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PROGRAM SUMMARY

Strategic Planning and Management in Retailing Program Continues Its Run!

In September 2008, the Strategic Planning and Management in Retailing Program ran for the 49th time in North America and the 23rd time at Babson College. Larry Ring and John Strong were the program faculty. Retail executives from 15 countries attended the program. This program currently is offered twice in North America (at Babson and at The College of William and Mary) and once in Australia (sponsored by Monash University).

The program was kicked off with "The Eight Ways to Win in Retailing," and featured cases on Tesco, Best Buy and Best Buy in 2006, Zara, Seven Eleven Japan, and Meijer. In addition, the faculty delivered lec-

The program is next scheduled to be offered May 2-8, 2009 at William and Mary in Williamsburg, Virginia. Those interested are encouraged to apply early. To register, contact Susan Hartshorn at shartshorn@babson.edu, or at 781-239-2923.

tures and exercises on financial and productivity analysis, strategic thinking and planning, category scorecards, basket analysis, and supply chain management. On Wednesday afternoon, September 17, the group participated in a store tour with visits to Wal-Mart, BJ's Wholesale Club, Target, Walgreen's, Whole Foods Market, Trader Joe's, Staples, Shopper's World Power Center (including Best Buy, DSW, Toys "R" Us, Barnes and Noble, T.J. Maxx, Sports Authority, and others), and the newly reconstructed Natick Mall, now called the Natick Collection (Nordstrom, Neiman Marcus, Macy's, Lord and Taylor, Sears, J. C. Penney, and numerous specialty stores). The highlight of the trip was our visit and guided tour of Jordan's Furniture, including a viewing of its "Mardi Gras" show and its IMAX Theater.

Babson's Executive Conference Center made for an ideal learning environment and, of course, the food was excellent. Participants were treated to a lobster and clam bake upon returning from their store tour on Wednesday. Thursday's lunch was the annual Doug Tigert Cheeseburger BBQ. Susan Hartshorn served as program manager and housemother, and looked after all members of the diverse group of participants.

The participants represented companies in the apparel, consulting, cosmetic, department store, drug, food, footwear, giftware, home improvement, general merchandise, and office supply retail sectors. The class was composed of senior-level executives representing all the functions of a retail organization.

Strategic Profit Model Results for U.S. Retailers for 2007

The table on page 4 reports the most recent Strategic Profit Model (SPM) results for the 40 largest public U.S. retail companies based on sales. As we have done in the past, Tiffany, a jeweler, has been added to the list to make a total of 41 companies.

Seventeen of the 40 companies listed here improved their after-tax return on year-end net worth (RONW) for 2007 from 2006. This compared to 23 that improved in 2006 versus 2005.

Upscale apparel and footwear retailer Nordstrom was the top performer for 2007 with an after-tax RONW of 64.13 percent, double its 2006 number of 31.27 percent. This number was largely achieved by a significant boost to its leverage up to 5.02. This increase was the result of a large share repurchase program financed largely with debt. We regard this as a bit risky. Amazon was second at 39.77 after being on top last year. Amazon also is highly leveraged at 5.42, but well down from its leverage of 10.12 in 2006. In addition to reducing its leverage, Amazon has improved ROA from 4.35 percent to 7.34 percent. It appears that Jeff Bezos is getting it right.

TJX, our list topper from 2000 to 2006, came in third in 2007 with an (RONW) of a bit more than 36 percent, up slightly from 33 percent in 2006. This is the first time TJX has not been first or second on our listing for an impressive 10 consecutive years. Still, its brand of value retailing continues to produce great results.

Specialty retailer Sherwin-Williams was in fourth place at 34.47 percent, up from 28.91 percent in 2006. Another specialty retailer, Limited Brands, followed in fifth place with RONW of 32.36 percent, up from 22.84 percent in 2006. This well-known specialty retailer shed itself of all of its remaining apparel brands (Express and Limited) in 2007 and is now primarily focused on lingerie and fragrance with Victoria's Secret and Bath and Body Works.

The No. 6 company in our listing was Best Buy at 31.38 percent, up from 22.22 percent in 2006. Best Buy clearly has left Circuit City in its dust and now must concern itself with the moves of both Wal-Mart and Costco into consumer electronics. Another category killer, PetSmart, was seventh on our list at 26.22 percent, up from 18.49 percent in 2006. As PetSmart pulls away from its challenger, Petco, it, too, like Best Buy, will need to keep looking over its shoulder at Wal-Mart, said to be seeking an increased share of the pet business as well.

Home Depot, having shed itself of Home Depot Supply, had sales in 2007 of around \$77 billion, down from \$91 billion in 2006. It is still, however, the second-largest retailer in the U.S. This company was eighth on our list with its highest-ever RONW of 24.81 percent, up from 23.02 percent in 2006 and 21.7 percent the previous year. In spite of the downturn in the economy and the housing sector in particular, new CEO Frank Blake appears to be stabilizing the company after former CEO Robert Nardelli was unceremoniously dumped following being roundly criticized for a lagging stock price and an outsized compensation package. (Nardelli now is working his magic at struggling auto maker, Chrysler.) Home Depot's archrival, Lowe's, had a RONW in 2007 of 17.45 percent as the company continued to chase its much larger competitor.

Kroger is just behind Home Depot at 24.03 percent and continues to improve as the Cincinnati company was the No. 1 food retailer based on RONW for the second year in a row. Publix, second best among food retailers, came in 11th at 20.98 percent, down slightly from 22.06 percent in 2006.

Bed Bath & Beyond was in 10th place at 21.97 percent and down slightly from 2006. J. C. Penney was in 12th position with 20.91 percent but down a bit from the previous year at 26.45 percent.

Wal-Mart was in 13th place in the listing with RONW of 19.70 percent and has displayed remarkable consistency the last several years with its previous seven years' RONW numbers at 20.47, 21.73, 21.29, 20.76, 19.0, 20.1, and 20.8 percent, respectively. In addition to these

AS HAS BEEN THE CASE FOR SEVERAL YEARS, THE TRADITIONAL DEPARTMENT STORES CONTINUED TO POST FAIRLY PUNY RESULTS AS THE SECTOR CONTINUES TO CONSOLIDATE AND STRUGGLES TO FIND A PLACE FOR ITSELF AMONG THE DISCOUNTERS AND THE BIG BOXES.

outstanding returns, Wal-Mart now has pushed its sales to nearly \$380 billion, up from \$350 billion in 2006, and \$316 billion in 2005. Wal-Mart now is nearly five times larger than the next largest U.S. retailer. In fact, Wal-Mart is larger than the next five U.S. retailers (Home Depot, Costco, CVS, Kroger, and Target) combined.

The Gap came in 14th in our ranking at 19.49 percent, up from 15.04 percent in 2006. Target and Family Dollar were close behind at 18.61 percent and 18.59 percent, respectively. Jeweler Tiffany is at 18.55 percent, up slightly from 2006 and Kohl's is at 17.76 percent, down slightly from 2006.

As we scan the list, it is once again clear that the cream clearly has risen to the top of the retailing world. In order, we have the:

