry consultant. "They are making use of their real estate and deciding not to compete just on lower price."

**Consolo** agreed and said she's amazed at the strides drug chains have made in bringing in better brands in not only beauty, but categories such as greeting cards. "The discount stores coming in force existing drugstores to step up their game in terms of presentation and products carried." She cited Walgreens' Times Square store as a great example of boosting the look of a "typical neighborhood store."

Still, manufacturers warn that drugstore chains can't take the added competition lightly. "The more doors Wal-Mart and Target have, the stronger they'll get. The easy-in-and-out moves the big guys closer to the benefits of drugstores," said Steph Fogelson, president of Lotta Luv.

Former Walgreen Co. executive and now consultant Kathy Steirly agreed that the competition could further chop up the beauty pie. "Retailers continue to blur and people want to buy wherever it is convenient," she said.

As they compete with drugstore chains and even specialty stores such as Sephora, the new discount formats have to struggle with the question of what categories to slice. "They'll dial down the denim and T-shirts, but they see opportunity in beauty," said Burt P. Flickinger 3rd, managing director of Strategic Research Group. He feels there's ample opportunity, since other discounters such as Caldor and Bradlees are gone, Sears is struggling to build beauty and department stores have undergone consolidation.

Although beauty has been trimmed in many stores with ongoing stockkeeping unit rationalization, the category isn't expected to lose footage in smaller footprints. Most mass merchants allocate less than 5

percent of total footage to beauty; drugstores turn over about 10 percent. But what could be key is how each merchant tailors the merchandise mix to each market.

Shawn Haynes, senior vice president of sales for Markwins Beauty Products, believes vendors will play a key role in helping merchants customize the mix. "Target and Wal-Mart are great at finding the best locations; it will be up to the supplier to provide the retailer with insight to the customers," he said.

Results, of course, will continue to dictate direction. "Ultimately, the expansion is going to be on a dollar-by-foot basis. If you can do the dollars, then your space will be warranted — the beauty department will be smaller than a typical store, and the more successful dollar-driving brands will definitely be part of their strategy," predicted Joey Shamah, chief executive officer of e.l.f. cosmetics.

The influx of retailers in urban markets could be welcome to ethnic shoppers who are sometimes underserved. Randy Zeno, ceo of Dr. Miracle's, said the smaller discount stores should be a good thing for his company's consumer. "It will be important for all to differentiate on a product level as well as service. Differentiated products that meet the consumer needs along with the right product assortment and great service will continue to drive the industry for all," he explained. Service will be important as mass retailers get more shoppers who were previously shopping for ethnic beauty needs at beauty and barber or specialty stores.

The mass merchants have a few tools up their sleeves to provide technology that can assist in the shopping experience. As part of its "beauty destination" initiative, Target is installing touch screens for shoppers to click on and get more information about products. Wal-Mart is experimenting with mirrors that simulate how colors will look on a customer. Liebmann said, beyond these experiments, retailers will start using cell phone technology to further the mass experience.

There is room for everyone in the market, added **Consolo**, who said shoppers never really totally walk away from beauty, even in tough times. In fact, she sees renewed interest in retailers looking to snap up urban space. She expects to see more merchants test the waters with "pop-up" stores. "We'll see more single brands and real perfumeries opening up," she concluded.