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A Strategic Analysis of Foot Locker, Inc.

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Abstract

During the past couple of years, Foot Locker, Inc. has underperformed the public's expectations. This has been evidenced by the rapid slide of its share price. The current economical situation has further weighted down on the company's ability to provide shareholder value. This paper will describe the problems associated with Foot Locker, Inc.'s underperformance in the marketplace. These problems must be remedied if the company is to earn an attractive rate of return for its investors. Using secondary research, these problem areas will be identified by analyzing the current internal and external situation surrounding Foot Locker, Inc., determining the intensity of Porter's Five Competitive Forces on industry profitability, looking at the competitive positions of Foot Locker's major competitors based on price and geographical coverage, identifying the key success factors (KSFs) associated with the industry, analyzing Foot Locker's current strategy, and conducting a SWOT (Strength, Weakness, Opportunity, Threat) analysis. Finally, the future strategic elements essential to building an attractive and sustainable return on investment (ROI), required by its shareholders, will conclude this strategic analysis of Foot Locker, Inc.

Relevant Company History

Foot Locker, Inc. commands a dominant role in the international retail landscape for sports apparel and accessories. Currently, Foot Locker, Inc. has several different subsidiaries under its control. These subsidiaries include Foot Locker, Foot Action, Kids Foot Locker, Lady Foot Locker, Foot Locker International, Champs, and Eastbay. With these retail outlets spread across 20 countries in North America, Europe, Australia, and New Zealand, Foot Locker, Inc. is recognized as the leading athletic footwear retailer in the United States (Foot Locker Inc., 2009). This widely-recognized corporation, as it is known today, has its roots back in 1879 when a man named Frank Winfield Woolworth opened his first five-and-ten store in Utica, New York (Funding Universe, 2005).

Woolworth opened this store after discovering how popular a five-cent strategy worked for Moore & Smith when he was employed by the firm in 1878. Woolworth's first store failed after only a few months. However, he opened a second store in Lancaster, Pennsylvania that same year. "By the mid-1880s", according to Funding Universe (2005), "there were seven Woolworth's [the name of the 5 & 10 stores] in New York and Pennsylvania" (para. 6). However, after only a few years, Woolworth fell sick with typhoid fever from his work exhaustion. This sickness prompted Woolworth to delegate his authority in the day-to-day operations of the company to Carson C. Peck. Freed of this burden, Woolworth was able to make his first overseas buying trip to Europe in 1890. The products Woolworth was able to bring back to his domestic stores attracted many customers looking for the unique products to be found only at Woolworth's (Funding Universe, 2005).

Woolworth expanded his retail operation in 1897 to include his first international store located in Toronto, Canada. A few years later, at the turn of the century, Woolworth had almost 60 stores topping $5 million in revenue on an annual basis. The entrance into the twentieth century proved to be promising for Woolworth when, in 1905, he incorporated as F.W. Woolworth & Co. with $10 million in sales and 120 stores. For the remaining years after, until his death in April of 1919, Woolworth guided the company through prosperous times and "by the company's 50th anniversary in 1929, there were 2,247 Woolworth stores in the United States, Canada, Cuba, England, and Germany" (para. 16) with sales over $300 million annually (Funding Universe, 2005).

After growing accustomed to the shallow pockets of consumers during the Great Depression and the Second World War, Woolworth & Co. failed to take advantage of the growing prosperity being experienced by consumers during the post-war era. According to Funding Universe (2005), "It was keeping costs down and prices low at a time when customers wanted service and when prosperity made prices a secondary consideration" (para. 19). Although the company recognized the need for change, Woolworth & Co struggled for many years to keep pace with the growth trends of its competitors. In 1974, the company had a spark of success when the first Foot Locker stores opened, which would later prove to be very profitable. However, by the mid-1990s, the company had severe cash flow problems (Funding Universe, 2005).

