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Retail Sporting Goods Stores – Appraisal Factors

Introduction

Between 1990 and 2006, the number of people favoring exercise as an activity rose by 160%. Today more than 41 million Americans are fitness club members. By 2005, the U.S. consumption value of sporting goods was nearly $16.4 billion. Though the majority of publicly traded retailers showed positive comparable store sales trends averaging +3.4% for fiscal year 2006, the first quarter of 2007 was reported to be weak. Traditional sporting goods merchants operate on gross margins averaging around 30%. With selling, general and administrative expenses averaging 23%, there is little room for error in order to maintain healthy margins.

In recent years, the sporting goods market has shifted toward larger, national superstore concepts (e.g., Dick's Sporting Goods, The Sports Authority). However, these major chains make up less than 50% of the market, which remains fragmented and competitive due to the number of specialty stores and smaller chains (e.g., Marathon Sports, Active, etc.). While larger companies are able to increase profit by broadening the mix and type of merchandise carried, the opposite is true of smaller stores, who often find success by expanding one specialized product type (e.g., golf, ski and snowboard, running) or focusing on the local market.

Retailers face many threats including competition from manufacturers, many of which are opening stores and selling merchandise via company Web sites or eBay. Smaller retailers face the additional challenge of being unable to compete with big-box chains' buying power, whose ability to purchase merchandise in greater volume has led to favorable relationships with suppliers. Better vendor terms result in lower selling prices and higher margins, allowing larger retailers to make further market share gains.

An increasingly informed and price-conscious customer base has also influenced the market. In recent years, stores focusing on core athletes and outdoor enthusiasts have been more successful than those selling to fashion-conscious consumers. For example, many shoppers favor innovative performance products, such as Under Armour and Dry Road apparel. Other goods selling well include licensed team apparel for avid fans and multi-purpose sportswear. Retailers have also begun to court business from high-school sports teams aggressively, which also increases brand awareness for future generations of consumers.

Some chains are attempting to increase profit margins through vertical integration of privately branded product lines (e.g., North Face, Patagonia). Others are revising merchandise lines to be more encompassing and/or affordable. Still other companies have altered their business methods — Cabela's achieves 68% of sales via catalog and Internet. Dick's has found success by implementing a store-within-a-store design, which proved so popular that The Sports Authority quickly followed suit. Dick's has found additional success in heavy soccer promotions, including stadium naming rights and sponsorship of ESPN halftime reports.

Appraisal Factors

- Changing trends – Changing trends and increased competition have caused sales of traditional athletic shoes to decline. Companies must anticipate trends to avoid excess inventory levels.
- Inventory mix – Athletic footwear typically makes up approximately 20% of inventory at retail. Broken size scales, mismated shoes and aged styles can weigh down GOLVs.
- Licensed sporting goods – Licensed team sport items should be weighted toward local teams or nationally popular organizations, as non-local team product may require deep discounts to sell through.
- Summer/winter season packaway – Seasonal product should be identified and lower returns assigned for off-season sales.
- Weather – Retailers emphasizing seasonal sports could be adversely affected by unexpected conditions; larger retailers are less at risk due to more extensive product lines.
- Firearms rules and regulations – Firearm sales are bound by federal and state laws, requiring background checks, age requirements and specific inventory transfer protocols. Many media outlets have further rules or policies against firearm advertisement, which could affect returns in a sale.
- Location – It is important to note that mall-based retail sales, typically fashion-focused, can vary from those of freestanding stores (often athletic-based) and from specialty stores (usually geared toward a specific consumer base or sport).
- Employees – For many sports, having knowledgeable employees on the floor to help customers with technical product questions and fitting can be significant advantages to a liquidation.
- Additional services – Potential returns from a liquidation sale could be affected by other services offered by the store (e.g., club fitting, bicycle tune-ups, rentals, guide services, etc.).

Conclusion

Companies in the sporting goods market compete on a number of levels including price, product innovation, new technology and style. Often, the ability to adapt to consumer preference changes and technological advances can determine a retailer's performance. Introducing new merchandise at the right time can combat external factors affecting sales such as unexpected seasonal weather conditions or encroachment from national chains. Smaller companies and stores can compete effectively by specializing in a particular sport, focusing on a specific customer type or catering to a local market. Sporting goods merchants must make adjustments to merchandise offerings quickly to address unforeseen challenges that occur such as unseasonable weather, bad buys and fickle consumer tastes. Lenders should note when and if the appropriate markdowns are taken in order to clear undesirable inventory and avoid build-ups of lower recovering goods.