Industry Analysis

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Executive Summary of the Retail Industry

The Broadline Retailing industry very sensitive to the performance of the economy as a whole. Overall, the U.S, economy is on a slow upward trend … For over a decade, Department Stores continued being pushed aside by both discount retailers on the low end and specialty shops on the high-end. Additionally, non-store retailing (mail, telephone, internet, network, and vending) has grown tremendously and is poised to grow even further. Retailers are definitely turning up the heat on each other. Specialty stores become category killers, supermarkets are expanding into superstores, and discounters are bulking up and spreading out. Department stores, with their limited service strategy are stuck-in-the-middle. Several factors will ultimately determine the fate of Department Stores. Consumer demographics, lifestyles, and shopping patterns must be anticipated. “Smart” retail technologies will make or break many retailers - real-time forecasts, supply-chain management, and customer experience management are the weapons of tomorrow’s retailer.

The total retail sector, per the 2002 Economic Census, totals over $3 Trillion in sales, over 1 million establishments, and over 14 million employees. According to the National Retail Federation, retail sales totaled $4.4 Trillion in 2005. Value Line (08/11/06) reports that the Retail Store Industry’s sales totaled $525 Billion in 2005. Year over Year, the U.S. Commerce Department (10/06) shows total retail sales up 5.1 percent. The National Retail Federation is calling for a yearly rise of 6.5%

Some key drivers of change in retailing are 1) Increased disposable income of shoppers, 2) Formation and expansion of the middle class, 3) Infrastructure which transformed the retailing landscape over the past century, and 4) Technology such as household appliances, automobiles, television, and the internet revolutionized the retailing industry.

Some of the major issues & implications facing retailing today are: 1) Shifting demographics, 2) Internet, E-tailing hits mainstream, 3) Customer demands, and 4) Integrated Technology.

The 10 year performance of the S&P Retail Index ($RLX) shows a dramatic divergence from the S&P 500. From 1999 to 2003, the 2 indexes were closely matched. However, from 2003 to 2006, the S&P Retail index outpaced the S&P 500 considerably. As of 11/02/06, the retail industry (290%) is approximately 100 percentage points above the S&P 500 (95%).

In the U.S., retailing is very competitive and the market is fairly saturated. Retailing is entering a new stage of growth in two different ways. First is the issue of changing consumer demographics and shifts in taste. Second is the push toward overseas markets.

In retail, players range from the mighty 800 pound gorilla (Wal-Mart) to niche oriented players. Competition in retailing is based on either Price or some sort of Differentiation. Head-on price competition tends to be destructive. Aiming to be the lowest bidder is economic suicide for all but those few with massive economies of scale. Therefore differentiation is the key to success in retailing.

The future of retailing will certainly be one of amazement. New technologies will bring about better and even new shopping experiences. Technical innovations such as Intelligent Scales, Intelligent Self-Checkout, and Personal Shopping Assistants will go far to lighten the load of frustrated and time-strapped consumers. For retailers, this will likely increase customer loyalty and increase sales - while reducing costs in the process.