Market Makers and Market Takers, What Drives Shareholder Value?

accenture

Research Summary

Overview

Bold growth is top of mind for every retail executive today. But how can retailers accelerate their growth and deliver exceptional shareholder value in today's uncertain economic times? Accenture conducted an analysis of the 10-year (1991-2001) sales and stock price growth of the largest, publicly-held global retailers to identify the key drivers of success for long-term value creation.

Accenture found that the long-term value creators shared three common characteristics:

- Clear and differentiated brand strategy
- Operational efficiency
- Innovation in the customer experience

We also found that they typically fueled their growth in one of two ways:

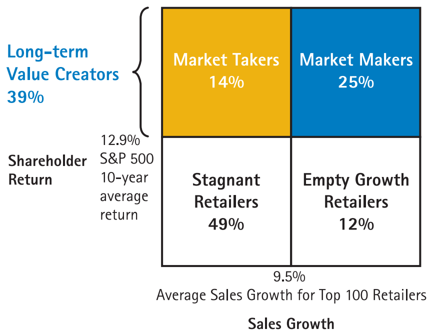
- Acquisition and geographic expansion
- Format, product and/or service innovation

Analysis Summary

The retailers were mapped in relation to two dimensions: the S&P 500 10-year average return of 12.9 percent and the 10-year average sales growth of 9.5 percent. Each fell into one of four quadrants:

- **Market Makers:** Exceeded the S&P 500 10-year average shareholder return and the industry average sales growth.
- **Market Takers:** Exceeded the S&P 500's average 10-year return, but did not exceed the 10-year industry average sales growth.
- **Stagnant Retailers:** Did not exceed the S&P 500 average 10-year return or the 10-year industry average sales growth.
- **Empty Growth Retailers:** Did not exceed the S&P500 10-year average return, but exceeded the 10-year industry average sales growth.

10-Year Value Grid



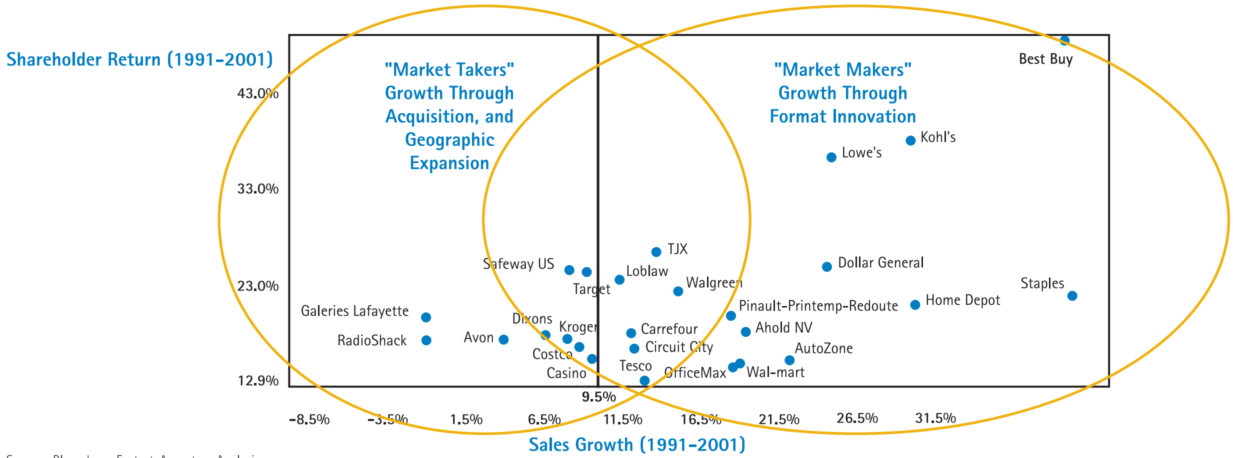
Key Findings

Market Makers and Market Takers: The Long-term Value Creators

- 39 percent exceeded the 10-year average return of the S&P 500. These are the long-term value creators represented by the Market Maker and Market Taker quadrants.
- They shared three common traits: clear, differentiated brand, operational efficiency and innovation in the customer experience.
- Market Makers and Market Takers tended to pursue different growth strategies 1) acquisition and geographic expansion or 2) format, product and service innovation. Some of the most successful pursued both simultaneously.