"Thanks to dwindling profits, by early 1995, the company was nearly out of cash, and short-term debt had swelled to $853 million" (para. 38). As the new chief executive officer (CEO), Roger Farah focused on reducing the company's financial debt by selling off "nonstrategic chains and real estate" (para. 38). By the late 1990s, the company's

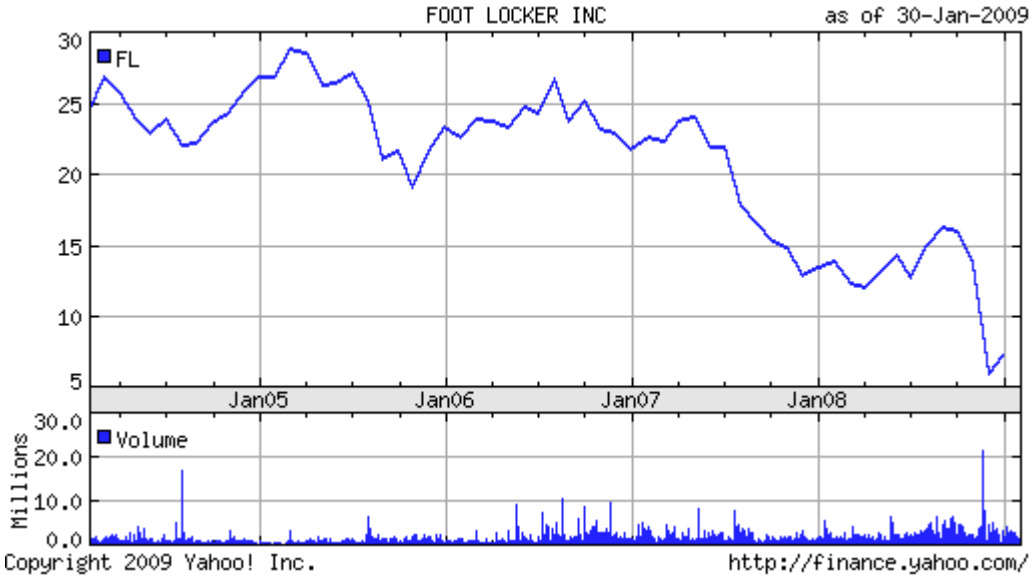
balance sheet was healthier, and in 1999 the company agreed to change its name "to better reflect its global specialty retailing formats" (para. 44) to Venator Group, which meant *sportsman* in Latin. Through multiple investments in both merchandising and operations, by spring of 2000, Venator Group had claimed a 17 percent share of the $14 billion dollar US footwear industry, had "3.8 billion in annual sales", and had developed "significant opportunities in the global market …" (Funding Universe, 2005, 47).

As Venator Group moved into the new millennium, Roger Farah resigned his position as CEO and Matthew Serra, the chief operating officer (COO), took his place in 2001. Following this transition, Venator became increasingly focused on the athletic and apparel industry. Finally, in the fall of 2001, due to the company's focus and success with its Foot Locker subsidiary, Venator Group was renamed Foot Locker, Inc. In the six years following 2001, Foot Locker, Inc. became a "lean, focused retail powerhouse", and according to Serra, "Foot Locker [the parent company] has been very successful during this time frame in terms of growing sales and profits and our shareholders have been nicely rewarded" (para. 52). However, in the past few years, Foot Locker, Inc. has been struggling due in part to the changing retail landscape, and the more recent and continuing worldwide economic contraction. More concrete details about Foot Locker, Inc.'s recent difficulties are delineated below (Funding Universe, 2005; Annual Report, 2008).

Problem Definition

Foot Locker, Inc.'s symptomatic problem over the last few years has been its inability to provide shareholders with a satisfactory return for the risk associated with each share of its stock. This is evidenced by the steep declines in its share price since

mid-2006. For example, the value of one share of Foot Locker, Inc. in mid-2006 was worth over $25; today that same share is worth under $8. Compare this drop with the percentage decline of the Dow Jones in recent months.



Foot Locker Inc. COMP Dow Jones

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Additionally, Foot Locker, Inc. has not split or issued any stock during this time period. This sharp decline in the value of one share can be attributed to a number of different factors, all of which will be discussed in detail below, beginning with an analysis of the industry in which Foot Locker, Inc. participates (Foot Locker Inc, 2009).

