

Consumer Retail Industry Report

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Overview

The Consumer Retail industry encompasses businesses that produce durable goods, nondurable goods, and consumer services. This industry contributes to approximately 67% of the US GDP, making extremely clear its vital role in the economy. The industry will be split and evaluated in three sectors: Consumer Staples, Manufacturing, and Wholesale.

Consumer Staples

Overview/Description

Within the Consumer Retail Industry, Consumer Staples is a large sector that covers various businesses that produce and distribute food, beverages, tobacco, and other personal products. Because of the sector's overall inelastic demand, it is less sensitive to economic cycles.

Trends/Industry Drivers

Consumer Staples sector is less sensitive to economic cycles due to overall inelastic demand for its produced goods. People tend to demand consumer staples at a constant level despite volatile prices.

Positive drivers of this sector include more aggressive measures taken to cut costs and continued increase in big deal merger and acquisition. Some M & A activity in this sector include Amazon acquiring Whole Foods and Sycamore Partners acquiring Staples. Lower energy prices also allow for more production of these goods in consumer staples. On the other hand, negative drivers of this sector are high competition and trade disputes.

The key statistics are that the market cap is \$3.26T, the P/E ratio is 15.82, and the EPS is \$8.37. Its market weight in the consumer retail industry is 7.15%. Its revenue growth from the past year is 1.78%. The competitive landscape for the Consumer Staples industry includes Wal-Mart Stores, Procter & Gamble Company, Coca-Cola Company, PepsiCo, Inc., and Anheuser-Busch InBev SA/NV.

Key Players

The key players for Consumer Staples industry are Wal-Mart Stores (WMT), Procter & Gamble Company (PG), Coca-Cola Company (KO), Pepsico, Inc. (PEP), and Anheuser-Busch InBev SA/NV (BUD). Wal-Mart Stores operates hypermarkets, discount department stores, and grocery stores. It has recently experienced a loss of market share due to Amazon's increased market share but still maintains itself to be the biggest player, which accounts for 8.9% of consumer retail spending in the US and 2.8% of all consumer spending in the US.

Company	Market Cap	P/E ratio	EPS
Walmart	\$289B	43.83	\$2.26
Procter & Gamble	\$250B	23.93	\$4.11
Coca-Cola	\$195B	30.32	\$1.50
Pepsico	\$162B	13.19	\$8.78
Anheuser-Busch InBev SA/NV	\$152B	22.75	\$3.44

Current Events

Consumer preferences have recently shifted from highly processed products to fresh food. With this preference shift, some businesses are impacted, like Kraft Heinz Co. Recently, it has reported a \$7.3B goodwill impairment, which is the largest good impairment ever recorded in the US consumer staples industry in the past decade.

Manufacturing

Overview/Description

Manufacturing includes automotive, household durable goods, textiles & apparel and leisure equipment. Manufacturing involves changing raw materials into finished products. The products may be sold to end users or to wholesalers.

Trends/Industry Drivers

Major developments in the manufacturing industry include an increased use of robotics, increased spending on security, and wider use of the Internet of Things (IoT) technology in production. Due to the steady increase of manufacturing jobs in the U.S., the first such increase since 1988, and the lack of laborers to fill them, more and more factories are using robots for simple, repetitive tasks that used to be done by humans. This is allowing them to free up their human labor for more nuanced, cognitive tasks such as quality control and inspections. In the case of Boeing, robots have also helped reduce healthcare costs -- as the rivet-installing process for their 777 aircraft had previously been a major source of stress injuries for their employees-- and improve overall productivity.

Likewise, more and more companies are integrating IoT technology into their production processes. Technology such as real-time monitoring on every floor of a warehouse and production plant is allowing companies to increase quality control and better account for their inventory. The evolution of supply chains to track and trace products in real time is also allowing them to achieve higher delivery accuracy to their customers.

Finally, increased spending on security is a trend in the industry as a whole. With the increased awareness of cyber attacks that could threaten company data, manufacturing companies such as Johnson & Johnson are becoming more vigilant in securing their supply chain and centralizing their security departments. In the case of Johnson & Johnson, this focus on security has even extended past the production process itself, as they are also taking measures to educate and alert their distributors of potential threats that may arise to their products.

The key statistics are that the market cap is \$4.86 T and the revenues/sales are \$6.2 T. The P/E ratio for the market is 21.30. From 2013-2018, the industry performance had a growth rate of -0.5%. The expected growth rate for 2018-2023 is 1.5%. The competitive landscape includes Exxon Mobil Corp, General Motors Company, Ford Motor Company, and The Boeing Company.

Key Players

Key players in the manufacturing industry include Johnson & Johnson (JNJ), ExxonMobil (XOM), Boeing Corporation (BA), PepsiCo Incorporated (PEP), and General Motors Company (GM). Johnson & Johnson, a company which specializes in making medical devices, pharmaceutical and consumer packaged goods, leads the

pack with a market cap of 363.19B USD. Next highest are oil and gas producer ExxonMobil with a market cap of 329.47B USD, aerospace manufacturer Boeing Co. with a market cap of 235.93B USD, food, snack, and beverage producer PepsiCo Inc. with a market cap of 160.08B USD, and auto manufacturer General Motors Co. with a market cap of 55.84B USD.

