Sara Lebow, Zak Stambor, and Jeremy Goldman

# Reimagining Retail: The latest retailer earnings checkup, and the best and most concerning performance awards

Audio

On today's episode, in our "Retail Me This, Retail Me That" segment, we talk about what the leading retailers' Q4 performances tell us about the state of retail. Then for "Pop-Up Rankings: Earnings Awards Edition," we rank the two best and the two most concerning retailer performances of late. Join our analyst Sara Lebow as she hosts director of Briefings Jeremy Goldman and analyst Zak Stambor.

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Episode Transcript:

Sara Lebow:

Hello, listeners. Today is Wednesday, March 15th. Welcome to Behind the Numbers Re-Imagining Retail, an E-Marketer podcast made possible by Ibotta Performance Network. This is the show where we talk about how retail collides with every part of our lives. I'm your host, Sarah Lebow. Today's episode is the retailer's Q4 checkup.

We did a Q3 checkup a quarter ago, go figure, and we're checking back in on some retailers' earnings to see what the state of retail is right now. Joining me for today's episode, we have one of our analysts, Zak Stambor. Hey, Zak.

Zak Stambor:

Hey, Sarah.

Sara Lebow:

Also joining us today is another one of our analysts from the short form team, it's Jeremy Goldman. Hey, Jeremy.

Jeremy Goldman:

Hey, Sarah.

Sara Lebow:

All right, let's get started with our first segment, news and reviews, where I give the news and our guests tell me their reviews. Today's headline is a March 8th story from Business Insider titled 'Retail Worker Quits Are on the Rise Again Even as Workers in Other Industries Increasingly Try to Hold onto Their Jobs'. Retail workers are quitting their jobs at a higher rate than the rest of the workforce. Wages at a lot of retailers have increased significantly over the past three years, so since the start of the pandemic, in attempts to retain workers, but potentially not enough at a lot of these retailers. Zak, your review of this headline in 60 seconds is ...

Zak Stambor:

I actually don't think this is that surprising. It's a still a super tight labor market. There's roughly 1.9 jobs for every person looking for a job and as someone who has worked at Lids and at the Gap, retail jobs are not the most glamorous jobs. They're not the most fun jobs, so if there's other opportunities out there, then people are going to start looking around. This is the same thing that's happening in the leisure and hospitality space where companies ranging from like Dominoes to Jack in the Box have said in their earnings that their inability to hire enough workers is hurting their bottom line.

Sara Lebow:

I did not know that you worked at Lids and the Gap.

Zak Stambor:

I worked at Lids for about a month and a half.

Sara Lebow:

Okay.

Zak Stambor:

Gap, I lasted a little bit longer.

Sara Lebow:

Not a hat expert. Jeremy, your review of this headline in 60 seconds is ...

Jeremy Goldman:

It's concerning, but also not entirely unexpected. I agree with Zak in that regard because if you look at the fact that we have had a national joblessness rate at 3.4% or so, I think. It's currently at a 50-year low. You also have a lot of increasing income disparity in terms of how much people are being paid, so what that means is if you have a somewhat thankless job and you're not being paid that much and you have some hope that something else is going to pay you more, there's a very good chance that you're going to go look around. It just makes a lot of sense. I think that basically employment growth has been slowing down a little bit so it remains to be seen if that's going to put a bit of a lid, no pun intended, on this trend.

Sara Lebow:

Yeah. The story emphasized how much wages have grown, but wages were so low three years ago when the pandemic hit. They had to grow. The national minimum wage is like 7.25 so sure, retailers are now offering several multiples of that but it's starting from such a low point that I don't think it's surprising that wages have grown as people have had more ability to move around in retail jobs.