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Industry Situational Analysis

Introduction to Industry Analysis

In an analysis of Foot Locker, Inc.'s industry, which has been termed *Apparel & Footwear: Retailers & Brands* by Standard & Poor's, the author will (a)cover the dominant industry economic characteristics, (b)analyze the five competitive forces threatening profitability, (c)identify the driving forces associated with the industry, (d) map the competitive positions of Foot Locker, Inc.'s primary competitors, (e)define the industry's key success factors, and finish by (f)cataloging the factors making the industry both attractive and unattractive (NetAdvantage, 2009). First, the dominant industry economic characteristics will be described.

Dominant Industry Economic Characteristics

The global sports apparel, equipment, and footwear industry had a total market size of 278.4 billion dollars at the end of 2007, 36% of which was controlled by the United States (U.S.). However, the U.S. share of the industry is declining against Europe, due to the strong euro currency, and Asia, occasioned by the increasing middle class and discretionary income levels of its countries. Though maturing in the U.S., the global industry continues to see strong positive growth. This suggests that the majority of opportunities in this industry are found overseas. However, due to the worldwide economic slowdown, growth rates in this industry are expected to be flat for years 2008 and 2009 (Global Sports, 2008).

The sports apparel and footwear industry is characterized by a high level of fragmentation. With few barriers to entry, many competitors attempt to stake a claim in the multi-billion dollar industry. Also, with industry growth rates declining, increased

jockeying among competitors for market share is expected (Thompson and Strickland, 2008).

According to NetAdvantage (2009), the sports apparel and footwear industry is increasingly moving towards globalization, especially in the footwear sector. For companies in this industry to remain competitive in the future, a global strategy must be conceived and implemented. Moving to a global strategy will not only result in reduced cost of goods sold and other related factors as a percentage of sales, but it will allow the company to take advantage of key opportunities internationally. Additionally, moving global will help a company spread its risk, associated with economic and political instability, over many countries.

Another dominant characteristic associated with the sports apparel and footwear industry is the rapid pace of technological change. In order to compete effectively, companies are being forced to push technological advances to increase productivity and efficiency in product development and channel distribution. This rapid technological change is even more evident in the footwear segment of this industry. In this segment, companies such as Nike and Adidas continually must be improving the performance of their footwear to attract the attention and demand of consumers. Great examples of this cutting edge technology include the new Adidas_1 for runners which adjusts cushioning around the shoe depending on where it is needed most, and Nike's shoe sensor which monitors running or walking statistics which are reported directly to the user's iPod Nano (NetAdvantage, 2009).

Competition Analysis

Porter's five forces model analyzes the competitive jockeying among rival sellers, the threat of potential entry, the power of substitutes, the power of suppliers, the power of buyers, and finally, the collective strength of the five forces on profitability. First, attention is turned towards the competitive jockeying among rival sellers in the sports apparel and footwear industry.

Competitive jockeying among rival sellers. According to Thompson and Strickland (2008), competitive jockeying among rival sellers represents the strongest of the five forces in Porter's model. When looking at the sports apparel and footwear industry, jockeying is intense among the rival sellers due to a number of factors which include leveling off and/or falling demand and the fragmented attribute of the industry.

First, demand for products in this industry are leveling off and/or falling as the global economy worsens. This correlation is due to a number of factors. One important reason for the correlation is the reduced amount of disposable income among consumers. With high energy and food prices, unemployment, house value declines, and the stock market crises occurring around the globe, consumers will have less discretionary income to spend on products within this industry (NetAdvantage, 2009). A second, and equally important factor, is consumer confidence, which is measured by the Conference Board's Consumer Confidence Index. The latest index taken was on February 24, 2009, when consumer confidence stood at 25.0. This is the lowest point in the history of the index. This low rating suggests that consumers are holding off on purchasing goods and services, and instead, saving a larger percentage of their discretionary income for fear of a prolonged recession and/or loss of employment (Conference Board, 2009).

The fragmented aspect of the industry contributes to its intense jockeying nature. First, as was mentioned previously, there are a large number of competitors in this arena. This lends to the fragmented nature of the industry. These firms are all competing for a greater market share, and, due to flat industry growth, many firms attack one another in an attempt to gain it. (NetAdvantage, 2009).

Threat of potential entry. The sports apparel and footwear industry is accompanied by an intense threat of potential entry. This threat of potential entry is caused by two main factors which include a low capital investment and competitor product line and geographical extensions.

