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RETAIL EXECUTION: LINENS 'N THINGS

Adenekan (Nick) Dedeke wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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INTRODUCTION

Norman Axelrod, chairman, president and chief operating officer of Linens 'n Things (LNT), reflected on the next steps that he should take to keep LNT competitive. In the early 2000s, Axelrod felt that the market and the competitive landscape were changing again. Specifically, the firm's closest competition, Bed Bath & Beyond (BBB), was extending its lead ahead of LNT. BBB had higher sales and higher profits. Axelrod recognized that LNT probably needed to change its merchandising process and the product assortment in order to cut down the advantages of BBB. The business had become more complex to manage because of the growth in number of stores, the increase in product categories, and the proliferation in the number of store-keeping units that had to be managed. Axelrod had brought in an executive to investigate what LNT should do to catch up with BBB. The executive, Bill Emerson, had introduced a successful pilot and had initiated the rollout of an assortment improvement initiative that gave store managers more decision rights for replenishment orders. Due to dwindling interest and internal resistance to the initiative, Axelrod had to decide what he would do with the Guest Oriented, Locally Driven (GOLD) rollout. Should he stand by Emerson and the program or should he side with the opponents of the program and shut it down? If he chose to continue the program, he had to decide if he had to change it somehow. Should he put a time limit on the program? Should he limit its use to specific districts? Should he force the central buying staff to participate in the program by executive mandate?

COMPANY BEGINNINGS

Eugene Wallace Kalkin, at the age of 22, laid the groundwork for Linens 'n Things, Inc. during his seven-year tenure in the buying office of Allied Purchasing Corp., which was the second largest department store chain in the United States in the late 1950s. In 1958, he collaborated with the retail discount chain known as Great Eastern Mills, Inc. by setting set up the leased-linen departments for the company's stores. Then Daylin Inc. bought a controlling interest in Great Eastern Mills Inc. in 1970 and it later went into bankruptcy. In 1975, Kalkin bought back, from a Daylin bankruptcy court, the seven specialty stores that he had helped develop. This seven-unit retail chain, which had annual sales of $2 million, was the

beginning of Linens 'n Things, Inc. Kalkin applied a novel set of merchandising techniques to develop LNT into a chain of specialty retail stores. Under Kalkin's leadership the company grew from seven to fifty-five stores. In 1983, Melville Corporation (later known as CVS Corporation) bought LNT, then a 55-store chain with more than $85 million in annual sales. Kalkin left the firm shortly after the acquisition. Robert Karan, Kalkin's close associate, was chosen to succeed him. Before he left the firm, Kalkin adapted retailing practices of European hypermarchés, which reduced operating costs by piling goods on storage cubes that were piled up to the ceiling, thereby saving space and reducing expenses. Kalkin opted for stores with high ceilings in order to save space and he installed ten-foot-high, warehouse-type shelving for piling up storage cubes. He could then display in a 7,000-square-foot space the quantity of merchandise that traditionally required 12,000 to 13,000 square feet of area. The primary drive of Kalkin, and Karan after him, was to drive costs down and to invest money only in the necessary resources.

Kalkin and Karan's leadership resulted in a failure to deploy money for information technologies and even delays in the implementation of the larger store format that they had tested. The strategy involved cutting costs and earning a profit by selling quality products at discount prices. As the number of stores increased, the manual processes and the low-cost approach began to create poor retail execution and performance. Owing to problems that the firm faced under Karan, Melville Corporation's chairman, Stan Goldstein, asked Axelrod to become LNT's chief executive officer in 1988. He was elected to the additional role of chairman of the board of directors effective January 1997. From that time in recurring manner, Axelrod held concurrent positions in the firm, namely chairman of the board, chief executive officer (CEO) and president.

Axelrod implemented major changes in his initial years. In September 1988, under his leadership, LNT opened its first superstore, which was a store with a size that varied between 35,000 to 40,000 square feet, in Rockville, Maryland. In 1989, the company started the conversion of its traditional store base to superstores and began the closing of all but the most profitable traditional-format stores The traditional stores averaged approximately 10,000 square feet in size. During the period of 1988 through 1995, LNT introduced more than 100 superstores and closed 85 traditional stores. The company's gross square footage more than quadrupled, going from 1.4 million square feet on January 1, 1992, to 5.49 million square feet by the end of 1997 (see Exhibit 1). As LNT aggressively expanded stores nationally, its closest competition, BBB, expanded into new cities too (see Exhibit 2). Axelrod also initiated the strategy of expanding LNT beyond its focus on the linens business into the "things" business. He set an aggressive goal of increasing the proportion of revenues contributed by the "things" department by up to 50 per cent. LNT expanded into products such as house wares and home accessories. On November 26, 1996, LNT effected an initial public offering (IPO) of its common stock; CVS retained approximately 32.5 per cent of the shares, but sold them in 1997. In 1998, LNT sales topped $1 billion for the first time in its history. Sales climbed to $1.07 billion, up 22 per cent from 1997. The company operated 176 stores (153 superstores and 23 smaller, traditional-format stores) in 37 states. The stores carried brand name "linens," such as bed linens, towels and pillows, and "things," such as house wares and home accessories.[1]