Best Upscale Department Store: Nordstrom

Best dot com retailer: Amazon

Best Off-Pricer: TJX

Best Specialty Other Chain: Sherwin-Williams

Best Specialty Apparel Chain: Limited

Best Consumer Electronics Chain: Best Buy

Best Pet Supply Superstore: PetSmart

Best DIY/Home Improvement Chain: Home Depot

Best Grocer: Kroger

Best Home Retailer: Bed Bath & Beyond

Best Promotional Department Store: J. C. Penney

Best Discounter: Wal-Mart

2007 STRATEGIC PROFIT MODELS FOR SELECTED RETAILERS (RONW)

RETAILER NAME	DATE	Sales '07 (in millions)	Return on Sales '07	Asset Turnover '07	Return on Assets '07	Financial Leverage '07	Return on Net Worth '07	Return on Net Worth '06	Return on Net Worth '05	Return on Net Worth '04
NORDSTROM INC	Feb-08	\$8,828.00	8.10%	1.58	12.77%	5.02	64.13%	31.27%	26.34%	22.00%
AMAZON.COM	Apr-08	\$14,835.00	3.21%	2.29	7.34%	5.42	39.77%	44.08%	nm	nm
TJX COMPANIES INC	Jan-08	\$18,647.13	4.14%	2.83	11.69%	3.10	36.21%	33.92%	36.48%	40.17%
SHERWIN-WILLIAMS CO LIMITED INC	Dec-07	\$8,005.29	7.69%	1.65	12.68%	2.72	34.47%	28.91%	26.85%	20.60%
BEST BUY CO INC	Feb-08	\$10,134.00	7.09%	1.36	9.65%	3.35	32.36%	22.84%	26.95%	30.19%
PETSMART INC	Mar-08	\$40,023.00	3.52%	3.14	11.03%	2.85	31.38%	22.22%	21.69%	20.99%
HOME DEPOT INC	Feb-08	\$4,672.66	5.54%	2.16	11.94%	2.20	26.22%	18.49%	19.40%	18.00%
KROGER CO	Feb-08	\$77,349.00	5.68%	1.75	9.92%	2.50	24.81%	23.02%	21.70%	20.70%
BED BATH & BEYOND INC	Feb-08	\$70,235.00	1.68%	3.15	5.30%	4.54	24.03%	22.65%	21.82%	-2.82%
PUBLIX SUPER MARKETS INC	Mar-08	\$7,048.94	7.98%	1.83	14.64%	1.50	21.97%	22.43%	25.32%	22.91%
J C PENNEY	Dec-07	\$23,195.59	5.10%	2.88	14.70%	1.43	20.98%	22.06%	23.52%	22.85%
WAL-MART	Feb-08	\$19,860.00	5.59%	1.39	7.76%	2.69	20.91%	26.45%	24.38%	13.74%
GAP INC	Jan-08	\$378,799.00	3.36%	2.32	7.79%	2.53	19.70%	20.47%	21.73%	21.29%
TARGET CORP	Feb-08	\$15,763.00	5.28%	2.01	10.63%	1.83	19.49%	15.04%	20.52%	23.30%
FAMILY DOLLAR	Feb-08	\$63,367.00	4.50%	1.42	6.39%	2.91	18.61%	17.83%	16.95%	14.47%
TIFFANY	Aug-08	\$6,983.63	3.34%	2.62	8.76%	2.12	18.59%	20.70%	16.59%	15.25%
KOHL'S CORP	Jan-08	\$2,938.77	10.34%	1.01	10.40%	1.78	18.55%	14.07%	13.91%	17.89%
LOWE'S COS	Feb-08	\$16,473.73	6.58%	1.56	10.26%	1.73	17.76%	19.79%	14.13%	14.70%
STAPLES INC	Feb-08	\$48,283.00	5.82%	1.56	9.10%	1.92	17.45%	19.75%	19.32%	18.86%
WALGREEN CO	Feb-08	\$19,372.68	5.14%	2.14	11.02%	1.58	17.41%	19.39%	18.86%	17.21%
COSTCO COMPANIES INC	Aug-08	\$59,034.30	3.65%	2.63	9.62%	1.74	16.76%	18.40%	17.31%	17.54%
SAFeway	Aug-08	\$70,977.48	1.81%	3.43	6.20%	2.23	13.83%	12.56%	12.09%	11.89%
OFFICE DEPOT INC	Dec-07	\$42,286.00	2.10%	2.40	5.03%	2.63	13.26%	15.36%	11.41%	13.01%
BARNES & NOBLE	Dec-07	\$15,527.54	2.55%	2.14	5.45%	2.35	12.83%	19.77%	10.00%	10.41%
DELHAIZE AMERICA	Feb-08	\$5,410.83	2.51%	1.66	4.18%	3.02	12.64%	13.07%	13.30%	10.69%
BJ'S WHOLESALE CLUB	Dec-07	\$27,922.06	2.24%	2.15	4.81%	2.43	11.70%	9.35%	8.74%	7.12%
SUPERVALU INC	Feb-08	\$9,005.00	1.25%	4.40	5.51%	2.09	11.51%	7.06%	12.68%	12.41%
MACY'S	Feb-08	\$44,048.00	1.35%	2.09	2.82%	3.54	9.96%	8.52%	7.87%	15.37%
CVS CORP	Feb-08	\$26,313.00	3.39%	0.95	3.21%	2.80	9.01%	8.06%	10.16%	11.17%
THE PANTRY INC	Dec-07	\$76,329.50	3.45%	1.39	4.82%	1.75	8.42%	13.80%	14.70%	13.15%
SEARS HOLDINGS	Sep-08	\$8,995.63	0.35%	4.15	1.47%	5.56	8.15%	7.55%	26.47%	22.93%
WHOLE FOODS MARKET	Feb-08	\$50,703.00	1.63%	1.85	3.01%	2.57	7.74%	11.72%	10.76%	6.19%
FOOTLOCKER	Sep-08	\$7,953.91	1.44%	2.35	3.39%	2.24	7.60%	12.53%	14.51%	9.98%
DILLARDS INC-CL A	Feb-08	\$5,437.00	0.94%	1.67	1.57%	1.43	2.25%	10.76%	12.97%	13.93%
WINN-DIXIE STORES INC	Feb-08	\$7,370.81	0.73%	1.38	1.01%	2.12	2.14%	9.02%	5.19%	5.06%
BLOCKBUSTER	Jun-08	\$7,281.45	0.18%	4.10	0.72%	2.15	1.55%	3.53%	nm	(1404.19%)
CIRCUIT CITY	Jan-08	\$5,542.40	(1.33%)	2.03	(2.70%)	4.17	(11.26%)	9.15%	(93.11%)	(117.49%)
GREAT ATLANTIC & PAC TEA CO	Feb-08	\$11,743.69	(2.72%)	3.14	(8.54%)	2.49	(21.28%)	(0.57%)	7.73%	2.87%
RITE AID CORP	Feb-08	\$6,401.13	(2.51%)	1.75	(4.40%)	8.72	(38.43%)	6.15%	(9.68%)	(80.45%)
SAKS HOLDINGS INC	Mar-08	\$24,326.85	(4.44%)	2.12	(9.39%)	6.71	(63.06%)	1.61%	2.69%	na

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Relatively middling performances were turned in by the office supply players, Office Depot and Staples, as well as Costco, and druggists Walgreens and CVS.

As has been the case for several years, the traditional department stores continued to post fairly puny results as the sector continues to consolidate and struggles to find a place for itself among the discounters and the big boxes. Renamed Macy's was the best of the sad bunch at 9.01 percent. Saks Holdings continued to drop to a negative number and as of this date has pretty well sold itself off. This company will drop off the list next year. Dillard's came in at a puny 2.14 percent and well down from 2006. Sears Holdings continues to deteriorate and was at 7.74 percent.

The traditional grocers (besides Publix and Kroger) continued to be in the bottom half of the list as the onslaught of Wal-Mart and Target Supercenters, as well as hard discounters Aldi and Sav-a-Lot take their price/value customers, while Whole Foods and other specialty grocers steal the cream off the top. Whole Foods also has hit hard times, and has dropped to 7.6 percent as its nickname "Whole Paycheck" comes home to roost in difficult economic times. Winn-Dixie and A&P have emerged from bankruptcy but remain near the bottom of the list. Supervalu came in at 9.96 percent as it continued to try to digest the remains of Albertson's and others, while Safeway was at 13.26 percent and down slightly from 2006.

Others at the bottom of the list again were Rite Aid, Circuit City (now in bankruptcy), and Blockbuster.

Strategic Profit Model Results for International Retailers for 2007

The table on page 6 provides the Strategic Profit Model Results for 30 of the largest publicly held international retailing companies. This is our eighth year of compiling these statistics. Twelve countries are represented here, although most of these retailers have at least continental, if not global operations. Among international retailers, the largest are food (most have hypers among their formats) retailers. Five have European origins but clearly are global players. Carrefour (French) is the largest (by sales at \$121 billion), followed by Tesco (British, \$93 billion), Metro (German, \$82 billion), Groupe Auchan (French, \$54 billion), and Royal Ahold (Dutch, \$41 billion). Two are Japanese retailers, Seven and I (\$50 billion) and Aeon (\$48 billion). Put in perspective, however, the five largest combined are still just a bit larger than the world's No. 1 retailer, Wal-Mart, which is approaching \$400 billion.