Having a low capital investment in an industry makes it relatively easy for entrepreneurial companies to enter in search of a *piece of the pie*. Sports apparel and footwear retailing is characteristic of this low capital investment. James Rauch (2007) mentioned this in his article when he stated, "Because it [retailing] is a business that requires relatively low capital investment … retail trade offers … entrepreneurial opportunities for people of modest means" (para. 1). The potential result of this low barrier to entry could be large industry players finding their top lines being eroded away as these entrepreneurial retailers find their footing with niche markets.

The last factor contributing to the industry's low barrier to entry is product line and geographical extensions. As the investment for existing retail outlets to expand their offerings to athletic apparel and/or footwear is small, a low barrier to entry exists. Also, as NetAdvantage (2009) indicates, an increasing number of firms are devising and implementing global strategies. Because of this, more international competitors will be

entering the U.S. market at the same time that domestic firms move outside of their home turf. Both of these factors further erode this industry's barriers to entry.

Power of substitutes. The power of substitutes in the athletic apparel and footwear industry is potent. There are no obvious substitutes for shoes and clothing in general; however, consumers are always willing to substitute lesser-known brands in clothing and footwear in times of low consumer confidence and high economic uncertainty (NetAdvantage, 2009). Matthew D. Serra, the current CEO of Foot Locker, Inc., reaffirmed this power of substitutes when he stated, "Many of our products, particularly high-end athletic footwear and licensed apparel, represent discretionary purchases. Accordingly, customer demand for these products could decline in a recession or if our customers develop other priorities for their discretionary spending" (Annual Report, 2008, 3). In this statement to Foot Locker, Inc.'s shareholders, Serra is confirming the elasticity of demand for premium athletic apparel and footwear. He is not stating that the demand for clothing and shoes in general is elastic. This is an important distinction to recognize as it affirms the power of substitutes in this industry.

Power of suppliers. The fourth force on profitability, as identified by Porter's model, is the power of suppliers. In Foot Locker, Inc.'s industry, the suppliers hold a significant amount of power. This power results from the difficulty retailers encounter when integrating backward, the ease and motivation for manufacturers to integrate forward, the differentiated attributes of industry products, and finally, the relatively small number of suppliers. First, the forward and backward integration in the value chain are described.

The difficulty of integrating backwards for a retailer in this industry is caused by the required financial investment. For a manufacturer in this industry to achieve the economies of scale necessary to compete effectively, it must invest heavily into its infrastructure. Furthermore, a retailer integrating backwards would need to develop the necessary competencies in manufacturing and designing the products, distribution, branding, and after-sale servicing. Acquiring these competencies would demand additional financial investment. These factors, among others, discourage retailers from integrating backwards in their value chain.

Although retailers face a formidable obstacle when integrating backwards, suppliers encounter little resistance integrating forward in the value chain. Using one of the many distribution channels available, suppliers can market their products directly to the end consumer. These distribution channels, which include traditional stores, the Internet medium, and the catalog, represent easy and potential profitable strategic options for industry suppliers. This forward integration is already taking place, according to NetAdvantage (2009), as industry suppliers are recognizing the benefits obtained by selling directly to the end consumer.

The final two components, which contribute to the power of suppliers, include the differentiated industry products and the small number of industry suppliers. As differentiated products foundationally support the overall strategy of specialty retailers, the limited number of suppliers able to provide these products are more influential in the buyer-seller relationship (Thompson and Strickland, 2008). In its industry analysis, NetAdvantage (2009) confirmed these two industry attributes by drawing attention to the

very limited number of suppliers able to provide specialty retailers with premium brands and the latest fashions.

Power of buyers. Buyers in the athletic apparel and footwear industry hold a tremendous amount of power. This position is based foundationally on the work of Thompson and Strickland (2008). These two authors argued that the power of buyers in a market increased as switching costs among sellers decreased, as buyer demand for the seller's products decreased, as information about the seller's products and prices increased, and as the buyer's purchasing flexibility increased. All of these factors align with the current industry situation, which reinforces the power of buyers (NetAdvantage, 2009).

Collective strength of five forces of profitability. The five forces on profitability, identified by Porter's model and described above, are not favorable towards earning healthy profit margins. According to Thompson and Strickland (2008), "The stronger the forces of competition, the harder it becomes for industry members to earn attractive profits" (pg. 73). However, Porter's five forces are not static and are subject to change. This means, in the future, the athletic apparel and footwear retailing industry may be more or less attractive than it is currently. Below, a summary chart has been provided to quantitatively score each of the five forces and reinforce the factors affecting those scores.

