Retail Expansion Analysis

Secretariat worked with a leading multi-channel retailer to explore the return on investment of a potential expansion into brick and mortar operations Secretariat evaluated economic and strategic issues in pursuing the expansion strategy.

SUMMARY

A leading multi-channel retailer wanted to explore the return on investment of a potential expansion into brick-and-mortar operations. Historically, this retailer had focused on television and e-commerce channels, yet was interested in exploring opportunities to expand their retail presence through several multinational retail chains, including Bed, Bath, & Beyond and Target. Secretariat was hired to evaluate economic and strategic issues in pursuing the expansion strategy. *See Figure 1.*
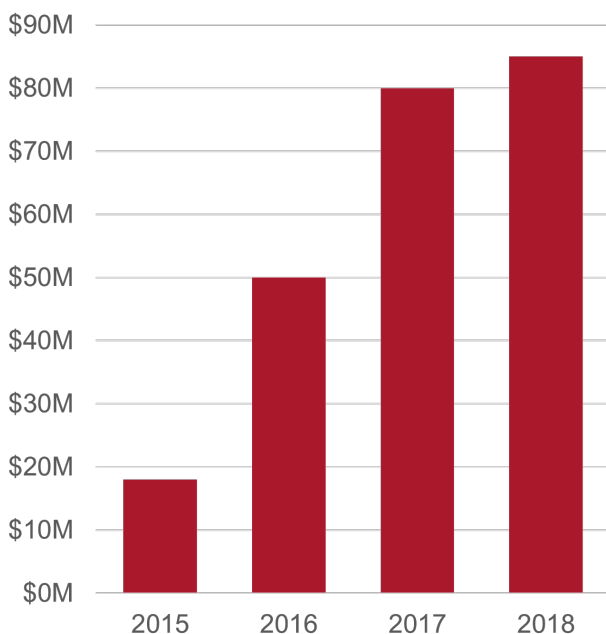
Forecasted Revenue

Figure 1 shows forecasted revenue through 2018.
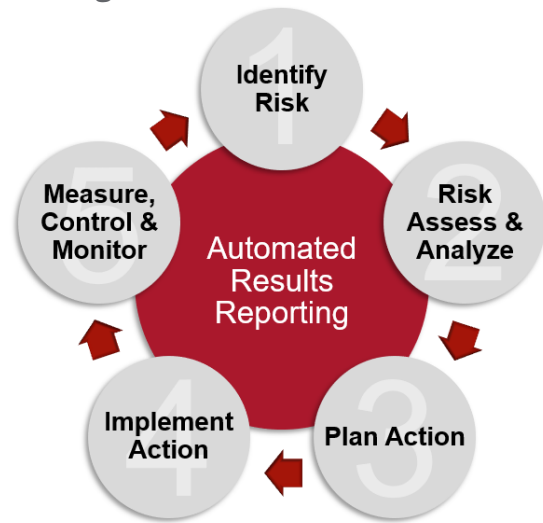
Risk Management

Figure 2 Our analysis, insights, and recommendations helped to manage investment risk and inform executive decision making in the short and long-term. Our recommended milestone-based approach, combined with our financial modeling tools, allowed information to be collected over time to support ongoing decisions as the expansion project was implemented.

THE CHALLENGE

Like for many industries, analysis of retail expansion without objective, data-driven modeling can result in less-than-optimal investment outcomes. When faced with difficult all-or-nothing investment decisions, executives must often decide between investing aggressively to maximize the potential opportunity and investing conservatively to minimize risk. They turned to Secretariat to provide quantitative analysis that would provide insights and optimize decision making. *See Figure 2.*

OUR APPROACH

Secretariat utilized financial modeling, economic forecasting, and economic analysis to provide concrete recommendations on a data-driven investment strategy. Our flexible and powerful scenario-based financial model was based on key business parameters and objectives. The model provided the retailer with relevant insights and transparent evaluation of trade-offs to improve executive decision making. Key modeling elements included:

A Projections of revenue, profit, and cash flow under various marketing scenarios (see Figures 3 and 4)

B Key performance indicators, such as net present value, return on investment, and time-to-profit

C Summary outputs with the ability to drill down into detailed product analysis

D Highly parameterized and flexible model assumptions for easy updating as inputs finalized

C Scenario-based analysis that allowed users to quickly toggle between scenarios

D Identification of critical success drivers backed by empirical research and validation.
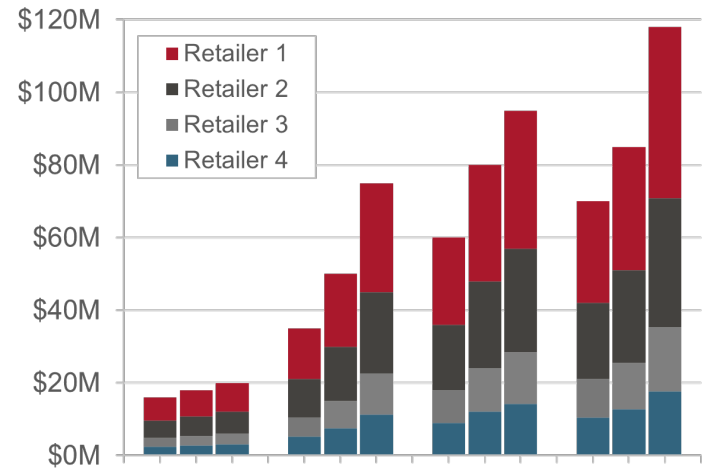
Forecasted Revenue Under Each Scenario