All right, now it's time for our next segment, retail me this, retail me that, where we discuss an interesting retail topic. Today's topic is the retailer's Q4 checkup. Q4 was challenging for retailers. Lower discretionary spending led to heavy discounting, and as a result, earnings have been not apocalyptic, but definitely not uplifting. We're going to discuss three themes that we saw from Q4: earnings pullback in discretionary spending, a hurting housing market and how that affected retail, and overall price sensitivity. We're going to start off with that first theme, pullback on discretionary spending. Can you guys give me examples of some companies that had earnings that highlighted this trend?

Zak Stambor:

Yeah, so I would actually counter your introduction slightly. Q4 was not terrible. Walmart and Target both exceeded expectations, but the overarching theme that we've seen is everyone is very cautious about the road ahead. Yes, they saw some pullback in discretionary spending, but they also are seeing some pickups in some of their specific areas that have opportunity right now. For instance with Walmart, Sam's Club comparable sales were up like 12%. It saw an uptake in market share in terms of grocery sales, but Walmart also saw a slowdown in discretionary spending and so their margins shrink.

Sara Lebow:

Jeremy, anything to add to Walmart?

Jeremy Goldman:

Just building on the Sam's Club point, I think what's interesting is that they said that their membership count reached an all time high. I think that that's one of those things that just show that people are willing to actually pay into essentially loyalty programs in order to get some good value. People are doubling down on places that are serving them value, or at least the perception of that value. I think that Target is able to also generate a fun shopping experience, even at a discount. When we're talking about some of the things that they're doing right, I think that they had had a number of different things like their in-store pickup and their drive up, these same day services that helped people from a easy-of-use standpoint. They all went up during the quarter. They increased like four and a half percent almost. There are some bright spots where people essentially want to get some value and they want to have a good time doing it.

Sara Lebow:

Yeah, I think it's interesting that you bring up loyalty. We talked about this on our loyalty episode. Our own like BizRate Insight survey data showed that younger people in particular were becoming members of Walmart's loyalty program at much higher rate this holiday season than they were in July, so definitely seeing that trend in our own data.

Zak Stambor:

Walmart in particular is looking ahead and seeing the expiration of the expanded SNAP benefits, which expired at the start of March. It's a fairly decent share of their grocery sales are those lower income people who are using those benefits, and so that could hurt their sales looking ahead.

Sara Lebow:

That's interesting. Definitely something to watch.

Zak Stambor:

It's not just them, it's Kroger and many other grocers.

Sara Lebow:

Yeah, that will definitely be something we will check back in on our Q1 retailer checkup.

Let's move on to our second theme that we discussed, which is how the housing market had an effect on earnings this season. What are some examples of retailers where we saw that trend highlighted?

Zak Stambor:

Nobody's moving because interest rates are so high, home values are down, so nobody's putting their house up for sale and just a few houses are selling. Lowe's and Home Depot and furniture retailers like Wayfair and many others are just not selling as many of the goods that people generally buy when they move and buy a new house. At Home Depot and Lowe's, it might be paint or fixtures or whatever it might be. For furniture sellers, all the furniture that you need to outfit your house.

Jeremy Goldman:

Yeah, and this is what's interesting, is that these are sectors that can do very well or very not so amazing depending on what else is happening. Besides even the interest rates, how about the fact that we were talking about wage gains? There are people who are making more, but their effective earning power isn't necessarily as much, which then means that they can't make payments if they are going to buy something, so yes. All of these things go into the housing market and then affect all of these brands like Sherwin-Williams that's carried in some of these major home improvement retailers like Lowe's and Home Depot, they see an outsized impact of this type of slowdown.

Zak Stambor:

All these companies did really, really well early in the pandemic when everyone was stuck at home, so people already have redone their living. They have already done and made the purchases that you don't buy again. Once you have painted your living room, you generally don't paint your living room again one year or two years later. You generally don't redo your bathroom one or two years later, so they have some tough comps for the next few years.

Sara Lebow:

Both Lowe's and Home Depot fell short of expectations that we think is a direct result of this housing market right now.

Zak Stambor:

Yep.

Jeremy Goldman:

Yeah.