Intensity of Competitive Jockeying	7 of 10	Reasons: ➢ Falling demand in marketplace ➢ Very fragmented industry with a large number of competitors ➢ Low cost involved in switching purchases from one retail outlet to another
Threat of Potential Entry	8 of 10	Reasons: ➢ Low capital investment required for start-ups ➢ Companies can easily extend product lines and geographical coverage
Power of Substitutes	7 of 10	Reasons: ➢ A large number of less valued brand substitutes
Power of Suppliers	8 of 10	Reasons: ➢ Difficulty and expense of backward integration ➢ Ease and low expense of forward integration ➢ Industry contains differentiated products ➢ Small number of suppliers
Power of Buyers	7 of 10	Reasons: ➢ Switching costs of buyers is low ➢ Buyer demand is falling ➢ Readily accessible information on seller's products and prices is increasing ➢ Buyers have purchase discretion and can delay buying or do without
Collective Strength of the Five Forces on Profitability	7.4 of 10	

Driving Forces

According to Thompson and Strickland (2008), driving forces are "change agents … [that] have the biggest influences in reshaping the industry landscape and altering competitive conditions" (pg. 74). Four major driving forces have been identified for the athletic apparel and footwear industry which have the potential to significantly affect the future industry landscape. The four driving forces are composed of the short-term global

economic downturn, the long-term globalization trend, the e-commerce trend, and the personalization trend. Each of these factors will be expanded below, beginning with the short-term global economic downturn.

What began in December of 2007 as a U.S. confined recession has spread globally leaving few, if any, countries unaffected. As of February, 2009, according to Moody's Analytics, Peru is the only country left with an expanding economy (green). Those countries that have joined the global recession (red) include the United States, Canada, Portugal, Spain, Ireland, the United Kingdom, Germany, Italy, France, Sweden, Russia, Ukraine, Japan, and New Zealand. The remaining countries (orange and blue) are defined as either at risk of joining the global recession or with significant declining growth trends. A few of these countries include Mexico, Brazil, Argentina, Norway, Finland, South Africa, India, China, and Australia (Global recession Status, 2009).

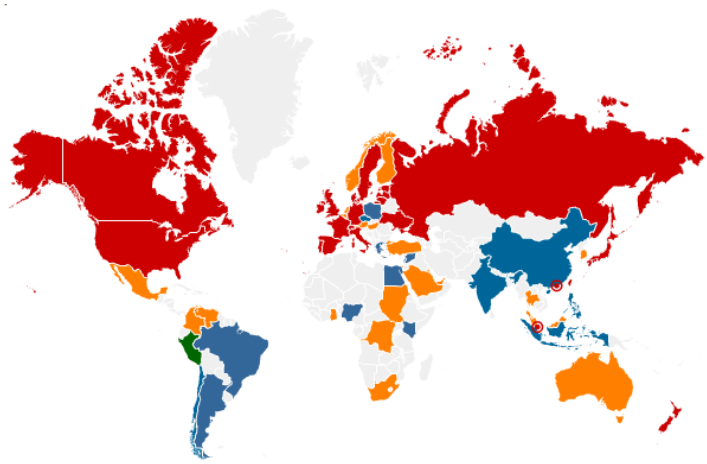


Figure 1 ~ Courtesy of Moody's Analytics, Inc. (2009).

The recessionary effects on businesses are twofold:

1) Tendency for price wars to develop in a recession. Low sales encourage firms to cut prices.
2) Falling sales will lead to lower revenues (Effects of Recession, 2008, 3).

These effects result in lower gross and profit margins for companies affected by the recession. The recessionary effects are even more evident in companies with specialty products with elastic demand curves. Foot Locker, Inc. is one of these companies most affected. Foot Locker, Inc.'s CEO, Matthew Serra, has recognized and informed shareholders regarding this threat in its Annual Report (2008) by stating, "Any significant declines in general economic conditions, public safety concerns or uncertainties regarding future economic prospects that affect customer spending habits could have a material adverse effect on customer purchases of our products" (pg. 3).