In terms of overall performance on return on net worth, 2007 saw Royal Ahold surge to the top of the list with 75.77 percent. However, much of this number was due to one off asset sales and without those sales, Ahold's number would have been closer to 5 or 6 percent. New to our list this year, the fashion duo of H&M and Inditex (Zara) came second and fifth in the 2007 rankings with 42.34 percent and 29.82 percent, respectively. These two chains continue to expand globally and are now the fast fashion pacesetters for the world.

Marks & Spencer continued to rank well and was No. 3 on the list at 41.8 percent (although down a bit from 2006). Woolworth's Australia, always near the top of the list, came in fourth in 2007 at 38.28 percent, up from 34 percent in 2006. Woolies now has distanced itself from Australian archrival Coles Group, which sold itself to Wesfarmers (owners of Bunnings Building Supply, but also several nonretail businesses).

In sixth position was Carrefour at 21.02 percent, down from 23.14 percent in 2006. Daiei followed in seventh

position at 20.66 percent, also down slightly from 2006. In total, only seven international retailers achieved RONW of greater than 20 percent in 2007. In comparison, 12 U.S. retailers achieved that number.

The next seven international retailers on the list are all food companies: Tesco (17.9 percent and unchanged from last year), Auchan (14.16 percent and up slightly), Metro (13.19 percent and down from 19.73 percent in 2006), William Morrison (12.65 percent and improved from 6.31 percent in 2006), Delhaize (11.70 percent and up

slightly), George Weston (11.40 percent and up significantly from 2.32 percent in 2006 but still battling against Wal-Mart's surge in Canada), and Jardine Matheson (Dairy Farm and at 11.37 percent).

Specialty retailer Otto Versand was next at 10.17 percent and down significantly from 19.02 percent the previous year. Broadline retailers El Corte Ingles (9.5 percent), Home Retail Group (8.81 percent), and PPR (8.48 percent) followed, all nearly unchanged from the previous year.

STRATEGIC PROFIT MODEL RESULTS FOR 2007 FOR SELECTED INTERNATIONAL RETAILERS (RONW)

Company Name	Country	Business Area	Date	Net Sales Millions U.S.	Return on Sales '07
Royal Ahold	Netherlands	Food	Dec-07	\$41,463.67	10.46%
H&M	Sweden	Specialty	Nov-07	\$14,471.60	14.75%
Marks & Spencer	UK	Broadline	Mar-08	\$18,047.88	9.10%
Inditex	Spain	Specialty	Jan-08	\$12,076.40	13.25%
Woolworths Limited	Australia	Food	Jun-08	\$40,785.66	4.97%
Carrefour	France	Food	Dec-07	\$120,992.42	3.02%
Daiei	Japan	Broadline	Feb-08	\$11,390.60	3.36%
Tesco	UK	Food	Feb-08	\$92,978.88	4.50%
Groupe Auchan	France	Food	Dec-07	\$54,075.69	2.66%
Metro	Germany	Food	Dec-07	\$82,351.40	1.28%
Wm Morrison Supermarkets	UK	Food	Feb-08	\$19,064.40	4.27%
Delhaize	Belgium	Food	Dec-07	\$27,922.06	2.24%
George Weston	Canada	Food	Dec-07	\$25,595.70	1.72%
Jardine Matheson	China	Food	Dec-07	\$19,445.00	8.01%
Otto Versand (Otto GmbH & Co KG)	Germany	Specialty	Feb-08	\$17,415.48	2.41%
El Corte Ingles	Spain	Broadline	Feb-08	\$27,876.37	4.04%
Home Retail Group	UK	Broadline	Mar-08	\$11,893.89	4.92%
PPR	France	Broadline	Dec-07	\$29,104.84	4.58%
J. Sainsbury	UK	Food	Mar-08	\$35,390.93	1.84%
Coop	Switzerland	Food	Dec-07	\$14,046.91	2.21%
Migros	Switzerland	Food	Dec-06	\$18,914.50	3.52%
Takashimaya	Japan	Broadline	Feb-08	\$9,951.43	1.79%
Seven and I Holdings	Japan	Food	Feb-08	\$49,750.79	2.50%
Kingfisher	UK	Specialty	Feb-08	\$18,579.30	2.90%
Wesfarmers (Coles Group Limited)	Australia	Food	Jun-08	\$32,257.40	3.13%
Aeon	Japan	Food	Feb-08	\$47,901.48	0.85%
Fonciere Euris	France	Food	Dec-07	\$32,971.50	0.64%
Arcandor (Karstadt Quelle)	Germany	Broadline	Sep-07	\$20,814.00	0.11%
UNY	Japan	Broadline	Feb-08	\$10,461.30	0.04%
Dixon's (DSG International)	UK	Broadline	May-08	\$16,723.54	(3.07%)

These results were compiled by Professor Lawrence J. Ring with the assistance of Rachel Hutson, MBA 2009, the Mason School of Business, the College of William & Mary, Williamsburg, Virginia, Copyright 2008.

Among other broadline retailers, Takashimaya was at 6.42 percent, Arcandor was at .66 percent and way down from 30.03 percent after restructuring in 2006, UNY was at .16 percent, and Dixon's continued its restructuring and dropped to a negative 30 percent.

Among other food retailers, the Swiss players, Coop and Migros were at 6.57 and 6.49 percent respectively, while Seven and I, Wesfarmers, Aeon, and Fonciere Euris (Casino) were all lower percentages. Seventeen of the largest 30 international retailers are food businesses.

Overall, only 11 of the 30 listed companies here for which data were available had a higher RONW in 2007 than 2006. It also remains the case that, in general, the largest international retailers carry significantly more leverage than do their U.S. counterparts. Despite lower levels of leverage, the U.S. retailers appear to be more profitable than their foreign counterparts.

Asset Turnover '07	Return on Assets '07	Financial Leverage '07	Return on Net Worth '07	Return on Net Worth '06	Return on Net Worth '05	Return on Net Worth '04	Return on Net Worth '03
2.02	21.12%	3.59	75.77%	7.11%	(1.21%)	(2.12%)	(0.02%)
2.21	32.56%	1.30	42.34%	38.87%	35.67%	32.76%	31.78%
1.26	11.46%	3.65	41.80%	56.82%	45.06%	23.92%	22.51%
1.33	17.59%	1.69	29.82%	29.04%	25.14%	(41.02%)	11.55%
3.20	15.91%	2.41	38.28%	34.04%	34.58%	35.98%	(43.31%)
1.58	4.77%	4.40	21.02%	23.14%	15.31%	18.28%	35.62%
2.43	8.17%	2.53	20.66%	22.23%	3.95%	nm	22.98%
2.97	13.36%	1.34	17.90%	17.96%	16.89%	15.12%	16.30%
1.45	3.86%	3.67	14.16%	12.41%	17.29%	9.04%	13.85%
1.90	2.44%	5.42	13.19%	19.73%	12.22%	16.72%	10.57%
1.70	7.26%	1.74	12.65%	6.31%	(7.54%)	5.11%	11.92%
2.15	4.81%	2.43	11.70%	10.12%	10.16%	6.29%	8.91%
1.78	3.06%	3.72	11.40%	2.32%	13.66%	9.77%	5.14%
0.88	7.01%	1.62	11.37%	18.50%	13.87%	17.59%	17.75%
0.79	1.89%	5.37	10.17%	19.02%	11.12%	6.04%	6.75%
1.26	5.10%	1.86	9.50%	9.85%	na	na	7.60%
1.28	6.28%	1.40	8.81%	6.09%	11.28%	na	na
0.70	3.21%	2.65	8.48%	7.96%	7.06%	11.96%	9.34%
1.76	3.25%	2.05	6.67%	15.57%	1.45%	1.46%	12.79%
1.34	2.96%	2.22	6.57%	9.13%	5.37%	9.72%	5.21%
0.46	1.61%	4.02	6.49%	7.05%	7.26%	1.36%	3.60%
1.37	2.46%	2.61	6.42%	8.83%	9.31%	7.12%	(1.97%)
1.34	3.36%	1.89	6.35%	7.00%	2.70%	1.11%	4.71%
1.00	2.89%	1.99	5.76%	7.65%	5.37%	9.72%	5.21%
0.90	2.81%	1.90	5.36%	19.14%	32.34%	16.75%	15.10%
1.44	1.22%	3.08	3.76%	6.32%	4.28%	7.45%	54.27%
1.01	0.65%	4.17	2.70%	1.55%	1.78%	15.83%	6.29%
1.03	0.11%	5.73	0.66%	30.03%	(136.23%)	(263.31%)	4.59%
1.08	0.04%	4.13	0.16%	0.01%	4.44%	3.18%	19.09%
2.19	(6.73%)	4.52	(30.43%)	0.18%	18.68%	16.48%	na

Profitability and Productivity Among Teen Retailers

By Lawrence J. Ring, Chancellor Professor of Business and EMBA Alumni Professor of Business and John S. Strong, CSX Professor of Business Mason School of Business

The College of William and Mary

The teen retail scene always has been and continues to be a very volatile arena due to the fashion vagaries of the segment. “Fickle” and “fleeting” are words that describe behavior here. Retailer performance here from year to year often has been erratic and “getting it right” consistently has been difficult.