Current Events

In the news, President Trump has campaigned heavily to bring jobs back to America, most notably jobs in the manufacturing industry. He has aimed to do this by placing higher tariffs on imported manufactured goods from other countries, most notably world manufacturing power China. Although it remains to be seen whether his legislation will actually achieve his desired goal, the discussion of his policies on the Trade War with China has been bringing the manufacturing industry to the forefront of current events.

Wholesale

Overview/Description

The Wholesale Trade sector is an intermediary step in the supply chain process. Companies in the sector distribute goods from agriculture, mining, manufacturing and information industries to downstream markets, typically without any transformation.

Trends/Industry Drivers

The wholesale industry is affected by the increasing use of technology as well, both positively and negatively. The unemployment rate of the industry currently stands 4.8% with the integration of digital technologies, AI, and better automation, replacing the work of humans, while making them more efficient in other scenarios, leading to a smaller workforce. Overall, the sector holds a market cap of 8.3 trillion with a P/E ratio of 29.11.

Technology integration comes in several forms. First, e-commerce is being implemented rapidly to improve revenues and customer service through consumer segmentation and pricing that will reduce overhead costs, while maximizing profits. Additionally, wholesalers are gradually understanding how to use Information Technology to their benefit and how their competitors in the industry are leveraging it. The large amounts of data from consumers and clients now accessible

due to these adoptions are analyzed to guide these companies in the right direction as to how to better support clients.

Key Players

The industry sees four major key players, spread through various sectors ranging from cosmetics to pharmaceuticals. McKesson Corporation, a company with a \$23 billion market share, deals with wholesale pharmaceuticals, beauty products, healthcare products, and medical supplies for pharmacies in North America and Europe. Last year the company generated \$200 billion in revenue all over the world, holding almost 20% of the cosmetics and toiletries industry revenue, and more than 2% of the wholesale market share. By acquiring smaller companies, McKesson has been rising, expanding its market share. Over the last 5 years, the revenues have shown steady growth, at 8% in the last year. Currently, the company trades at \$120.10.

The second largest player in the wholesale sector stands at AmerisourceBergen Corporation, working with primary pharmaceuticals and some healthcare products. Over the last few years, the company is growing, acquiring its competitors, and operating with a P/E ratio of 15.89, although they do have profit margins below the industry standard. The company stands to hold 2% of the market share, with a stock price of \$80.48 and market cap of \$18.87 billion.

Another key player is Cardinal Health Inc, trading at \$50.90 with a P/E ratio of 11.14 and market cap of \$16.27 billion. It is one of the biggest providers for healthcare services, being the largest wholesaler in the medical devices industry, and proceeds to grow with the push behind its wholesale sectors. Over the last few years, it has acquired major companies such as Cordis, Harvard Drug and naviHealth, adding to its rise.

Current Events

Currently, negotiations are taking place between policymakers and wholesalers for providers of drug prices, and this could cause a ripple effect into other areas as well. The effort is to allow consumers to buy their medical drugs at affordable prices. If successful, the retail sector may use the same strategy to negotiate discounts.

Valuation Metrics

Earnings per Share (EPS): (Net earnings/Total shares)

Measures the company's profitability. A higher EPS indicates the company will have more to pay out to shareholders.

Price-to-Earnings (P/E): (Share price/EPS)

Measures the relationship between share price and EPS. A high P/E suggests that a share is priced higher than its calculated value, and a lower P/E suggests that a share is priced lower than its calculated value.

Return on Equity (ROE): (Net income/Shareholders' Equity)

Measures the company's ability to profit from shareholders. A higher ROE indicates a likelihood of generating greater returns.

Sales per Square Feet: (Sales/Square footage of retailer)

Measures the company's profitability as a function of real estate.

Conclusion

Altogether, the consumer retail industry has been facing many mergers and acquisitions between different products and industries. Many retailers have been utilizing resources from technological industries to improve their services and to better tailor them towards their customers' preferences. One of the most prominent trends rising throughout consumer retail is the ability to customize products and services. Many companies have been building their brands around flexibility and ability to vary their goods to give their customers maximum satisfaction. As a result, retailers have been increasing usage of tools such as AI and data science to better understand their customer base and maintain that their customers can have it all. Building off of the idea of increasing customization, many companies are also working towards using technology to strengthen their loyalty programs. Similarly, they can apply many technological advances to develop a stronger relationship with consumers, and therefore develop new strategies to maintain and grow their customer base. Last but not least, due to the exponentially developing nature of the industry, many mergers and acquisitions are rising for the benefit of both companies. Notably, Amazon recently acquired Whole Foods, which benefits Amazon because they can now expand their services to cover another set of inelastic goods, guaranteeing them increased revenue. This also

benefits Whole Foods, as they now have a new method of acquiring customers for their products and services.

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