Globalization is another driving force affecting this industry. The Business Network (BNET) Dictionary defines globalization as the "creation of international strategies by organizations for overseas expansion and operation on a worldwide level" (Business Definition, 2009, 1). Retailers are rapidly transitioning into global operations. With the fierce competition in the athletic apparel and footwear industry, companies can no longer afford to remain domestic in operations. As Deloitte Research (2009) declared in its globalization study, *Revisiting retail Globalization*, "There are too many good reasons to globalize, not the least of which is that the home markets for Western retailers are slowing and becoming saturated" (pg. 10) (Assessing retail Globalization, 2004).

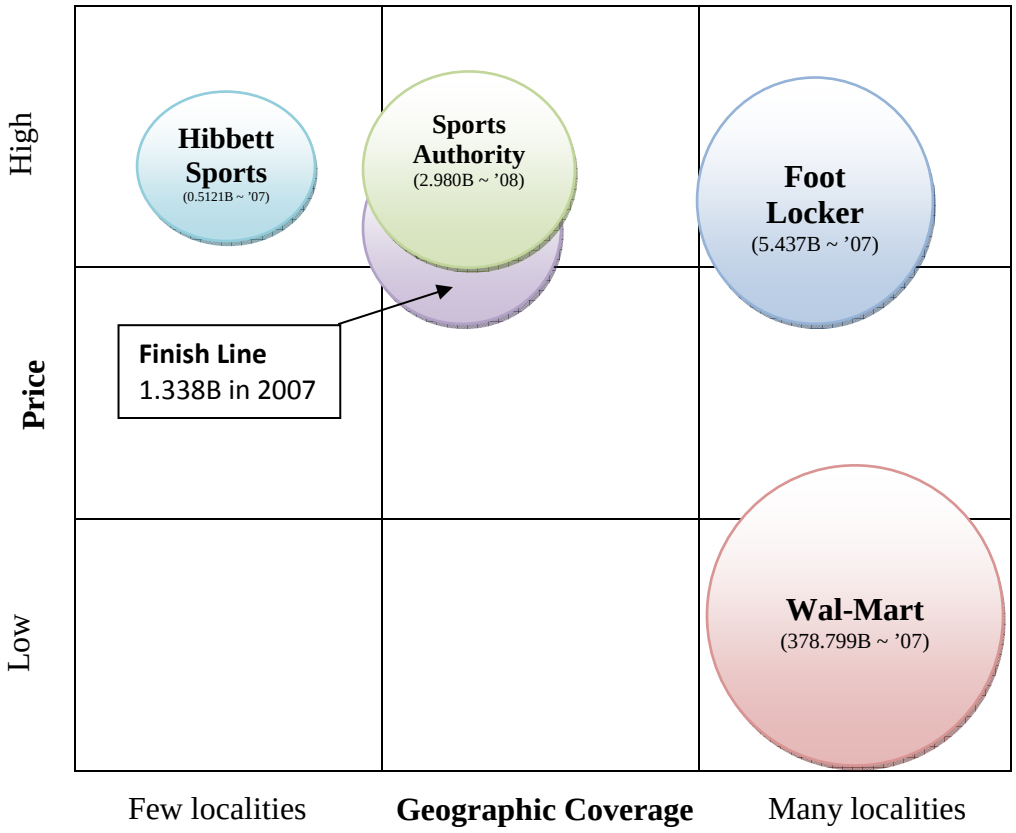
E-commerce, another industry driving force, is a rapidly growing trend. With online purchases taking an increasingly larger share of total retail sales, William Hoffman (2008) claims that, "Retailers already are reorganizing their supply chains to take advantage of the emerging online channel" (pg. 22). Sales through this online channel increased by double digits in the athletic apparel and footwear industry between 2006 and 2007 (NetAdvantage, 2009).

The last identified driving force, personalization, has been drastically changing this industry's landscape in recent years. Nancy Wurtzel (2008) affirms that consumers "love the feeling that they are buying something unique that allows them to stand out in the crowd" (para. 1). This personalization trend is building momentum, not only in the United States, but worldwide. In order to hold market share, companies will have to adapt to this trend quickly, while ensuring their economies of scale are not eroded away.