Nevertheless, teen retailers historically have performed well in late summer and autumn as students need new clothes and boost sales for the eager retail brands such as Abercrombie & Fitch, American Eagle, Hot Topic, and Pacific Sun. The fall of 2008, however, was, for the most part, a bust for the teen retail crowd of chains. Pretty clearly, this is a sector very exposed to the economy and prone to “moving to value” transitions during tough times.

One measure of performance is “comp” stores sales, and we find an interesting contrast between performance in fall 2008 compared to fall 2005 (good times) for eight publically held teen retail chains: Abercrombie & Fitch, Aéropostale, American Eagle Outfitters, Buckle, Charlotte Russe, Hot Topic, Pacific Sunwear, and Wet Seal.

The average October and November 2008 comp store sales performance for this group of stores as compared with October and November 2005 are as follows:¹

Chain	2005 Oct/Nov Comp Sales	2008 Oct/Nov Comp Sales
Wet Seal	49.05%	- 7.95 %
Abercrombie & Fitch	22.0%	-24.00 %
Charlotte Russe	12.9%	- 9.00 %
American Eagle	11.8%	-11.50 %
Pac Sun	5.45%	-10.50 %
Buckle	4.9%	14.75 %
Aéropostale	2.9%	- 2.00 %
Hot Topic	-2.85%	7.45 %

What a difference a few years makes. Seven of these eight were positive in 2005, but in 2008 only two are positive. For example, Abercrombie was flying high with 22 percent positive comps in 2005, and in 2008 was negative 24 percent. Meanwhile, Buckle, which was “comping” at 4.9% in 2005, led the group with a positive 14.74 percent in 2008. Hot Topic was negative in 2005 but positive and second to Buckle in 2008.

Apart from the general economic malaise, we wondered if anything could be gained by examining the underlying profitability and productivity model of this set of retailers. To that end, this article examines the components of both the Strategic Profit Model and the Strategic Resource Model for eight publically held teen retail chains listed below:

Abercrombie & Fitch

“Targeted at 18 to 22 year-old males and females, the brand is rooted in East Coast traditions and Ivy League heritage. Abercrombie & Fitch is the essence of privilege and casual luxury. The Adirondacks supply a clean and rugged inspiration to this youthful All-American lifestyle. A combination of classic and sexy creates a charged atmosphere that is confident and just a bit provocative. Idolized and respected, Abercrombie & Fitch is timeless, and always cool.”² Abercrombie also markets four other brands.

Aéropostale

“Aéropostale, Inc. is a mall-based, specialty retailer of casual apparel and accessories, principally targeting 14 to 17 year old young women and men. The Company provides customers with a focused selection of high-quality, active-oriented, fashion and fashion basic merchandise at compelling values. Aéropostale maintains control over its proprietary brands by designing, sourcing, marketing and selling all of its own merchandise.”³

American Eagle Outfitters

“American Eagle Outfitters designs, markets and sells its own brand of laidback, current clothing targeting 15 to 25 year-olds, providing high-quality merchandise at affordable prices. We opened our first American Eagle Outfitters store in the United States in 1977 and expanded the brand into Canada in 2001. American Eagle® also operates ae.com, which offers additional sizes, colors and styles of favorite

AE® merchandise and ships to 41 countries around the world. AE's original collection includes standards like jeans and graphic Ts, as well as essentials like accessories, outerwear, footwear, basics and swimwear under our American Eagle Outfitters, American Eagle and AE brand names.⁴ American Eagle also operates stores under three other brand names.

Buckle

"The Buckle, Inc. is a retailer of medium to better-priced casual apparel, footwear and accessories for fashion conscious young men and women. The Company markets a wide selection of mostly brand name casual apparel including denims, other casual bottoms, tops, sportswear, outerwear, accessories and footwear. The Company emphasizes personalized attention to its customers and provides customer services such as free hemming, free gift-wrapping, easy layaways, the Buckle private label credit card and a frequent shopper program. Most stores are located in regional, high-traffic shopping malls and lifestyle centers, and this is the Company's strategy for future expansion."⁵

Charlotte Russe

"Charlotte Russe is a growing, mall-based specialty retailer of fashionable, value-priced apparel and accessories. We are focused on providing exciting, fashion-forward merchandise that appeal to customers across age and socioeconomic boundaries, with a core emphasis on the lifestyle trends of young women in their teens and twenties. Our stores offer merchandise at value-oriented prices and the majority of our merchandise is sold under our proprietary Charlotte Russe labels, including Charlotte Russe, Refuge and blu Chic. The remainder of our merchandise consists of nationally-recognized brands popular with our customers."⁶

Hot Topic

"We are a shopping mall-based specialty retailer operating the Hot Topic and Torrid concepts. At Hot Topic, our business strategy is built on the foundation of pop culture and its relevance to our target teen customer. Within pop culture, we believe music plays a primary and integral role in the minds, activities and preferences of our target

customers. We have adopted strategies to focus on music and music/pop culture-oriented merchandise, return to a fundamentally regular price business, establish ourselves as a merchandise 'item' destination and continue to emphasize superior customer service. At our Hot Topic stores, we sell a selection of music/pop culture-licensed and music/pop culture-influenced apparel, accessories, music and gift items for young men and women principally between the ages of 12 and 22. At our Torrid stores, we sell apparel, lingerie, shoes and accessories for plus-size females between the ages of 15 and 29."⁷

Pacific Sunwear

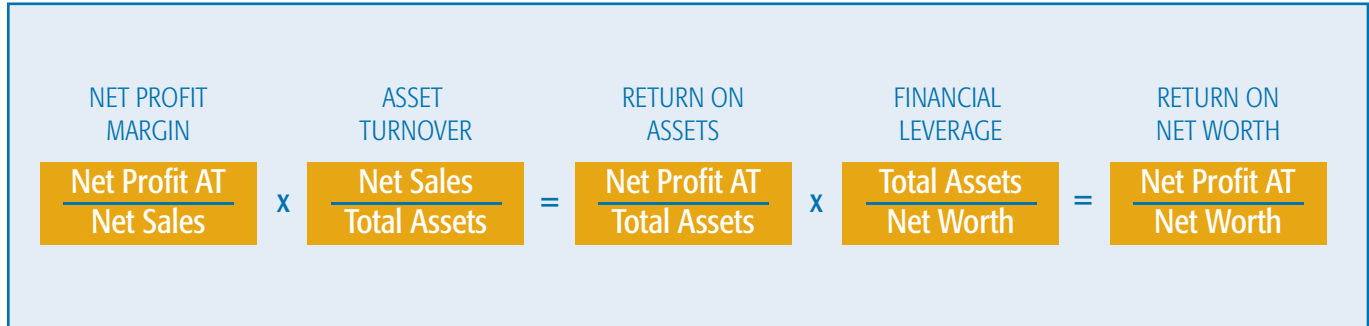
"Pacific Sunwear of California, Inc. (together with its wholly owned subsidiaries) is a leading lifestyle specialty retailer rooted in the youth culture and fashion vibe of Southern California and focused on action-sport inspired casual apparel, accessories and footwear designed to meet the needs of active teens and young adults. We operate a nationwide, primarily mall-based chain of retail stores under the names "Pacific Sunwear" (also "PacSun") and "Pacific Sunwear Outlet" (also "PacSun Outlet")."⁸