TRANSFORMING OPERATIONAL MANAGEMENT PRACTICES

When Axelrod took over at LNT, he discovered that most business processes were manual and that managers made their decisions intuitively. For example, in the late 1980s inventory management and sales management were done by phone conferencing. Each morning, the senior vice-president for merchandising

[1] *Data from preceding paragraphs taken from International Directory of Company Histories, Vol. 24, St. James Press, 1999, www.fundinguniverse.com/company-histories/Linens-n-Things-Inc-Company-History.html, accessed June 2009; and G. Lemieux and K. Peippo, "Linens n' Things, Inc.," www.answers.com/topic/linens-n-things-inc, accessed June 2009.*

called store managers to get reports about what sales were on the previous day. The executive, at the headquarters, did not know what was selling and what was not selling. In those days, buying was done centrally, but the store managers had the authority to determine what should be replenished and in what quantities, within the limits of authorized corporate product assortment. The central buyers had the authority to set the corporate product assortment, while the store managers, by their replenishment decisions, controlled the store assortment.

After he became the CEO, Axelrod authorized the first deployment of information technology at LNT. He also hired Steven Silverstein to lead the transformation of the merchandising organization. Matt Meany, vice-president of management information systems, guided the first deployment of information systems technologies. In 1991, the firm implemented its JDA® enterprise system, specifically the order management module. This enabled headquarters to know the sales of the previous day without having to call store managers. However, the merchandising organization still did not have the technology that enabled it to know inventory levels at the stores. To deduce store-level inventory information, Silverstein, vice-president for general merchandising, introduced a sampling methodology. Once a week, on Mondays, he and his team telephoned store managers of a sample of 20 to 30 stores. These stores were required to physically count inventory for pre-selected store-keeping units (SKUs) in key product categories of their stores. The stores reported these inventory counts to Silverstein's office and he used these numbers to estimate the level of inventory across all stores.

The merchandise replenishment process remained largely dependent on reported data, which caused errors. For example, during a scheduled phone conference call to discuss an upcoming promotion drive, a store manager reported to Silverstein that he had run out of the "bed in the bag" product, the target of the fast-approaching product sales promotion. As soon as he spoke up, several other store managers spoke up too, requesting that Silverstein organize special orders from the supplier on their behalf. Apparently, several stores needed the product. The vice-president for merchandising made hurried calls to the supplier and placed a rushed order before the promotion. The supplier supplied thousands of products to the stores. After the delivery of the products, it was discovered that most of the stores had the product. Therefore, these stores were overstocked and they had to mark down products at the end of the season.

THE ERA OF IT-ENABLED REPLENISHMENT

In the mid-1990s, LNT deployed modern Point of Sales (POS) systems in all its stores. LNT bought more JDA enterprise modules that enabled the merchandising organization to automatically track both sales and inventory levels of items by stores. The POS technologies were integrated with an electronic data interchange (EDI) system that enabled the data from each store to be sent to a central database. The JDA software modules were used to manage the inventory and the merchandising processes. Given that timely sales data was made available to planners, the merchandising organization began to develop and use demand forecasting for decision making.

The forecasting tools of the acquired merchandising software module permitted the use of historical sales data to forecast demand for a class of product at the chain or aggregated level. This caused a number of surprises. Each year, LNT ordered a large number of the popular extra-long bed sheets to cover its huge demand during the "back-to-school" season. During the first back-to-school season, after the deployment of the merchandising module, Silverstein's group discovered that the replenishment plans that were suggested by the system for beddings were wrong. For example, though the extra-long bed sheets were the popular item during the season, the system, which was configured to forecast demand at the class level, predicted a rise in sales for every bed sheet in the class. Hence, it recommended comparatively high

replenishment levels for all beddings. A similar effect also occurred whenever unique items within a class were included in the sales promotions. To solve the problem, LNT created separate classes, also called forecast profiles, for such seasonal items and promotions within the forecasting software.

