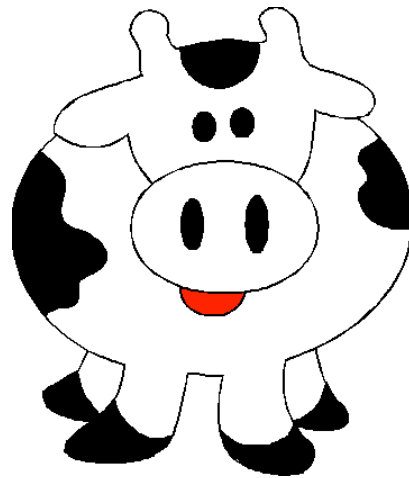


# Cow's guide to



# Retail Industry

(Prepared by: Vibhav Agarwal)

Retail industry today is a highly competitive industry in the US. There are millions of players with the largest operators reporting a large proportion of sales.

#### Current trends

- Consumer spending slowing due to weakened economy and changing demographics
- Consumers favor shopping at retailers offering the best price/value combination
- Highly competitive industry is forcing retailers to capture consumers attention away from other players

#### Retailer reactions

- Frequent price promotions to attract consumers
- Drive costs down and streamlining processes
  - Closing unprofitable stores
  - Consolidating back office functions
  - Cutting jobs
  - Lowering shrinkage
  - Negotiating favorable terms with suppliers
  - Divesting non-core operations
- Gain economies of scale and marketing leverage
  - Opening new stores
  - Acquisitions
  - Business consolidation (corporate services and headquarter functions, reductions in distribution and marketing costs)
  - Purchasing efficiencies
  - Helps to increase buying power, greater clout in negotiating with manufactures (volume discounts), cooperative advertising, and merchandising pricing advantages. This in turn boosts traffic and increases sales volume.
- Inventory control
- Expanding stores

- Increasing margins – Eliminate the middle man in order to procure goods directly from the suppliers/manufacturers.

#### Factors under control

- Pricing
  - Increasing margins – Eliminate the middle man in order to procure goods directly from the suppliers/manufacturers.
  - Price promotions – markdowns
  - Store (private label) brands – designed by internal team and outsourced manufacturer
    - Eliminates middleman – reduces cost, increases margins
    - Provides increased brand awareness, increases brand equity
    - Provides greater quality control and ability to respond to marketplace conditions/opportunities
    - Payoffs – increased marketing and advertising costs, decrease in sales of national brands (sold through the same channel – cannibalization), competition from established brands that have become benchmarks of quality, price, reliability, styling, etc.
- Productivity
  - Training and hiring
  - Organizational and process changes
  - Merchandise presentations
  - New store site selection and opening processes (timing, demographics, sales potential)
  - Identifying stores for closure
- Product
  - Broaden product assortment – adding new products, brands matching consumer tastes and preferences
  - Afford different payment options – purchase basket not limited to cash in hand

- Offer unique products by striking exclusive deals with suppliers – can drive incremental store traffic and sales, lowers the risk of markdowns, can be priced at a premium

#### Sales channels

- Stores
- Catalog
- Internet
- Phone

#### Customer contact points

- Point-of-sale
- Telephone inquiries
- Website visits
- Stores enabling micro-marketing to attract and increase customer loyalty, using websites to capture consumer preferences, one-on-one marketing via mails and emails.
- Goal is to determine customer spending patterns for certain brands, merchandise, and store locations – gathered through use of loyalty cards, proprietary credit cards

#### Demographics

- The baby boomers – 1946 – 1964
- The baby bust (Generation X) – 1965 - 1977
- The echo boom (Generation Y) – 1978 – 2000
- Seniors

#### Formats

- Mini-stores
- Department Stores – Regular and Specialty – predominantly clothing

- General Merchandiser – Apparel and accessories, sporting goods, hardware, automotive, lawn and garden, small appliances and electronics, grocery department (bakery, deli, frozen, meat, dairy, fresh produce)
  - Discounters
  - Supercenters
  - Warehouse (wholesale) clubs – targeted at small businesses and thrifty consumers

#### Broad steps in supply chain

- Inventory planning and forecasting
- Ordering
- Shipping
- Distribution
- Receive
- Point-of-sale (the store)

#### Terms

- Perpetual Inventory systems – enables retailers to leverage point-of-sale data to improve sales forecasting, merchandise planning and allocation. Can improve in-stock levels on fast moving goods and reduce level on slow selling items
- Sell-through – full price sales (e.g. by offering unique products)
- Markdown risk – Risk of price markdown because all inventory was not cleared
- Discretionary items – Purchase of these goods can be postponed or cancelled by a consumer
- Durable/Non-durable goods
- Inventory replenishment
- Point-of-sales system
- Inventory management
- Merchandise – Collection of items sold by a retailer
- Inventory costs – Costs pertaining to inventory purchase, storage until sold

- SKU – Stock keeping unit
- Shrinkage – Spoilage, employee pilferage, shoplifting
- Markup – Difference between retail and wholesale price
- Merchandising – Product placement within a store

#### Macroeconomic conditions affecting retail sales

- Real growth in GDP
- Disposable personal income
- Consumer confidence
- Interest rates
- Consumer price index
- Employment

#### Qualitative analysis

- Retail category of the company – Helps in determining the company's ability to gain market share in each of the segments of its business.
- Size of market and market share over time – Speaks about historical success and failure
- Position on price, value, and service – High price + high-quality service, or low price + negligible service
- Effectiveness of company's merchandising – Store layouts, lighting, product placement, visual presentation, organization of the floor plan
- Management team – Choice of strategy, ability to execute strategy, and history of success

#### Quantitative analysis

- Same-store sales or comparable-store sales – % change in sales from the preceding year at stores open more than an year – barometer of basic demand
- Gross profit margin – reflects a company's product mix and operational efficiency

- Operating profit margin – resource utilization (fixed cost spread across greater volumes)
- Cash flow – financial liquidity – ability to generate cash or to convert assets quickly into cash – a cash crunch can be devastating
- Inventory growth – Year-to-year change in inventory – should be in line with same-store sales and units
- Inventory turns – indicates whether goods are selling well relative to the average amount of inventory kept in stock – should be consistent with the company's business and comparable to other retailers in the same business segment

#### Additional analysis

- Pricing
- Location
- Service