Retail Geeks – Weekly Spin Cycle

February 6, 2012

Welcome to the ***Weekly Spin Cycle***. Each week, we'll deliver some news and commentary about the retail industry. We'll pay close attention to the "managerial spin" and will on occasion offer a contrarian view. You are encouraged to provide any feedback to info@RetailGeeks.com.

Home Furnishings Category Continues to Strengthen

Keep an eye on home furnishings. A month ago, **CPWM, HVT,** and **PIR** reported stronger comp sales in the most recent period (CPWM = Nov/Dec, HVT = Q4, PIR = Dec) than in their fiscal Q3.

Today, furniture was mentioned as relatively strong at both **BIG** and **BONT**.

Is the home furnishings sector experiencing a pick-up following relatively dismal results over the past 3-4 years?

It's worth a reminder that the Commerce Department data suggests that ***Furniture & Home Furnishing Stores*** reported impressive year-over-year sales growth in December 2011 (+5.6% in December 2011 followed +4.5% in November 2011 and +4.0% in October 2011).

That said, the category remains the worst performing category versus calendar 2007 (-14.6% in December 2011 versus December 2007). Is pent-up demand beginning to become a top-line tailwind for the home furnishings sector?

Finally, small appliances, electrics, and housewares continue to be specifically mentioned as stronger relative categories (e.g. **COST** and **KSS**). KSS suggests that its electrics category sales increased +20% in January 2012 versus LY. This follows a +19% year-over-year gain in December 2011.

Suddenly, WTSLA Management Not Comfortable with Inventory Levels

Last month, a few retailers are patting themselves on the back for strong sales the week leading up to Christmas. Again, fiscal week #4 in December 2011 benefitted from an advantageous calendar this year.

One of those retailers was **Wet Seal (WTSLA - $3.37)**. A month ago, the company made the following statement re: inventory:

"We remain comfortable with our inventory levels overall as we exit the holiday season."

Interestingly, the company changed their tune following results in January 2012 (note: a low-volume sales month):

"Tight inventory management through the quarter led to lighter than desired apparel inventory units at Wet Seal in January. Apparel units were down from high single-digits to low double-digit percentages versus the prior year during the month, which challenged sales performance. We are encouraged by the quality of the upcoming spring assortment deliveries. However, our light apparel unit levels, and related sales challenge, will persist until we build inventory over the course of February."

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4-Year Top-Line Performance

Let's keep things in perspective. Take a look at the 4-year comp store sales run rates for the following monthly sales reporters.

4-Year Comp Store Sales Run Rate ('Stack') Ranking – January 2012

LTD	+30.0%	**FRED**	**-2.6%**
BKE	+25.2%	**KSS**	**-4.9%**
COST	+21.0%	**BONT**	**-6.1%**
TJX	+17.0%	**DDS**	**-11.0%**
ROST	+14.0%	**GPS**	**-19.0%**
ZUMZ	+13.1%	**SSI**	**-19.4%**
JWN	+12.4%	**CATO**	**-24.0%**
M	+3.9%	**SMRT**	**-24.3%**
TGT	+3.2%	**WTSLA**	**-25.2%**
SKS	**-1.8%**		

Consumers Developing a Loyalty to Store Brands for Reasons Other than Price

According to an article in the *WSJ* dated January 31, 2012, consumers are "developing a loyalty to store brands for reasons besides price." The article suggests that this could be a problem for food and consumer product companies.

It's an extremely interesting article. Click the below link, if interested.

http://online.wsj.com/article/SB10001424052970204624204577179193540556620.html

The Numbers Suggest Materially Tougher Profitability Comparisons Ahead for GMCR

We don't spend any time focused on **Green Mountain Coffee Roasters (GMCR - $66.21)**. But, it's interesting to note that GMCR faces increasingly difficult 2-year GPM% following the company's relatively easy comparison on Q1. Clearly, there's some noise from last year's acquisition in Q1, but it'll be interesting to see whether GPM% improvements decelerate in the quarters ahead.

GMCR Quarterly GPM% Run Rates

	FY 2009		FY 2010		Combined 2-yr		FY 2011		Combined 3-yr
Q1	Higher 26 Bps	+	Lower 268 Bps	=	Lower 232 Bps	+	Higher 405 Bps	=	Higher 173 Bps
Q2	Higher 199 Bps	+	Higher 400 Bps	=	Higher 599 Bps	+		=	
Q3	Higher 38 Bps	+	Higher 243 Bps	=	Higher 281 Bps	+		=	
Q4	Lower 148 Bps	+	Higher 529 Bps	=	Higher 381 Bps	+		=	