Though the merchandising software system enabled Silverstein and the merchandising organization to reduce inventory levels and to make replenishment quantities more efficient across all product departments, he was not completely satisfied with the accomplishment. This was because he understood the weakness of chain-level forecasts. They required the use of average inventory levels of each product class for forecasting. This meant that the use of the scheme requested too few replenishment quantities for stores with the highest demand/sales, while authorizing the delivery of too many units to stores in which product sales were low. In the stores with high demand, it created early season lost sales and stock-outs, while in stores with low demand, it created over-stocking and excessive end-of-season markdowns. In the early 2000s, Silverstein and Steinhorn, then the senior vice-president and chief information officer respectively, and a third-party software provider, worked together on a pilot that tested the use of store-level forecasting. The pilot included 78 SKUs within the bedding product department. The pilot confirmed that such a methodology would optimize in-stock inventory levels at stores and make replenishment more responsive to actual store requirements. In 2002, the new forecasting approach was deployed to manage the entire 150 SKUs that were in the bedding department. The third-party software was implemented to ensure that data from the merchandising system was transferred into it once a week for analysis. The new module generated store-level-based replenishment quantities and uploaded the results into the merchandising system once a week. Steinhorn and Silverstein extended the use of store-level forecasting incrementally, on a department-by-department basis, to most of the 35 store categories. LNT carried 25,000 to 28,000 SKUs, in six product departments and across 35 store categories.

Planners reviewed the automatically generated replenishment plans and made changes to them as needed, before they centrally created product purchase orders. All replenishment orders were processed and sent to suppliers, mostly via an EDI network, by Sunday night each week. The suppliers shipped the merchandise to one of the three distribution centers (DCs) once a week. The DCs were not warehouses, but rather cross-docking zones. When the replenished deliveries arrived at the DCs, the workers broke them down by store deliveries. Thereafter, trucks transported the goods to each store. Sometimes, goods were first transported by train and then by trucks to the store. Each store had one delivery per week.

EVOLUTION OF CUSTOMER COUPONS AND PRODUCT RETURNS PRACTICES

Up until the late 1990s, LNT had well-defined policies about the use of store coupons and returns. However, in the 1990s, BBB adopted a policy of accepting LNT coupons, and the firm also championed the use of generic coupons in its stores. LNT decided to adopt both policies. The use of 20 per cent off coupons by customers became the norm. BBB also began the practice of the no-questions-asked returns policy. LNT management felt that it also had to respond in kind. Hence, the product returns policies at LNT matched those of BBB. Items were returned to the stores with no questions asked. Stores were authorized to permit returns of items that the company carried even if the customer had no receipt to show that the item was bought from an LNT store.

CORPORATE MANAGEMENT CONTEXT AND PRACTICES

LNT employees described Norman Axelrod as an individual who was a gifted leader, communicator, and a shrewd merchandiser/merchant. A close associate described him as being thoughtful, respectful and a

motivator. Axelrod was known to be a candid CEO. He could effusively praise good work in one moment only to strongly criticize an executive for a poor decision or outcome in the next breath. People who worked closely with Axelrod cared strongly about his views and they would go out of their way to do things that they knew or believed would make him happy. Axelrod was known to have fired executives who did not do things his way. Furthermore, he was extremely loyal to his associates. In a few cases, some believed that he may have held on to some of his loyal associates for too long. Generally, Axelrod hired smart people who could work well with him.

Performance control was centralized at LNT. The general managers of the stores had no access to the profit and loss statements of their stores. They reported revenues and labor hours to the corporate office and the upper management worried about the issue of creating adequate store profit margins. Axelrod instituted corporate visits to stores as part of his performance monitoring practice. He held two types of corporate visits. First, there was the weekly trip to the largest LNT store and to the largest BBB store. Axelrod took these trips with the merchandisers and the purpose of the visits was to encourage learning. Second, there was the corporate visit to LNT stores across the nation. The purpose of these latter visits was to inspect poorly performing stores with district managers, regional managers, zone vice-presidents and other executives. The corporate visits were not surprise events. Rather, the visits were announced to the zone vice-presidents and other senior executives.

