STORES COVER STORY

Top 100 Retailers

The Nation's Retail Power Players 2011

From Jul 2011 | By David P. Schulz | Tags: Cover Story, Top Retailers Lists

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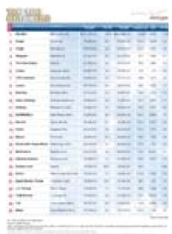

Click on chart to see a sortable list of the Top 100 Retailers.

These are the times that test retailers' mettle. The recession is over — and has been for nearly two years — but high unemployment and under-employment and persistent problems in the housing market continue to keep consumer spending in check.

The nation's economy, as measured by gross national product (GNP), grew at a modest 1.8 percent pace in the first quarter of 2011, a sharp drop-off from the 3.1 percent rate in the final three months of last year, and nearly all the companies at the top of STORES' annual Top 100 Retailers list are calling for tempered expectations about results for the remainder of this year.

Macroeconomic indicators provide enough conflicting data to feed uncertainty. On the downside, rising energy costs cut two ways for retailers: They raise operating costs and take discretionary funds out of consumers' pockets. Energy costs also factor into rising food prices, as do severe weather conditions in food-producing regions and the increased consumption of food commodities in developing countries around the globe. And "based on the upward trend at the wholesale level, further increases in retail food prices will be forthcoming," says Food Institute president Brian Todd.

On the brighter side of the coin, there has been steady-if-unspectacular private sector job growth, and the federal payroll tax cut has offset some of the rise in food and fuel costs. Such positive economic indicators "are certainly helping boost consumers' confidence and support spending," says NRF chief economist Jack Kleinhenz, but "plenty of other concerns exist which could very easily shift consumers' spending habits, including decreasing home prices, high unemployment levels and rising costs at the pump."

Retailers have employed a number of tactics to cope with these uncertainties while addressing the current realities of the retail marketplace. They close stores and develop downsized prototypes to expand into new/different markets. New classifications of merchandise are introduced, multi-channel initiatives are reinvigorated and investments are made in businesses seemingly unrelated to retailing.

Developments so far this year have made it difficult for retailers who had begun to find ways to operate in a sluggish economy. "The macroeconomic environment for retailers has moved from slow-demand growth to rising costs," says Bryan Gildenberg, chief knowledge officer for Kantar Retail. "Retailers have to decide whether to pass prices on or to accept lower margins, which can affect how they operate their stores."

Gildenberg, author of "The 5 Shares: Kantar Retail's Guide to Retailer/Supplier Strategy for the Next Five Years," says one longstanding problem for many retailers — boosting same-store sales — has been exacerbating in the current economic environment. Retailers "are better at finding new sites than getting more sales out of existing stores," he says.

The first 10 retailers on the Top 100 list — which, for the second year, is determined by U.S. retail sales — are the same as in 2010; the one minor change is a position swap between No. 9 Sears Holdings and No. 10 Best Buy. While they operate in a variety of retail sectors — and some showed sales gains while others sustained a drop in revenues — all experienced positive earnings in their most recently completed fiscal years.

Walmart, whose performance has been treated by some economists as a proxy for the behavior of U.S. consumers, has been experiencing weakness in its domestic stores, though both the Walmart U.S. and Sam's Club divisions generated operating profits last year. In reviewing the company's performance for investors this spring, CEO Mike Duke said Walmart's results "demonstrate the strength of our underlying business and our dedication to delivering shareholder value" and expressed optimism "that Walmart will improve where we need to and continue to build momentum where we're already succeeding."

The company's top 2011 priority "is to achieve positive comparable store sales," Duke said. "At the same time, there's a tremendous opportunity to grow in the United States through supercenters and new store formats" like Walmart Express.

Walmart Express will feature an assortment of fresh food, dry grocery, consumables, health and beauty aids, over-the-counter medicines and limited general merchandise, says Walmart spokesman David Tova, and pharmacy counters may be included in some stores. Stores fitting this description would fit both in rural communities too small for conventional supercenters or traditional discount stores and in urban neighborhoods where Walmart has found it difficult to locate its larger formats.