Wet Seal

"We are a national specialty retailer operating stores selling fashionable and contemporary apparel and accessory items designed for female customers aged 13 to 35. We operate two nationwide, primarily mall-based, chains of retail stores under the names "Wet Seal" and "Arden B". We consider these segments as two distinct reportable segments. Wet Seal is the junior apparel brand for teenage girls that seek trend-focused and value competitive clothing with a target customer age of 13 to 19 years old. Wet Seal seeks to provide its customer base with a balance of affordably priced fashionable apparel and accessories. Arden B is a fashion brand for the feminine contemporary woman with sex appeal. Arden B targets customers aged 25 to 35 and seeks to deliver contemporary collections of fashion separates and accessories for various aspects of the customers' lifestyles."⁹

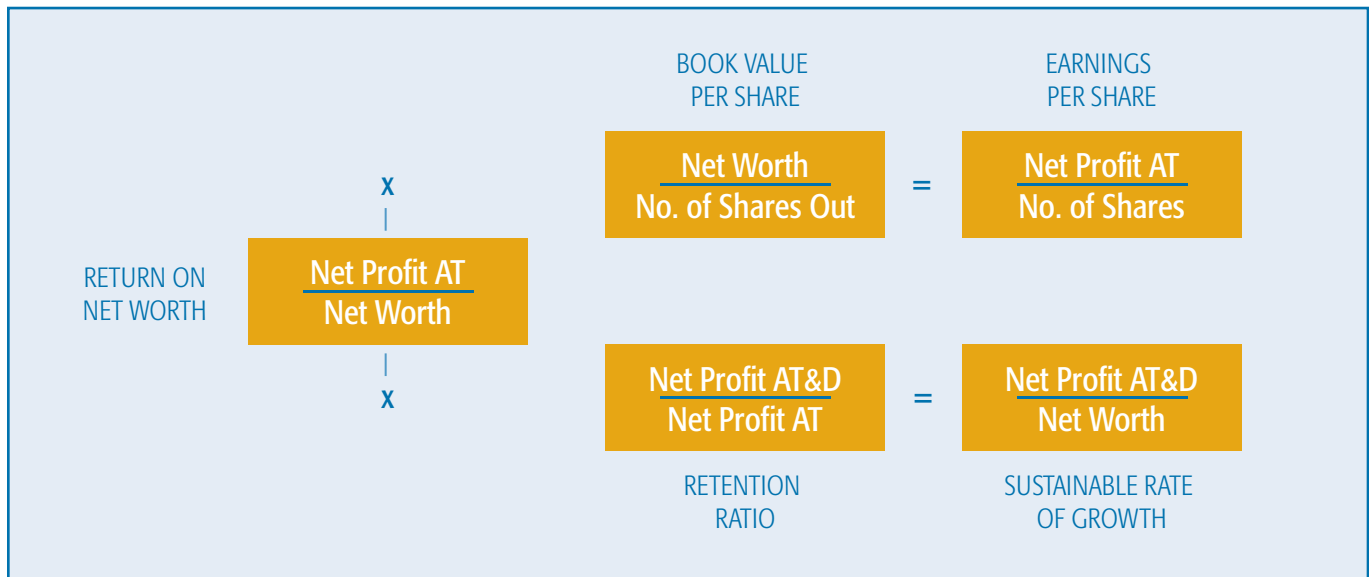
The Strategic Profit Model

The Strategic Profit Model (SPM and also known as the DuPont Financial Model) in its most simplistic form is as follows:



The obvious point here is that high return on assets can be achieved by either improving net margins or improving asset turnover, or both. High return on equity is the same, and in addition, high leverage also can lead to high return on equity, although this is a more risky proposition.

The strategic profit model represents the combination of the income statement and the balance sheet into a single model. The end product of this combination is Return on Equity (or Return on Net Worth.) It can be extended to also show Earning per Share (EPS) and Sustainable Rate of Growth (SRG).



What is strategic about the model is that it focuses attention on the primary objectives of any retail enterprise:

- 1 To achieve of high rate of return on investment (ROA and ROE)
- 2 To grow the business (ROE and SRG)
- 3 To do it on a sustainable basis (SRG)

The SPM also outlines the possible pathways to achieving these objectives:

- 1 Margin Management, Expense Control, and Sales Management (ROS)
- 2 Asset Management (ATO)
- 3 Sound Financial Management (Leverage)

Table 1 shows the SPM for the eight U.S. teen retailers cited above. In this table, the teen retailers have been ranked from highest to lowest based on the first term of the model, Return on Sales (ROS and also known as Net Profit Margin). These data are for the calendar year 2007 (as at January or February 2008).

Based on ROS, American Eagle was the best at 13.1 percent, followed closely by Abercrombie at 12.7 percent. Pac Sun was worst at -2.1 percent, while Charlotte Russe, Wet Seal, and Hot Topic were all less the 5 percent ROS. Top to bottom, we see here a difference in absolute value of more than six to one (and the bottom is actually a negative number).

Table 1, SPM for Teen Retailers Ranked by ROS

	ROS	ATO	ROA	LEV	RONW
American Eagle 07	13.1%	1.64	21.4%	1.39	29.8%
Abercrombie & Fitch 07	12.7%	1.46	18.5%	1.59	29.4%
Buckle 07	12.1%	1.38	16.7%	1.33	22.2%
Aéropostale 07	8.1%	3.09	25.1%	2.61	65.5%
Charlotte Russe 07	4.9%	1.82	8.9%	1.65	14.7%
Wet Seal 07	3.8%	2.73	10.4%	1.72	17.9%
Hot Topic 07	2.2%	2.19	4.8%	1.41	6.8%
Pac Sun 07	-2.1%	1.93	-4.0%	1.56	-6.3%

On Asset Turnover (ATO and Table 2), Aéropostale was best at 3.09 and Buckle was lowest at 1.38—a top-to-

bottom difference of more than 2 to 1. Abercrombie and American Eagle were only slightly better than Buckle.

Table 2, SPM for Teen Retailers Ranked by ATO

	ROS	ATO	ROA	LEV	RONW
Aéropostale 07	8.1%	3.09	25.1%	2.61	65.5%
Wet Seal 07	3.8%	2.73	10.4%	1.72	17.9%
Hot Topic 07	2.2%	2.19	4.8%	1.41	6.8%
Pac Sun 07	-2.1%	1.93	-4.0%	1.56	-6.3%
Charlotte Russe 07	4.9%	1.82	8.9%	1.65	14.7%
American Eagle 07	13.1%	1.64	21.4%	1.39	29.8%
Abercrombie & Fitch 07	12.7%	1.46	18.5%	1.59	29.4%
Buckle 07	12.1%	1.38	16.7%	1.33	22.2%

The product of ROS times ATO equals Return on Assets (ROA and Table 3). Aéropostale was again at the top of the heap with ROA of 25.1 percent, followed in order by American Eagle at 21.4 percent, Abercrombie at 18.5 percent, and Buckle at 16.7 percent. Pac Sun was last again at negative 4 percent. Once again, on an absolute value basis there was a 6 to 1 spread from the highest to the lowest chain on ROA.

Table 3, SPM for Teen Retailers Ranked by ROA

	ROS	ATO	ROA	LEV	RONW
Aéropostale 07	8.1%	3.09	25.1%	2.61	65.5%
American Eagle 07	13.1%	1.64	21.4%	1.39	29.8%
Abercrombie & Fitch 07	12.7%	1.46	18.5%	1.59	29.4%
Buckle 07	12.1%	1.38	16.7%	1.33	22.2%
Wet Seal 07	3.8%	2.73	10.4%	1.72	17.9%
Charlotte Russe 07	4.9%	1.82	8.9%	1.65	14.7%
Hot Topic 07	2.2%	2.19	4.8%	1.41	6.8%
Pac Sun 07	-2.1%	1.93	-4.0%	1.56	-6.3%

The fourth term in the model is Financial Leverage. Here, Buckle was the least leveraged at 1.33 times and Aéropostale was the most leveraged at 2.61 times—so a 2 to 1 difference from top to bottom. Generally speaking, none of these firms was highly levered.