MERCHANDISING PRACTICES

The presentation of merchandise in LNT stores was centrally determined. Once a month, each store across the nation received a planogram from the vice-president of stores planning. The planogram described how products were displayed on shelves in each store and also in the central aisle of each store. In addition, each store adopted the assortment plan that was centrally determined by the merchandisers in the corporate office. LNT differentiated six general merchandising departments, including Bath, Home Accessories, House Wares, Storage and Cleaning, Bedding and Window Treatment. The merchandisers at LNT determined what would be stocked in these product departments. There was little input from the regions during the assortment decision making. This contrasted with the process used by BBB, whereby merchants, planners and regional planners were included in the process of creating a floor set and planograms. Among other things, the regional planners added localized views to the process. The outcome of the BBB process was that it created a global planogram that was customized by the regional planners for each region. A further difference between these two approaches was in the kind of information that was considered. LNT merchandisers designed the planogram around the products that were selling the most across all stores. In contrast, the BBB approach accommodated the possibility that products that were top sellers nationally would not be top sellers in each individual store. Hence, the BBB planograms were customized by the consideration of regional selling patterns. Furthermore, the store spaces that were leased by BBB had a consistent layout, whereas those that were leased by LNT exhibited store layout variations. Hence, while BBB could send out a single planogram to all stores for customization, LNT had to send several versions of the planogram to its stores and store managers had to figure out which one to use for their stores.

The assortment selection and space-planning philosophies of LNT were different from those of BBB. LNT buyers bought SKUs with the purpose of covering a broad range of assortment. A typical department had between 200 and 300 SKUs. Of these items, 18 to 20 SKUs accounted for more than 50 per cent of the department's sales. In contrast, BBB buyers limited the assortment selection in each department to the top-selling items. Hence, BBB carried a smaller number of SKUs per item than LNT did. BBB store managers

were expected to monitor what customers bought in their stores and to ensure that those items had high in-stock levels.

Also, in the space-planning area BBB followed a different strategy than LNT. Whereas LNT assigned similar or uniform space allocations or facings to most SKUs in a department, BBB allocated more facings to more productive SKUs in the planogram (see Exhibit 3). Hence, BBB's planograms communicated the best sellers to its customers.

SHOULD ASSORTMENT DECISIONS BE DECENTRALIZED?

There were a number of questions that every specialty retailer had to answer, including the following: How should it go about determining what to stock before the season? How should it decide what to promote during the season? How should it select the product assortment for each store? At LNT, the answers to these questions were provided by the centralized merchandising organization. The premise of the structure was that the merchandisers had the competence, knowledge and skill-set to know the products that customers desired.

This contrasted with the approach of a few specialty firms, such as BBB, which utilized a decentralized decision-making structure for assortment decisions. Under such arrangements, the store staff were expected, encouraged, empowered and trained to be merchandisers for their stores. In stores that deployed decentralized decision structures, such as BBB, the answers to the questions listed above were informed by the knowledge and inputs of those individuals who were the closest to customers. Most of the time, these were the store staff. It is worth noting that in firms that adopted decentralized structures, such as BBB, a central merchandising group was still used. However, this central group shared the responsibility for merchandising decisions with store and regional staff. One advantage of the decentralized approach was that it enabled the delegation of decision authority from the central merchandising to the stores, with a potential for creating motivation and involvement at the store level.

The opponents of decentralization believed that merchandising decisions could not easily be done by or taught to everyone. They maintained that centralized merchandisers, when properly trained and equipped with sophisticated technologies, were the best suited for this task of assortment selection, management and development.

STRUCTURE OF THE MERCHANDISING ORGANIZATION

The merchandising function at LNT was centralized in the company's headquarters (see Exhibit 4). The unit was responsible for product development, assortment design, pricing, planning, purchasing and supply chain and distribution functions. The merchandising organization transformed the firm's mission into a merchandise strategy and plan that were executed to meet the financial goals of the enterprise.

The merchandising manager's function was organized by product categories/departments. Each department consisted of several product classes and each product class consisted of SKUs. For example, towels were classified as a product department, whereas colored towels were assigned to a class under the towel department. A class was defined as a subset of products that a customer viewed as substitutes during a purchase decision. Lastly, each class consisted of several SKUs. For example, each unique towel size constituted an SKU under the class of colored towels.

Axelrod was aware of the arguments for and against decentralization of merchandising. However, he was of the opinion that there was a middle ground. He sought an opportunity to test what would happen if he retained the centralized merchandising organization but delegated limited replenishment authority to the stores.

CHALLENGES OF THE EXISTING ORGANIZATIONAL STRUCTURES

The centralized LNT merchandising organization produced a number of challenges. There was a tendency for merchandisers to focus on reducing the number of activities that they had to do. This meant that they favored simplicity and predictability in decision making. This caused many of them to focus their attention on continuing products rather than on exploring new or test products. The merchandising group also made decisions that created a high degree of assortment similarity across stores. This meant that regional customization of assortment was rarely achieved. This yielded lost sales opportunities for some product departments. The centralized merchandising approach also meant that product promotions were executed in stores where products were selling well and in places where they were not selling. Furthermore, the centrally determined uniform inventory levels policy also increased the likelihood that more stores would end up with inventory that had to be marked down at the end of the season.