Earlier this year, Walmart announced it was buying social media company Kosmix, which is expected to boost the retail giant's capabilities online and with smartphone applications.

No. 2 Kroger may be the exception to the trend of traditional supermarket operators being battered by the proliferation of retailers poaching on grocery's turf. Much of Kroger's success has been attributed to sophisticated customer data collection efforts that allow it to target core customers with promotions and offers that spur additional sales.

Kroger is not putting all its eggs in the food basket, however, and continues to innovate in the sale of non-food merchandise in supermarket settings. It recently partnered with a restructured The Bombay Company to sell home furnishings products in several of its Marketplace stores flying such banners as Dillons, Fry's, King Soopers, Kroger and Smith's, as well as at the multi-department supercenters operated by the Fred Meyer division. The first phase of the deal calls for décor items, coffee tables and some upholstered furniture pieces to be sold at 180 Kroger stores.

Like Walmart, Kroger is part of a trend Gildenberg believes is likely to pick up steam: bigger portfolios of stores with different, usually smaller, footprints.

No. 3 Target's rollout out of fresh food and other grocery merchandise to its traditional discount stores is producing some immediate gains, and its U.S. operations are performing better than rival Walmart's, if only by a small degree.

"Our sales growth is coming from the top half, not the bottom half, of guest households," says Target CFO Doug Scovanner. Shoppers are buying mostly essentials and bypassing more discretionary merchandise, and Target-branded credit cards are contributing to the improved performance as the company reports a sharp drop in bad-debt expenses. No. 4 Walgreen added about 60,000 SKUs to its online offerings with the acquisition of drugstore.com while continuing to pick up clusters of drugstores and specialty pharmacies. As is the case with chief rival CVS/pharmacy, Walgreen is promoting convenience for shoppers through increased food and groceries merchandise.

Housing news doesn't seem to be getting any better, and that's not good for No. 5 Home Depot or No. 8 Lowe's. Over the past few years, consumers — even those fortunate enough to secure financing — have been reluctant to invest in significant remodeling projects on homes that have been declining in value, preferring instead to spend on subsidized major appliance purchases or automobiles.

Robert A. Niblock, chairman and CEO of Lowe's, recently told shareholders that the company doesn't intend to simply wait out the economy. Instead, he plans to transform the organization from a home improvement retailer into a home improvement company by providing inspiration, products and support to customers whenever and wherever they interact with Lowe's. "Making home improvement simple for customers starts with making it simple for our employees, by providing them with the right technology and resources," he said.

Costco CFO Richard A. Galanti told Wall Street analysts that he expects inflationary pricing to continue through the summer. To bolster revenues (if not margins), Costco will begin selling gasoline in some new markets, as lower pump prices helps recruit and retain members.

The focus for seventh-ranked CVS has been on righting things on the pharmacy benefits management side at Caremark Rx. A major score came recently when Caremark won a $3 billion contract to provide pharmacy benefits to federal employees.

Resting in the ninth position, Best Buy is a retailer in transition, squeezed by online competitors led by Amazon.com, finding itself with a surfeit of store space and some recent negative publicity surrounding its Geek Squad technical assistance operation. Less than a third of Best Buy's retail locations are in the U.S., but the 1,300-plus domestic locations represent nearly three-quarters (72.2 percent) of its retail selling space worldwide. As Best Buy officials have noted, the company is "increasing our presence in small format stores like Best Buy Mobile and moderating large-format store growth."

Sears has experienced sales declines every year since merging with Kmart in 2005. President and CEO Lou D'Ambrosio says the company is "taking actions intended to leverage our suite of assets, including extending our leadership position in appliances, capitalizing on the scope of our portfolio and marquee brands … extending our lead in home services, revitalizing our Sears' apparel business and delivering extraordinary customer experience at the store, online and in home."

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