Table 4, SPM for Teen Retailers Ranked by Financial Leverage

	ROS	ATO	ROA	LEV	RONW
Buckle 07	12.1%	1.38	16.7%	1.33	22.2%
American Eagle 07	13.1%	1.64	21.4%	1.39	29.8%
Hot Topic 07	2.2%	2.19	4.8%	1.41	6.8%
Pac Sun 07	-2.1%	1.93	-4.0%	1.56	-6.3%
Abercrombie & Fitch 07	12.7%	1.46	18.5%	1.59	29.4%
Charlotte Russe 07	4.9%	1.82	8.9%	1.65	14.7%
Wet Seal 07	3.8%	2.73	10.4%	1.72	17.9%
Aéropostale 07	8.1%	3.09	25.1%	2.61	65.5%

In Table 5, we come to Return on Net Worth (RONW and also known as Return on Equity). With the highest ROA and the highest Leverage, Aéropostale had by far the highest RONW at 65.5 percent. Next was American Eagle at 29.8 percent, well back from Aéropostale. Pac Sun was again the worst performer on this summary measure at negative 6.3 percent. Top to bottom, the variance was 10 to 1 on an absolute value basis, quite a significant difference in performance among eight firms seemingly serving the same market segment.

In Table 5a, it can be observed that there have been some significant changes in RONW among these players during the last three years. Pac Sun and Wet Seal have been particularly erratic in their performance. Aéropostale has done nothing but improve—and significantly, while AEO and Buckle also have done well. ANF has lost ground during the three years but is still in a very strong position.

The Strategic Profit Model suggests that Aéropostale, American Eagle, Abercrombie, and Buckle were best prepared in early 2008 for the slowdown that hit later in the year. Among this group, the concerns would be Aéropostale's leverage, the margins underlying AEO and ANF's high net profit margins, and Buckle's relatively low turnover. However, it also seems appropriate to dig a little deeper and examine the productivity of each of the chains. The way to examine chain productivity performance is to have a look at how each does on the elements of the Strategic Resource Model.

Table 5, SPM for Teen Retailers Ranked by RONW

	ROS	ATO	ROA	LEV	RONW
Aéropostale 07	8.1%	3.09	25.1%	2.61	65.5%
American Eagle 07	13.1%	1.64	21.4%	1.39	29.8%
Abercrombie & Fitch 07	12.7%	1.46	18.5%	1.59	29.4%
Buckle 07	12.1%	1.38	16.7%	1.33	22.2%
Wet Seal 07	3.8%	2.73	10.4%	1.72	17.9%
Charlotte Russe 07	4.9%	1.82	8.9%	1.65	14.7%
Hot Topic 07	2.2%	2.19	4.8%	1.41	6.8%
Pac Sun 07	-2.1%	1.93	-4.0%	1.56	-6.3%

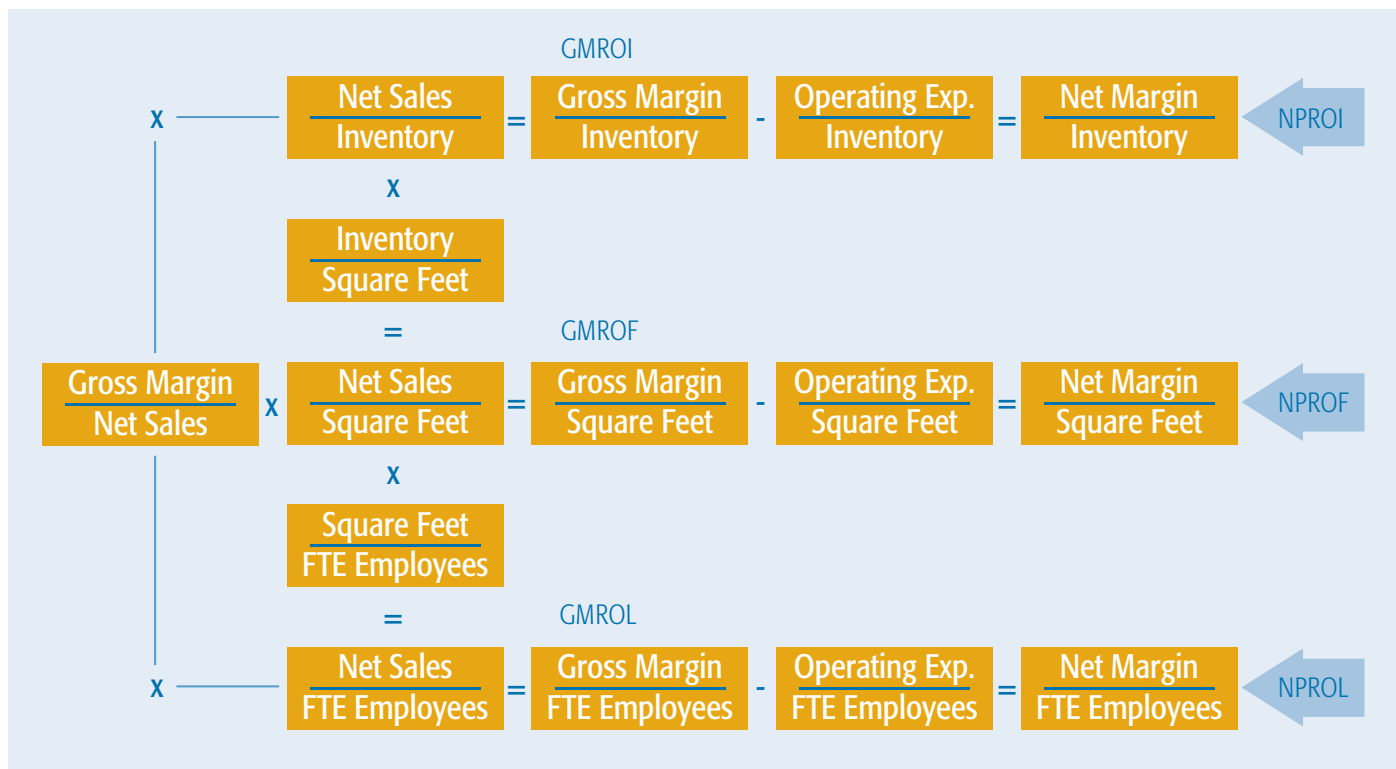
Table 5a, RONW for Teen Retailers, 2005–2007

	RONW05	RONW06	RONW07
Aéropostale	29.5%	34.2%	65.5%
American Eagle	25.4%	27.3%	29.8%
Abercrombie & Fitch	33.6%	30.0%	29.4%
Buckle	12.3%	19.5%	22.2%
Wet Seal	-38.7%	-11.0%	17.9%
Charlotte Russe	6.5%	12.2%	14.7%
Hot Topic	11.1%	6.2%	6.8%
Pac Sun	23.1%	7.9%	-6.3%

The Strategic Resource Model

The Strategic Resource Model (SRM) is related to the SPM and somewhat more complex. It extends return on investment thinking down to the primary resources a retailer can employ—inventory, space, and people.

The model is depicted below:



The inputs to this model are gross margin, merchandise intensity (inventory per square foot), and service intensity (square feet per FTE). The outputs are sales and margin per dollar of inventory, per square foot of selling or gross space, and per FTE: The productivity of “stuff,” space, and people.

Gross margin in Table 6 varies from Abercrombie at 67 percent to Charlotte Russe at 27.6 percent, a huge difference. American Eagle came in second on margin, but well back of Abercrombie at 46.6 percent. Perhaps it is not too surprising that for the monthly comps in the fall and winter of 2008, Abercrombie performed the worst (down 28 percent in November 2008).

Aéropostale, Hot Topic, Wet Seal, and Pac Sun all had gross margins under 35 percent.