The centralization of merchandising and buying meant that most LNT stores had the same level and depth of assortment. Moreover, replenishment decisions were based on chain-level forecasts. This meant that product replenishments were based on average demand for the chain rather than on store-level averages. This created lost sales and early stock-outs in locations where a product was popular and over-stocking in locations where the product was not popular. The division of labor between merchandising and store managers also implied that the employees at the store level actually had little incentive to increase their product knowledge or to develop merchandising skills. The growth in the number of brands and product categories carried by each store also increased the amount of effort that a store staff must invest in order to be competent in the product knowledge sphere.

In addition to these issues, LNT stores were experiencing growing pains. It was increasingly difficult to achieve consistency of product presentation. It was becoming more challenging to ensure that the stock rooms were well organized. Also, it was no longer a given to assume that store staff were effective in filling stock-outs on the sales floors, that they were friendly and helpful to customers and that they were efficient in making floor moves.

The Home Accessories department of LNT had a mixture of about 60 to 70 per cent basic replenishment items (core items) with the balance being made up of new items, seasonal items, and promotional buys. This LNT department faced a number of assortment-related challenges. 1) It struggled to find the right balance of replenishment and "fashion" items. 2) LNT did not have a rigorous lifecycle management approach for all items. This meant that it had no systematic process for introducing new core (fashion) items and for retiring old core (fashion) items in a timely and strategic manner. This resulted in a constant struggle to maintain a balanced mix of in-stock replenishment (basic) and newness (fashion) items. 3) The retailer also struggled to find an appropriate breadth of assortment, including an adequate number of sizes, colors and product selections, to carry in order to facilitate high in-stock levels for core replenishment items. 4) LNT lacked a formal process for identifying, funding and assigning store space for regionally appropriate merchandise with a specific geographic/demographic customer (e.g. western motif merchandise in the Southwest). BBB executed each of these four elements extremely well.

LNT had a very weak lifecycle management approach that yielded broad and shallow assortments. The central merchandising organization had an aversion to timely liquidation of slow-moving merchandise, and a high level of reluctance to spend time on regional and/or demographic buys.

A NEW INITIATIVE

BBB kept increasing the gap between itself and LNT, and Axelrod grew increasingly uncomfortable with the trend. He motivated his managers to explore ways to improve the competitive advantage of LNT. Internally, several vice-presidents and senior executives introduced improvement initiatives, mostly with limited success. Though most of the initiatives proved successful as projects, they failed or were discontinued after a few months of the organization-wide rollouts. After these failed attempts, Axelrod determined to try another approach. He would bring into LNT an external executive who would be charged to systematically evaluate the differences between BBB and LNT and required to make recommendations. Axelrod discussed the position with Emerson in late 2000. Emerson agreed and joined LNT as a special assistant to the chairman in January 2002.

Emerson was given full access to address the issue. There was no specific charter or job description for him and the CEO was very supportive, both privately and publicly, of the initiative. Initially, Emerson worked alone. He spent time studying the similarities and differences of both firms. As the project progressed, Axelrod assigned additional staff to Emerson's special office. The project grew so that he had two full-time assistants. Later, two senior managers and, eventually, an individual from each of the eight operating regions reported to Emerson on a dotted line basis.

Emerson discovered that LNT had done some prior work studying BBB. He spent time studying the information that had been synthesized. He also conducted independent interviews with ex-BBB employees who were working for LNT, including an ex-BBB regional inventory manager and an ex-BBB buyer. They provided a lot of insight about the inner workings of BBB. Furthermore, Emerson undertook site visits and observations of selected BBB stores and had conversations with BBB store managers. Emerson had extensive experience in retailing so he was capable of identifying possible unique strategies, if there were any. When the research was concluded, he found that BBB was not really doing anything that could be considered unknown or secret. Rather, BBB was doing several important things differently.

He identified four central differences that impacted its competitive advantage. 1) BBB manifested a system-wide focus on sales per square foot as the primary performance metric, whereas LNT focused on gross sales as the main metric. 2) BBB maintained a very decentralized decision-making and organizational structure. These decentralized practices required robust and systematic two-way communication between headquarters, the stores and merchandising staff. On the other hand, LNT was very centralized and it manifested a top-down, mostly one-way communication pattern. 3) The employees of BBB placed great attention and focus on collaborative teamwork between corporate staff and store staff for simplifying and standardizing store layouts and operations, products fixtures, number of floor moves and early notifications about upcoming promotions. LNT staff spent little energy in analyzing the store-level impacts of the decisions of its central merchandising organization. LNT's corporate office had very little interest in communications and feedback from the stores. The corporate decision makers gave the stores little detailed advance information on floor moves or upcoming promotions. 4) Lastly, BBB was more focused and rigorous on item lifecycle management and in editing merchandise offerings according to market and customer response and demand, whereas LNT was not.