Competitive Position of Major Companies

Below, a map chart has been included plotting the various market positions of key industry players. As the diagram illustrates, geographical coverage and price represent the x- and y-axes respectively. The diameter of each company's circle represents the relative sales volume. After the map chart is presented below, an analysis will follow.

Group Map Chart.



Group Map Analysis. Visually, the group map separates the companies into two distinct tiers along the y-axis. These two tiers represent the two polar generic strategies of differentiation and low-cost. Companies along the top tier, including Hibbett Sports, Sports Authority, Finish Line, and Foot Locker, Inc., employ the generic strategy of differentiation. Companies along the bottom tier, including Wal-Mart and Target, employ the low-cost generic strategy. The wide gap located along the mid-section of the y-axis indicates that industry participants tend to avoid the best cost generic strategy (Thompson and Strickland, 2008). The industry analysis performed by NetAdvantage (2009) validated this observation when stating, "The strongest demand for apparel and accessories is bifurcated between luxury goods on the high end and inexpensive goods on the low end" (pg. 10).

Industry branding is a key reason for this market gap. When making purchasing decisions within this industry, consumers decide between name-brand apparel and footwear (differentiated products) or generic-brand products (low-cost). Because of this separation, during economic periods of high discretionary income, retailers along the top tier should experience less difficulty in attracting demand relative to retailers along the bottom tier. However, the reverse is true during economic periods of low discretionary income.

Along the geographical x-axis, companies are widely distributed. The industry's low entrant barriers are the leading cause for this. As few obstacles are encountered by entrepreneurial and existing firms when entering this industry, a continual treat is present for industry participants. However, as globalization continues to reshape the industry landscape, these companies should begin shifting right along the x-axis while entering

additional geographical markets (About Foot Locker Inc, 2009; About Wal-Mart, 2009; About Sport Authority, 2009; Our Company, 2009; Investor Information, 2009).

Key Success Factors

An industry's key success factors, defined by Thompson and Strickland (2008), are "the product attributes, competencies, competitive capabilities, and market achievements with the greatest impact on future competitive success in the marketplace" (pg. 87). Six key success factors (KSFs) have been identified for the athletic apparel and footwear industry. These KSFs include globalization, personalization, differentiation, merchandising, technology, and finally, multiple sales channels. Globalization will be the first KSF to be described.

Globalization. Global expansion is growing in importance for firms looking to remain competitive in the marketplace. Implementing a global strategy implies several advantages. One of these advantages involves the avoided risk associated with operating only at the domestic level. By implementing a multinational corporate strategy a company can spread its risk across a greater geographical area, resulting in decreased economic and political risk.

U.S. firms have the additional advantage of less saturated markets abroad. Many overseas markets hold tremendous opportunity for growth. By expanding a company's operations overseas, greater market share of the worldwide industry can be obtained without directly attacking another competitor. These two advantages provide substantial motivation for global growth. However, globalization is not the only KSF associated with this industry (NetAdvantage, 2009).

Personalization. Personalization is another industry KSF gaining momentum internationally. With this growing trend, consumers are pursing products that mirror their individuality (Nancy Wurtzel, 2008). Industry retailers successful in adapting to this personalization trend will gain a strategic competitive advantage in the marketplace.

Differentiation. Differentiation is the third KSF associated with the athletic apparel and footwear industry. In a saturated market, competitors are continually in search of ways to distinguish themselves. For companies employing the low cost generic strategy, this differentiation is focused on low prices. However, the upper tiered companies, as described previously, must distinguish their businesses in other ways. One common method used is private branding.

By investing the resources into building demand for a private brand, a retailer has distinguished itself from its competitors. As the brand is exclusive to one particular company, any consumer wishing to purchase that branded product will be required to use one of the company's distribution channels. Additionally, most companies are able to achieve higher gross margin percentages through the sale of private brands (NetAdvantage, 2009). Carroll Trosclair (2008) reaffirmed this KSF among retailers when she quoted,

> Part of the new strategy, at least among some retailers, is to develop a high quality, economical line of private label products that complement other items in their marketing mix. The retailer can use the store label to differentiate his firm from his competitors … (para. 6).