Sara Lebow:

Okay, moving on to our third and final trend of this segment, which is just general price sensitivity. Jeremy, you just mentioned wages are going up in some places, but we also know that food prices have been aggressively high for the last several months now. How did price sensitivity affect this earning season?

Jeremy Goldman:

You see this in a few different places. One of those is you have some retailers, like Macy's for instance, which has brands underneath it like Blue Mercury and Bloomingdale's, where those were the best performing parts of their portfolio. Then you have some retailer stocks like TJX, which has a number of different things underneath its umbrella, TJ Maxx, Marshalls among them, that they stand to benefit in the long term, but also the fact that they're going to actually be able to outperform some of the rest of the market. TJX reported a 5% jump in sales, and I think more than a billion in its most recent quarter by simple virtue of the fact that there's some people might be trading down, and for some people who might otherwise just be transacting in a few different retailers, they might be cutting out some retailers and continually transacting with a TJX.

Zak Stambor:

TJX really epitomizes what's going on because the clothing-oriented stores, TJ Maxx and Marshalls, did well. Their sales were up like 7%, but HomeGoods, home fashions business, saw sales decline 7%. It is very much in line with this overarching trend that we've seen.

Sara Lebow:

Is HomeGoods in line with a Wayfair, a Home Depot, a Lowe's, or not so much since it's more home decor rather than home furniture?

Zak Stambor:

It's all of a piece. It is home decor, but people are just pulling back on home decor and home decor is an easy place to pull back. In fact, I think it's one of the areas people pull back first because it's okay if your wall is bare.

Sara Lebow:

Yeah, I also think home decor probably more likely to be an impulse purchase as compared to a couch. You're probably not going to make that impulse purchase right now.

Jeremy Goldman:

Yeah.

Zak Stambor:

Absolutely, and especially at a retailer like HomeGoods where it gets all about the hunt.

Sara Lebow:

Mm-hmm. All right, that is all we have time for in the first half. We'll be talking about some more retailers earnings in the second half, but first a quick word from our sponsor, Ibotta Performance Network.

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Welcome back from the break. Now, it's time for popup rankings, earnings awards edition, where we take a look at the two best and the two most concerning retailer performances as of late and give them awards. First we're going to give awards to our two most impressive retailers of Q4 2022. Zak, what is one of our most impressive retailers of the last quarter?

Zak Stambor:

Dicks Sporting Goods had a really impressive quarter. It really surprised me. The same store sales grew 5.3% year over year, which was like over double analysts estimates, and they're in a tough category. Sporting goods is a category where sales declined last year, but they're the last big box brand standing and that's a good spot to be because if you need a basketball, if you need Nike shoes, if you need who knows what, that's where you're going to go.

They also said something super interesting in the call, which was that people are starting to view some of the fitness and sports related purchases that they started buying over the pandemic as a necessity rather than a discretionary purchase, so people are going to keep buying their running shoes even if they're pulling back in other areas.

Sara Lebow:

Yeah, anything associated with health or wellness right now seems like a really convincing category to be in.

Zak Stambor:

Absolutely.

Sara Lebow:

We have Dick's getting one of our awards. Jeremy, who else is getting a most impressive retailer award?

Jeremy Goldman:

I would say Kroger, even though we talked about the fact that there are some things that they have to deal with, just namely the fact that the SNAP benefits that Zak mentioned. That's a call-out for the future, but they beat Wall Street's expectations for Q4. Their stock went up as a result. They had a number of different things that went well, including they had their same store sales go up. They continue to be a really interesting retail media player to watch, and that's something that we're paying attention to because it is more profitable if you can basically sell ads and if you can diversify your business. That's something that I think is very interesting.

Then also, compared to a lot of other retailers, they have done a good job at managing their retail e-commerce sales, and we expect, according to our forecast, those do go up about 9% this year, outpacing their same store sales. That's another interesting thing that we would probably say that's a feather in their cap.