In regards to areas of strengths, Emerson established that LNT was stronger than BBB in its logistics and supply chain management areas, which was worth something in the order of 100 basis points in the cost of goods sold line. This was due to LNT's use of several centralized DCs and its competent logistics staff. BBB did not use DCs to the same degree that LNT did. Hence, its suppliers made most deliveries directly to its stores. This created a relatively higher level of transportation cost. Emerson also identified information technology deployment as another area in which LNT was stronger than BBB. LNT was superior to BBB in its use of analytical tools and in the level of sophisticated tools used.

ROLLING OUT A PILOT PROGRAM

Emerson presented his results and his recommendations to the chairman and to the board of directors in 2002. After a review of the recommendations the chairman authorized Emerson to set up a pilot program to test one of his recommendations. The pilot program was designed to authorize individual store managers and district managers to set inventory levels and product presentations as they saw fit. However, store managers were still restricted to ordering only inventory within the LNT corporate assortment. After initial results from test/pilot stores were evaluated, Emerson presented the pilot to the board with a recommendation to expand it. The pilot was given the name Guest Oriented, Locally Driven or "GOLD" program.

Under the GOLD program, store managers and individual district managers were given greater latitude in increasing order quantities and making individual floor presentations. Prior to the program, the store managers could only alter order quantities on the highest selling items within each department on a rotating basis. However, there were strict limits on the number of SKUs and the quantities they could order and, in some cases, these modifications were cancelled by the central staff without notification. Under the new program, the store managers were authorized to change quantities on any SKU in the assortment to any level they wanted and they had wide latitude in the area of merchandise presentation and cross-merchandising.

To introduce localized assortments, the CEO authorized the creation of the role of regional inventory manager in each of LNT's regions. The position was authorized to gather specific information on items that were the best selling for the specific region. The CEO also set apart funding for the purchase of such goods. However, it was stipulated that the central merchants should do the actual buys for such merchandise for reasons of skill-set and vendor leverage. Several successful buys occurred under this program. However, the program introduced some complexity in store space management and space allocation. Furthermore, the central merchants did not wholeheartedly embrace the special buys. They preferred the leverage of chain-wide buys and had little appetite for the energy and time spent on negotiating deals on a small buy. Consequently, the program never reached a sustainable level.

Initially, the rollout of the program to stores was implemented one district at a time. The store managers and involved employees of a converted district underwent extensive training and they also signed a pledge to abide by a set of standards in their decision making. The district managers had the responsibility of managing the new process, with support from Emerson's group. In the first year, Emerson's office supervised the rollout of the program in 10 districts or roughly 30 per cent of the chain districts. Emerson's office measured results throughout all districts using a single metric — change in productivity per square foot for the entire store. The metric was measured and reported to the chain weekly. The metric was measured and reported for each store within one month of its conversion to the program. Improvements in store performance typically showed up quickly. Initially, the results were impressive, running in a 10 to 30 per cent or greater increase in store productivity. As the rollout expanded into more

stores, the degree of gains was not as pronounced. As the addition of more stores diminished the overall productivity gains, enthusiasm for the program began to wane.

This waning interest emboldened the opponents of the program, specifically the central merchants, central inventory managers, and a few senior store personnel, who began a campaign to convince the chairman to abandon the program. A number of project requirements fueled the opposition of many to GOLD. This program required store managers, district managers and regional managers to take on new responsibility as well as authority. Only about a third of the field population was comfortable with this. Many of the central merchandising staff were hostile to the idea that stores should set product quantities and influence product displays.

DECISION TIME

Norman Axelrod had to decide what he would do with the GOLD rollout. Should he stand by Bill Emerson and the program or should he side with the opponents of the program and shut it down? If he continued the program, what should he change? Should he put a time limit on the program? Should he limit the adoption to a few districts? If so, which ones? Should he mandate the central buying staff to participate in the program? If he discontinued the program, what should he do to catch up with BBB?