Table 6, SRM for Teen Retailers Ranked by GM%

	GM%	Sales:Stock	Merch Int'y	GMROI
Abercrombie & Fitch 07	67.0%	9.33	55	6.25
American Eagle 07	46.6%	10.67	50	4.97
Buckle 07	41.1%	7.98	42	3.28
Aéropostale 07	34.8%	11.66	46	4.05
Hot Topic 07	34.5%	9.07	51	3.13
Wet Seal 07	33.1%	19.35	17	6.40
Pac Sun 07	28.0%	8.54	42	2.39
Charlotte Russe 07	27.6%	12.47	21	3.44

On the Sales/Stock ratio (a turnover like measure), Wet Seal was highest at 19.3 times (maybe too high and causing stock outs), followed by Charlotte Russe at 12.5 times. Buckle had the lowest turn at 7.98 times. It is also true that Wet Seal and Charlotte Russe had the lowest Merchandise Intensity at \$17 and \$21 of merchandise per square foot of selling space, while Hot Topic Abercrombie had more than \$50 of inventory per square foot.

The product of Gross Margin Percentage times Sales/Stock ratio equals GMROI (Gross Margin Return on Investment see Table 7), a measure of inventory productivity. Wet Seal achieved the highest GMROI for 2007 with \$6.40 of margin dollars for every dollar invested in inventory. Perhaps this is because Wet Seal had very low merchandise intensity. Abercrombie came second at \$6.25 and was well ahead of third-place American Eagle, which achieved \$4.97 in GMROI. Pac Sun and Hot Topic had the worst GMROIs at \$2.39 and \$3.13 respectively.

Table 7, SPM for Teen Retailers Ranked by GMROI

	GM%	Sales:Stock	Merch Int'y	GMROI
Wet Seal 07	33.1%	19.35	\$17	\$6.40
Abercrombie & Fitch 07	67.0%	9.33	\$55	\$6.25
American Eagle 07	46.6%	10.67	\$50	\$4.97
Aéropostale 07	34.8%	11.66	\$46	\$4.05
Charlotte Russe 07	27.6%	12.47	\$21	\$3.44
Buckle 07	41.1%	7.98	\$42	\$3.28
Hot Topic 07	34.5%	9.07	\$51	\$3.13
Pac Sun 07	28.0%	8.54	\$42	\$2.39

More important than GMROI is NPROI (Net Profit Return on Inventory Investment). If we subtract all operating and other expenses divided by inventory (OEI) from GMROI, the result is NPROI and can be seen in Table 8. Here, American Eagle obtains the best result with a NPROI of \$1.40, or \$1.40 of net profit for every dollar invested in inventory. Abercrombie came second at \$1.18, followed by Buckle at \$.97. Pac Sun was worst and Hot Topic wasn't much better.

Table 8, SRM for Teen Retailers Ranked by NPROI

	GM%	Sales: Stock	Merch Int'y	GMROI	OEI	NPROI
American Eagle 07	46.6%	10.67	50	4.97	3.57	\$1.40
Abercrombie & Fitch 07	67.0%	9.33	55	6.25	5.07	\$1.18
Buckle 07	41.1%	7.98	42	3.28	2.31	\$0.97
Aéropostale 07	34.8%	11.66	46	4.05	3.11	\$0.95
Wet Seal 07	33.1%	19.35	17	6.40	5.67	\$0.74
Charlotte Russe 07	27.6%	12.47	21	3.44	2.83	\$0.61
Hot Topic 07	34.5%	9.07	51	3.13	2.93	\$0.20
Pac Sun 07	28.0%	8.54	42	2.39	2.57	-\$0.18

On space productivity, Table 9 displays the Sales/Gross Square Foot results. Aéropostale is on top with \$542 of sales per gross square foot, followed closely by American Eagle at \$535 per foot. The leaders had nearly double the sales per gross square foot of last place Charlotte Russe. Sales per square foot is the product of the Sales to Stock ratio and Merchandise Intensity. The two best had both relatively high scores on each measure.

The two worst performers on Sales per Square Foot, Charlotte Russe and Wet Seal, both had very low Merchandise Intensity scores. If you don't have much merchandise on the shelf, it is hard to get many sales.

Table 9, SRM for Teen Retailers Ranked by Sales per Gross Square Foot

	GM%	Sales:Stock	Merch Intensity	Sales/ft2
Aéropostale 07	34.8%	11.66	46	\$542
American Eagle 07	46.6%	10.67	50	\$535
Abercrombie & Fitch 07	67.0%	9.33	55	\$511
Hot Topic 07	34.5%	9.07	51	\$461
Pac Sun 07	28.0%	8.54	42	\$355
Buckle 07	41.1%	7.98	42	\$335
Wet Seal 07	33.1%	19.35	17	\$328
Charlotte Russe 07	27.6%	12.47	21	\$262

The product of Gross Margin Percentage and Sales/Square Foot is GMROF (Gross Margin Return on Feet—or Space and ranked in Table 10). Interestingly, the difference here between the best, Abercrombie, and the worst, Charlotte Russe, was nearly 5 to 1. Abercrombie was at \$342 and Charlotte was at \$72. In addition, Abercrombie had nearly \$100 per foot of margin more than second place American Eagle. Aéropostale was third at \$188 of margin per foot.

Table 10, SRM for Teen Retailers Ranked by GMROF

	GM%	Sales/ft2	GMROF
Abercrombie & Fitch 07	67.0%	\$ 511.09	\$ 342.29
American Eagle 07	46.6%	\$ 535.19	\$ 249.28
Aéropostale 07	34.8%	\$ 541.85	\$ 188.42
Hot Topic 07	34.5%	\$ 460.54	\$ 159.04
Buckle 07	41.1%	\$ 335.08	\$ 137.59
Wet Seal 07	33.1%	\$ 328.05	\$ 108.57
Pac Sun 07	28.0%	\$ 354.67	\$ 99.31
Charlotte Russe 07	27.6%	\$ 262.00	\$ 72.21

Space productivity is more important than either inventory productivity or people productivity because space is the longest term decision and the most difficult to fix if productivity is lacking. The most important summary measure of space productivity is NPROF. Table 11 ranks these chains on NPROF. American Eagle earned the highest net profit per square foot of all the teen retailers at \$70. What is the secret?

AE has the second-best margins and the second-best Sales/Square Foot while its expenses per foot are significantly lower than Abercrombie—which had the best GMROF. Abercrombie followed American Eagle on NPROF at nearly \$65 per square foot of net profit. Aéropostale and Buckle were significantly lower than AEO and ANF, with both in the \$40 range. Charlotte, WS, and HT were all just above \$10 of net profit per foot and Pac Sun was negative. None of these four have a lot of room to maneuver in a downturn, unlike the top four.

Table 11, SRM for Teen Retailers Ranked by NPROF

	GM%	Sales/ft2	GMROF	OEOF	NPROF
American Eagle 07	46.6%	\$ 535.19	\$ 249.28	\$ 179.21	\$ 70.07
Abercrombie & Fitch 07	67.0%	\$ 511.09	\$ 342.29	\$ 277.45	\$ 64.84
Aéropostale 07	34.8%	\$ 541.85	\$ 188.42	\$ 144.41	\$ 44.01
Buckle 07	41.1%	\$ 335.08	\$ 137.59	\$ 96.91	\$ 40.68
Charlotte Russe 07	27.6%	\$ 262.00	\$ 72.21	\$ 59.38	\$ 12.84
Wet Seal 07	33.1%	\$ 328.05	\$ 108.57	\$ 96.10	\$ 12.47
Hot Topic 07	34.5%	\$ 460.54	\$ 159.04	\$ 148.91	\$ 10.13
Pac Sun 07	28.0%	\$ 354.67	\$ 99.31	\$ 106.72	\$ (7.41)

The last productivity path is people productivity. In Table 12, we examine Service Intensity. Abercrombie had by far the best service as measured by square feet served per FTE employee at 136 feet. American Eagle was second at 254 square feet per FTE employee, similar to Hot Topic at 264. In contrast, each FTE at Buckle managed 456 square feet and at Charlotte Russe, service intensity was 513 square feet per FTE. Top to bottom, the difference on Service Intensity among these chains was nearly four to one.

The product of Sales/Square Foot and Service Intensity is Sales/FTE employee. And, there is often a rough correlation between Service Intensity and Sales/FTE employee. Not surprisingly, Abercrombie had the lowest Sales/FTE. However, it was Aéropostale that had the highest Sales/FTE at \$221,000, three times as much as Abercrombie’s \$69,500. Charlotte Russe not only had very low service intensity but also low sales per FTE employee.