Sara Lebow:

Okay, so we have Kroger. Real quick putting both of you on the spot, will the Kroger/Albertson's deal go through this year?

Jeremy Goldman:

No. I was on the podcast I don't know how many months ago.

Sara Lebow:

Yeah, you were.

Jeremy Goldman:

I'm saying no. I still say now.

Zak Stambor:

Well, since you put me on the spot, I'm going to say yes but I have not a really great handle on it. There's not a ton of evidence to I think say either way. I think it might be a little bit more of a toss up rather than a definitive.

Sara Lebow:

Either way as both of you have said to me, the fact that that deal even exists shows how important retail media is in grocery, how important having these massive ad networks is.

Jeremy Goldman:

It's absolutely a huge piece of that puzzle.

Sara Lebow:

Okay, we have our two most impressive retailers, Dick's and Kroger. What about our two most concerning retailers? Zak, give me the first one.

Zak Stambor:

Yeah, Wayfair, again, is in a tough space. Furniture, home furnishings is not a great category to be in. They're just hemorrhaging customers at this point. Their customer acquisition costs are just too high. Also, they about year ago started talking a lot about physical retail as a potential growth channel. Their first Wayfair-branded store is actually going to be like a mile, two miles to my house. It is now delayed until 2024. It's a very slow go and I just don't see how they're going to turn it around.

Sara Lebow:

I know a couple of weeks ago you were on the podcast talking about Wayfair as a concerning retailer, so definitely sticking with that trend.

Zak Stambor:

Yeah.

Sara Lebow:

Jeremy, what is our second most concerning retailer of Q4?

Jeremy Goldman:

I would say Best Buy is a good one to watch or a bit concerning just because their US sales fell quite a bit, almost 10% soft spending on a lot of things that people felt, "Okay, I can put off this purchase." That's something that obviously is concerning, especially considering how those are purchases that are often made in Q4.

The other thing that I think makes them a bit concerning is just that experiential purchases. In theory, if you're buying a really major home theater type of setup, you want to buy that at somewhere where you can have an experience and where you can really get a sense of what that's going to be like in your home. If Best Buy isn't able to capitalize on that, that's a big problem because they have a pretty big retail footprint and it's obviously very costly to manage that number of stores. Essentially they have this advantage that for some reason they haven't really been able to tap into and I think that hopefully they'll be better days ahead for them, but I think it's definitely one to watch.

Sara Lebow:

I want to call out that we give them a most impressive in Q3, so clearly a lot of those sales, maybe ate into Q4.

Jeremy Goldman:

Yeah, I think the thing is they are just in a tough category. Consumer electronics, like I was saying, when you buy paint once every, I don't know, 10 years. You buy a TV every four to 10 years, so once you've bought it during the pandemic, you just aren't going to buy another TV. They are a very well run company. They had a tough quarter, but they are making some moves to diversify their business in a way that might help them over both the short and the longer term. For instance, they recently announced a deal where they're diversing into at-home healthcare where the Geek Squad helps set up devices.

Sara Lebow:

Like home health devices, biometric tracking devices.

Jeremy Goldman:

Yes, yes.

Sara Lebow:

Yeah, I also saw some news last week about their retail media network as well. They made some moves there, so also another place where they're investing in their ad network.

Jeremy Goldman:

Also, again like Dick's, it is helpful to be the last brand standing. When somebody does need a TV or a washing machine, they might go to Best Buy because there just aren't that many other places to go.

Sara Lebow:

Okay. That is all we have time for today, so thank you for joining me, Zak.

Zak Stambor:

Yeah, thanks for having me.

Sara Lebow:

And thank you, Jeremy.

Jeremy Goldman:

Pleasure as always.

Sara Lebow:

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Thank you listeners and to Victoria who edits the podcast and had a great Q4. We'll be back next Wednesday with another episode of Re-Imagining Retail, an e-Marketer Podcast made possible by Ibotta Performance Network, and tomorrow you can join Marcus for another episode of the Behind the Numbers Daily.