Exhibit 1

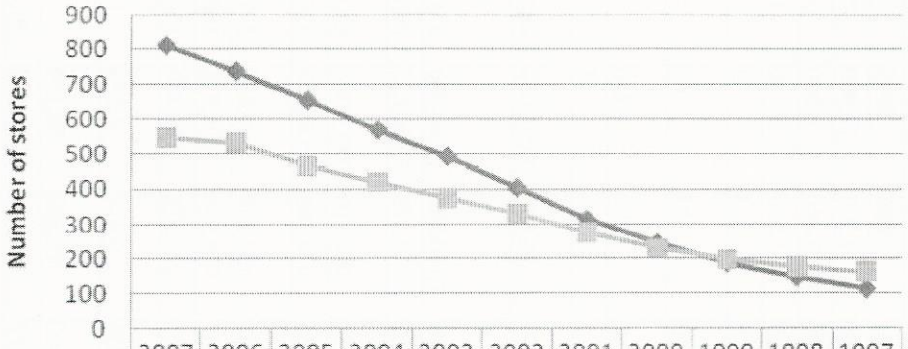
QUANTITATIVE ANALYSIS OF PERFORMANCE DATA FOR LINENS 'N THINGS (1997 - 2007)

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
# of employees	17,500	18,500	18,300	17,200	16,900	14,700	12,200	12,200	11,900	7,700	6,800
# full-time employees	6,600	7,300	8,000	8,000	7,100	6,500	5,600	5,600	5,000	3,300	3,300
# of suppliers	1,000	1,200	1,200	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
# of closed stores	0	2	5	2	9	7	3	4	9	12	18
# of new stores at year end	18	31	55	54	58	55	63	57	43	32	25
# of stores open at year end	589	571	542	492	440	391	343	283	230	196	176
# of distribution centers	3	3	3	3	3	3	3	3	3	2	2
Gross sq. ft. store space (end period)	19,423,000	18,928,000	18,071,000	16,702,000	1,510,600	13,607,000	11,980,000	9,836,000	7,925,000	6,487,000	5,493,000
Gross sq. ft. all distribution and storage locations	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,190,000	1,190,000	1,190,000	1,190,000	351,000	334,000
Net sales ($000)	2,794,776	2,534,365	2,694,742	2,661,469	2,395,272	2,184,716	1,823,803	1,572,576	1,300,632	1,066,194	874,224
Cost of goods / Cost of sales ($000)	1,747,904	1,557,011	1,595,394	1,589,700	1,428,706	1,308,524	10,77,867.57	934,110	780,379.2	639,138	527,924
Gross profits ($000)	1,046,872	977,354	1,099,348	1,071,769	966,566	876,192	745,935	638,466	520,253	427,056	346,300
Merchandise inventories ($000)	795,371	793,002	787,283	715,184	700,406	615,256	492,307	437,258	342,681	271,389	223,188
Total assets ($000)	1,740,387	1,857,934	1,650,834	1,591,884	1,467,456	1,277,123	1,046,305	919,504	676,916	560,844	472,099
Working capital ($000)	414,390	428,043	537,516	519,686	458,519	369,221	218,163	219,571	181,380	154,893	123,375
Increase in comparable store sales	-0.034	-0.007	0.06	0.018	0.013	0.031	-0.024	0.037	0.054	0.083	0.066
Capital expenditures ($000)	37,022	66,280	128,912	110,443	113,571	85,200	100,000	70,500	70,100		
Total liabilities ($000)	1,417,603	1,313,191	800,971	4,661,548	399,491	399,491	359,716	305,956	249,298	200,515	166,517
Net advertising costs ($000)	157,000	127,000	114,000	103,500	95,000	59,800	49,700	39,600	35,600	28,913	25,161

Source: Company Annual 10K Reports.

Exhibit 2

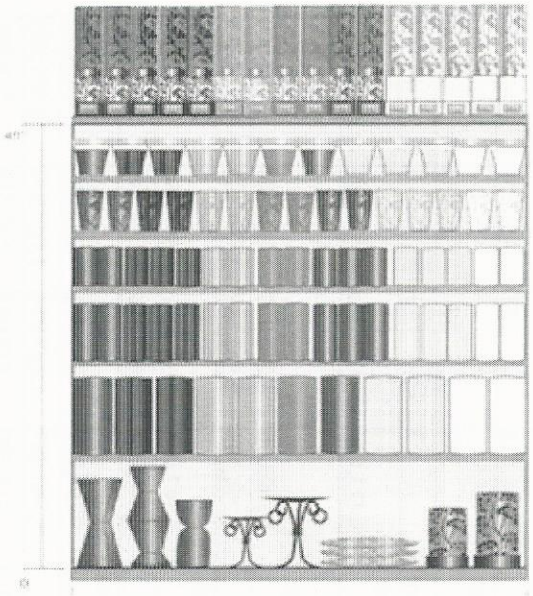
RETAIL OUTLETS COUNT



	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
BBB	812	739	657	573	496	406	316	247	189	148	114
LNT	550	535	467	422	376	331	277	230	197	176	161