Market Takers

- 14 percent fell into this quadrant
- Market Takers grew primarily through acquisition and geographic expansion.



Source: Bloomberg, Factset, Accenture Analysis
Note: 67 publicly held global retailers selected from Stores Magazine's list of top 100 global and top 50 US retailers
*Complete data unavailable: for non-US companies (1991-2000); OfficeMax, Sears and Marks & Spencer (1994-2001)
The 12.9% figure on the y-axis is the average 10 year return of the S&P 500; !he 9.5% figure represents the average sale growth of the retailers in the analysis.

They tended to buy companies to complement their existing geographic locations and/or replicate their current format in a new geography or country. They often take the parent company's best practices into the new stores. Stock price appreciation stemmed from the promise of greater operational efficiency and market share growth.

Key Success Factors of Market Takers:

- International expansion
- Acquisitions of regional/smaller chains
- Customer service aligned to customer expectation
- Strategic partnership and collaboration
- Operational excellence
- Consistent execution

Examples:

Safeway US uses acquisitions as a key element of its expansion strategy. It recently added Randall's, Von's, Dominick's and several family-owned chains.

Galeries Lafayette nearly doubled in size in 1992 with the acquisition of the Nouvelles Galeries and BHV chains recently acquired 19 French Marks & Spencer stores.

Market Makers

- 25 percent fell into this quadrant
- Market Makers grew primarily through format, product and/or service innovation. Virtually all used operational excellence to provide the cash to fuel these innovations. Some tested and launched new formats that met growing needs of existing and new customers. Others repositioned their core business to better meet the needs of their most profitable customers. Some added or created entirely new products and services. Many of the most successful did all three.

Key success factors of Market Makers?

- Continuous reinvention of offering
- Development of complementary formats
- Product category expansion
- Multi-channel/cross-channel expansion and integration
- Rigorous attention to return on investment

Examples:

Format Innovation

Best Buy was the top performer of all the retailers analyzed. It fueled its growth primarily by reinventing its core format. It replaced music at the front of the store with emerging technology and entertainment. It also completely re-vamped its in-store service strategy.

Pinault Printemps Redoute's recently launched Printemps Design, a new concept boutique offering designer and fashion products, Citadium, a trendy sports store, Conforama, specializing in bedroom design and décor, Fnac Jr. catering to teens and many others.

Product and Service Innovation

Tesco, the UK's largest food retailer, has aggressively moved into non-food product lines with the goal to be as strong in non-food as it is in food. It has also added new services like Tesco Personal Finance, its banking arm.

Loblaw created and launched its very successful product line, President's Choice, in Canada. It is now widely available in the US.

Walgreens reinvented the pharmacy business by pioneering the drive-thru pharmacy concept, free-standing locations and one-hour photo processing.

Home Depot was the first to have tradesman as sales associates and offer "how to" courses. It is now restocking shelves in non-peak customer hours and expanding its interior design services.

Other

- All department stores fell into the "Stagnant Retailer" classification.
- Category Killers, a 1990's example of format innovation, were among the highest performers.
- Several grocery stores fell into the Market Taker quadrant with heavy acquisition activity in recent years.

Research Methodology

Over sixty of the world's largest publicly owned retailers (in terms of sales dollars) were compared across two performance dimensions: total return to shareholder and sales revenue growth. The compounded annual growth rates were calculated and companies were segmented in terms of those who exceeded or failed to exceed the average performance of the S&P 500 index and the average sales revenue growth of the companies included in the study.

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