Figure 3 shows the forecasted revenue through 2018
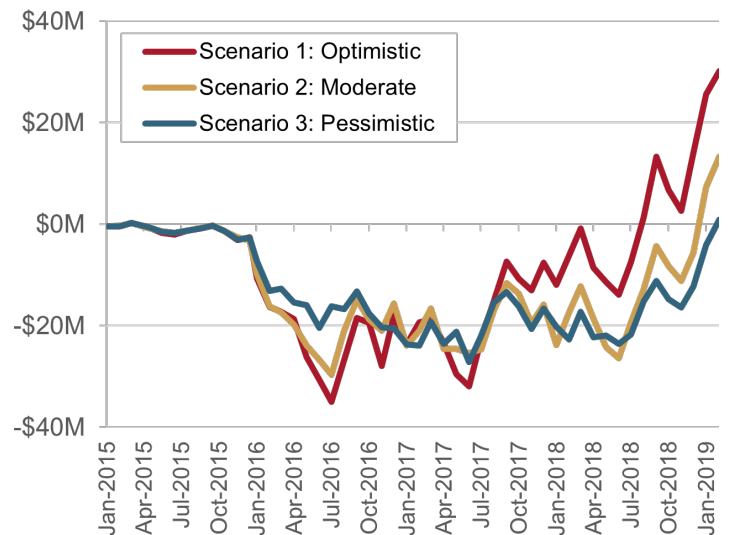
Cumulative Net Cash

Figure 4 shows the cumulative net cash through Jan 2019

Financial Modeling Secretariat projected revenue, profit, and cash flow under three marketplace scenarios: optimistic, moderate, and pessimistic. This process allowed for HSN executives to evaluate outcomes with varying risk profiles. As retail orders were placed and other real-time information was obtained, we updated the model accordingly.

THE CHALLENGE

Secretariat recommended a milestone-based, data-driven expansion approach that helped to mitigate investment risk and improve decision making. We identified key assumptions required for the expansion investment to be profitable and identified ways to validate those assumptions with modest initial investments. For example, we recommended that relatively low-risk investments (e.g., new packaging design) be made immediately whereas more foundational investments be tied to defined milestones, such as customer interest, retail commitments, product sell-through rates, and retailer re-buys. This enabled the multi-channel retailer to make more substantial investments with greater confidence, thereby reducing risk exposure and improving expected value. *See Figure 5.*

CONCLUSION

Our analysis and recommendations were instrumental in evaluating outcomes and driving data-driven decisions by the retailer. Our recommended milestone-based approach allowed them to mitigate risk and monitor success by tying investment decisions to key milestones. Secretariat's analysis and suggested approach produced highly informative insights and ultimately drove a successful expansion strategy.

> **[Secretariat] provided us with insights and tools that greatly informed our decision making. Their enthusiasm, responsiveness, and quality of work helped us launch a massively successful retail expansion. It was a pleasure working with them!"**
>
> — **Executive Vice President**, leading multi-channel retailer
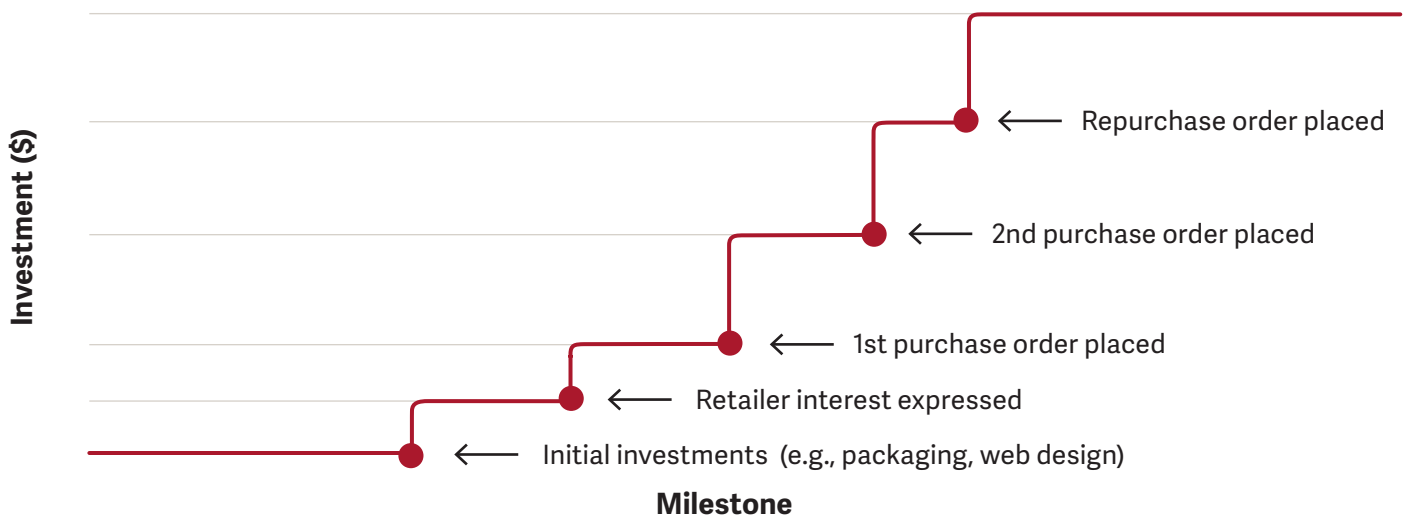
Figure 5 Milestone-Based Investment Approach Secretariat recommended a milestone-based investment approach, whereby investments were made based on achievement. For example, smaller investments might be made in response to exemplified retailer interest and enthusiasm, yet much larger investments in marketing and headcount additions could be made once actual purchase orders were placed.

All figures described herein are for illustrative purposes only and have been altered to maintain client confidentiality.

We would like to hear from you

Whether you are interested in speaking to one of our experts or learning more about our exciting careers, we look forward to hearing from you.

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