Exhibit 3

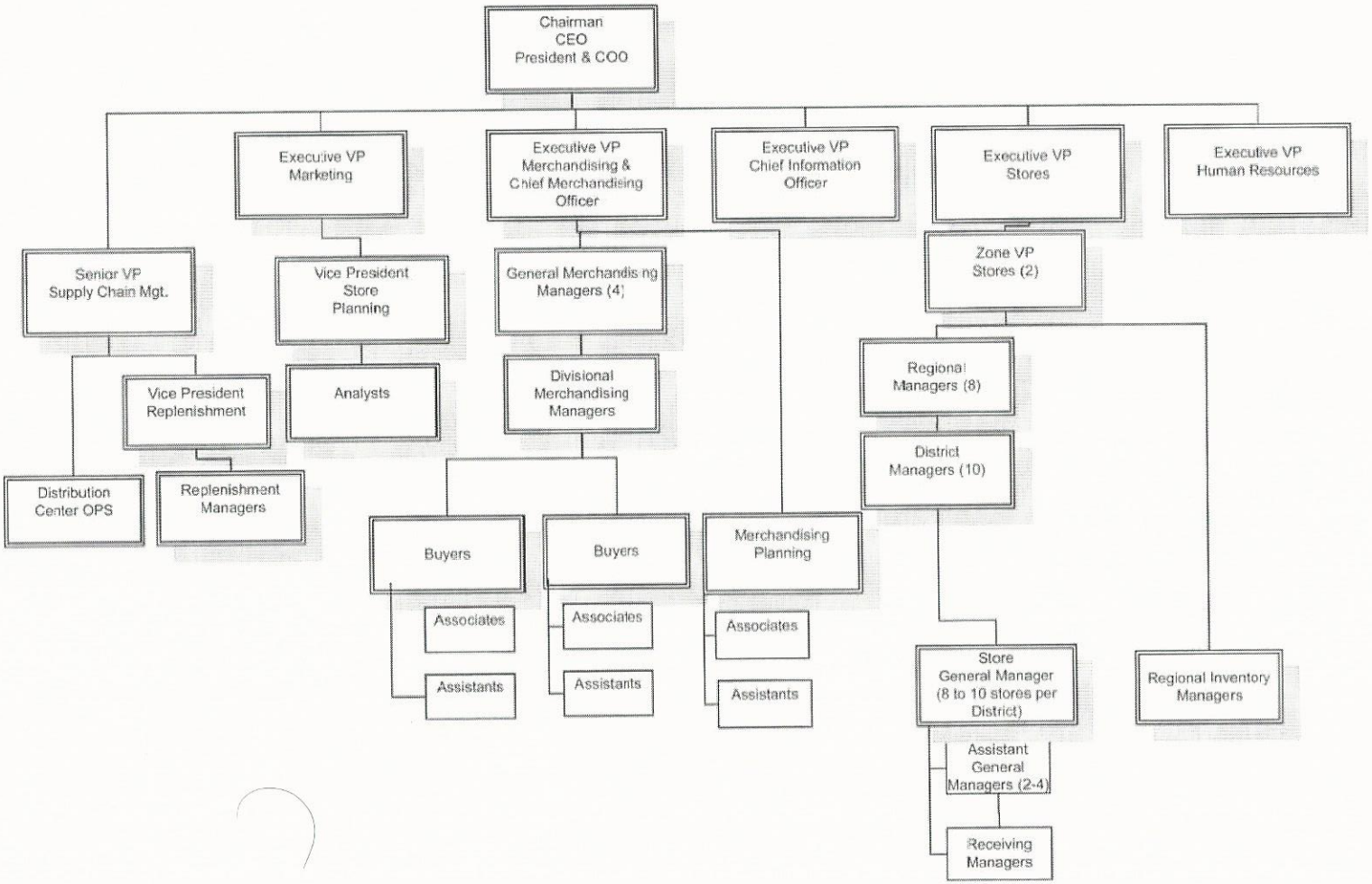
EXAMPLE OF A BED BATH & BEYOND PLANOGRAM



Source: www.joeyseemandesign.com.

Exhibit 4

A PARTIAL ORGANIZATION STRUCTURE OF LINENS 'N THINGS



Source: Case interviews.