Table 12, SRM for Teen Retailers Ranked by Service Intensity

	Sales/ft2	Svc Intensity	Sales/FTE (000)
Abercrombie & Fitch 07	\$ 511.09	136	\$ 69.50
American Eagle 07	\$ 535.19	254	\$ 136.12
Hot Topic 07	\$ 460.54	264	\$ 121.75
Wet Seal 07	\$ 328.05	376	\$ 123.30
Pac Sun 07	\$ 354.67	400	\$ 142.01
Aéropostale 07	\$ 541.85	409	\$ 221.45
Buckle 07	\$ 335.08	456	\$ 152.93
Charlotte Russe 07	\$ 262.00	513	\$ 134.45

GMROL (Gross Margin Return on Labor, see Table 13) is the product of GM% and Sales/FTE. Aéropostale led the group with \$77,000 of gross margin per FTE employee. AEO and Buckle were similar at around \$63,000 per FTE employee and all the others were less than \$50,000 with Charlotte Russe last at \$37,000 of margin per FTE employee. Top to bottom, we observe a difference on GMROL of about two to one.

Table 13, SRM for Teen Retailers Ranked by GMROL

	GM%	Sales/FTE	GMROL ₍₀₀₀₎
Aéropostale 07	34.8%	\$ 221.45	\$ 77.01
American Eagle 07	46.6%	\$ 136.12	\$ 63.40
Buckle 07	41.1%	\$ 152.93	\$ 62.80
Abercrombie & Fitch 07	67.0%	\$ 69.50	\$ 46.55
Hot Topic 07	34.5%	\$ 121.75	\$ 42.04
Wet Seal 07	33.1%	\$ 123.30	\$ 40.81
Pac Sun 07	28.0%	\$ 142.01	\$ 39.76
Charlotte Russe 07	27.6%	\$ 134.45	\$ 37.06

The summary measure of labor productivity is NPROL (Net Profit Return on Labor, see Table 14). Buckle was the best performer on Labor Productivity with \$18,560 of net profit per FTE employee, followed closely by Aéropostale and American Eagle (both nearly \$18,000). High-service Abercrombie was well back at almost \$9,000 per FTE.

Pac Sun was negative on this measure.

Table 14, SRM for Teen Retailers Ranked by NPROL

	GM%	Sales/FTE	GMROL ₍₀₀₀₎	OEOL ₍₀₀₀₎	NPROL ₍₀₀₀₎
Buckle 07	41.1%	\$ 152.93	\$ 62.80	\$ 44.23	\$ 18.56
Aéropostale 07	34.8%	\$ 221.45	\$ 77.01	\$ 59.02	\$ 17.98
American Eagle 07	46.6%	\$ 136.12	\$ 63.40	\$ 45.58	\$ 17.82
Abercrombie & Fitch 07	67.0%	\$ 69.50	\$ 46.55	\$ 37.73	\$ 8.82
Charlotte Russe 07	27.6%	\$ 134.45	\$ 37.06	\$ 30.47	\$ 6.59
Wet Seal 07	33.1%	\$ 123.30	\$ 40.81	\$ 36.12	\$ 4.69
Hot Topic 07	34.5%	\$ 121.75	\$ 42.04	\$ 39.37	\$ 2.68
Pac Sun 07	28.0%	\$ 142.01	\$ 39.76	\$ 42.73	\$ (2.97)

Summary

Table 15 contrasts the summary measures of NPROI, NPROF, and NPROL for the teen retailers. American Eagle was best at NPROI and NPROF and had the strongest productivity of inventory and space. AEO was third best on NPROL.

Buckle was best at NPROL and had the strongest people productivity. Buckle was third on NPROI and fourth on NPROF. ANF was second best on both NPROI and NPROF and fourth on NPROL. Aéropostale was fourth on NPROI, third on NPROF, and second on NPROL. These four chains took the top four spots on the summary productivity measures, relegating the others to the second tier. Pac Sun was last on all three measures and Hot Topic was next to last on all three.

Table 15, NPROI/F/L for Teen Retailers Ranked by NPROF

	NPROI	NPROF	NPROL ₍₀₀₀₎
American Eagle 07	\$ 1.40	\$ 70.07	\$ 17.82
Abercrombie & Fitch 07	\$ 1.18	\$ 64.84	\$ 8.82
Aéropostale 07	\$ 0.95	\$ 44.01	\$ 17.98
Buckle 07	\$ 0.97	\$ 40.68	\$ 18.56
Charlotte Russe 07	\$ 0.61	\$ 12.84	\$ 6.59
Wet Seal 07	\$ 0.74	\$ 12.47	\$ 4.69
Hot Topic 07	\$ 0.20	\$ 10.13	\$ 2.68
Pac Sun 07	\$ (0.18)	\$ (7.41)	\$ (2.97)

NPROI, NPROF, and NPROL are outputs or results. The key inputs are GM%, Merchandise Intensity, Service Intensity, and Operating Expenses per dollar of inventory, per square foot, and per FTE employee.

It appears that we really have two groups of stores here, Abercrombie, AEO, Aéropostale, and Buckle (all with relatively high productivity); and Hot Topic, Wet Seal, Charlotte Russe, and Pac Sun (all with lower productivity and perhaps more niched in their marketing approach). It is striking how sizable the differences are from the top performers on productivity to the bottom. On an absolute value basis, it was 10 to 1 on NPROF, 7 to 1 on NPROI, and not quite 6 to 1 on NPROL.

On the inputs, the top-to-bottom differences on GM% were a little more than 2 to 1, while for merchandise intensity, the differences were about 3 to 1, and on service intensity, the difference was about 4 to 1.

Abercrombie had by far the best margins, followed by AEO. These two, along with Hot Topic had the highest merchandise intensity, and the highest service intensity. Abercrombie also had the highest expenses per dollar of inventory and per square foot, with AEO somewhat lower. ANF is clearly following a high margin, high merchandise and service intensity, and high expense strategy, with AEO doing the same thing less expensively. Buckle and Aéropostale have lower margins and lower intensities, especially on service—and lower expenses.

The average October and November 2008 comp store sales performance for this group of stores was as follows and coincidentally correlates well with NPROL.

Chain	Comp Sales	NPROL
Buckle	14.75%	\$ 18,560
Aéropostale	(2.00%)	\$ 17,980
American Eagle	(11.50%)	\$ 17,820
Abercrombie & Fitch	(24.00%)	\$ 8,820

The second tier had the following comps and NPROL's:

Hot Topic	7.45 %	\$ 2,680
Wet Seal	(7.95 %)	\$ 4,690
Charlotte Russe	(9.00 %)	\$ 6,590
Pac Sun	(10.50 %)	\$ (2,970)

In the longer term, the question for ANF (and to a lesser extent AEO) is how long to hold onto its margins at the expense of sales. A December 8, 2008 article in *The Wall Street Journal* entitled "Abercrombie Fights Discount Tide" discussed ANF's strategy. The company has chosen to maintain its high profit margins and to accept higher rates of sales decline, relative to lower priced competitors, in order to support its premium brand image and not risk losing pricing power when the economy recovers. This may be problematic if soft times continue. Perhaps

sharper first margins and price points might be more effective than markdowns with this market segment.

On the other hand, those with sales gains, such as Buckle, that are playing more of a "value" game, need to find a way to hang onto newfound and perhaps "trading down" customers to boost sales per square foot for the long run. Here, the prescription might be a little more service and a little better shopping environment.

References:

1 *These data were compiled by research employees of the Buxton Corporation, Fort Worth, Texas, from the companies' corporate annual reports and SEC filings.*

2 *SEC Filing for Abercrombie & Fitch 10-K, 3/28/08.*

3 *Aéropostale 2007 Annual Report.*

4 *SEC Filing for American Eagle Outfitters 10-K, 04/02/08.*

5 *SEC Filing for The Buckle 10-K, 04/16/08.*

6 *SEC Filing for Charlotte Russe 10-K, 12/09/08.*

7 *SEC Filing for Hot Topic 10-K, 04/01/08.*

8 *SEC Filing for Pacific Sunwear 10-K, 10/02/08.*

9 *SEC Filing for the Wet Seal 10-K, 04/10/08.*

PROGRAM DATES

- William and Mary, May 2–8, 2009
- Monash, May 24–29, 2009

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