Merchandising. Merchandising products effectively is essential to attracting and retaining loyal customers. For this reason, merchandising is considered the fourth KSF in

this industry. Melanie McIntosh (2007) emphasized the significance of good merchandising in one of her recent articles. McIntosh believed that a retailer's merchandising ability correlates directly with its current and future profitability. In her article, she referred to merchandising as "an integral component of the business image" (para. 6). For a company to remain competitive in this industry, effective merchandising must be a priority.

Technology. The fifth KSF, technology, plays an important role in gaining a sustainable competitive advantage in this industry. Technological development is becoming the dominant method of driving down costs and increasing company profit margins. In its industry analysis, NetAdvantage (2009) stated, "technological innovations have facilitated global expansion and closer coordination between retailers and manufacturers, while also cutting costs" (pg. 15).

Multiple Sales Channels. A company having multiple sales channels is the final KSF within the athletic apparel and footwear industry. As consumers hold the balance of power in this industry's buyer-seller relationship, companies must be willing to operate through multiple sales channels. The negative implications of not doing so are too great to ignore. According to NetAdvantage (2009), most companies have already embraced this KSF by operating through multiple distribution channels, including physical stores, e-commerce, and catalogs.

To earn attractive profit margins, companies within this industry must recognize the KSFs described above as essential. These KSFs include globalization, personalization, differentiation, merchandising, technology, and multiple sales channels.

Becoming proficient in each of these KSFs will help to ensure the company's owners are able to earn an attractive return on their investment.

Company Situational Analysis

Evaluation of Current Strategy

Foot Locker, Inc.'s current strategy can be defined using seven different classifications. These seven strategic elements include the following:

1) Creating value for its stockholders
2) Increasing productivity with current stores
3) Expanding internationally
4) Differentiating its stores from its competitors
5) Merchandising renovations
6) Marketing initiatives
7) Inventory Management

Creating value for its stockholders. Historically, Foot Locker, Inc. has relied heavily on dividends in creating value for shareholders. In 2007, after finishing the year with $45 million in net income, Foot Locker still paid $77 million in common stockholder dividends. Furthermore, Foot Locker, Inc's CEO, Matthew Serra, planned to increase that number by 20% in 2008. Although many large corporations utilize dividend payouts to increase share value, Foot Locker, Inc. should not use this strategy.

With many opportunities still undeveloped overseas, Foot Locker, Inc. should reinvest its dividends into the company's future growth, instead of depleting its retained earnings. This company growth would lead to increased future profitability and stronger global competitiveness. This strategic option would provide shareholders with greater future dividend payouts, causing the current stock value to increase (Annual Report, 2008).

Increasing productivity with current stores. Improving current store productivity is another element of Foot Locker, Inc.'s current strategy. By renovating or closing unproductive stores, an anticipated increase in ROI for shareholders will result. Given the current economic downturn, this strategy is warranted and will be beneficial after world economies recover. Additionally, the resources liberated through the execution of this strategic element can be allocated to global expansion.

Expanding internationally. International expansion is the third strategic element for Foot Locker, Inc. Although the current state of the world economy has slowed the pace of global expansion, Matthew Serra, CEO, has clearly indicated overseas growth is continuing to occur. This global growth is anticipated to quicken after the world economy regains its footing (NetAdvantage, 2009). It is important to note that, even amidst the global recession, some countries, including China, India, and Brazil, are still experiencing high positive growth rates in gross domestic product (GDP). By continuing overseas growth, Foot Locker, Inc. will be better positioned to capitalize on opportunities during the recovery phase of the global economy (Global recession Status, 2009).

Differentiating from competitors. In an effort to differentiate from competitors, Foot Locker, Inc. is expanding its private brands to provide "more compelling assortments of name-brand athletic footwear by increasing the quantities of unique, exclusive and limited-distribution marquee goods" (Annual Report, 2008, 3). This strategic element is also an industry key success factor, as described above. Executing this strategy will help Foot Locker, Inc.'s brand become more distinctive from competitors in the future.

Merchandising renovations. In his report to stockholders, Matthew Serra identified the fifth strategic element for Foot Locker, Inc. According to Serra, the company's future plans include "modifying the interior layouts of the stores, adding new fixtures to enhance the display of our products, and better define and cater to the fashion desires of the core customer" (Annual Report, 2008, 3). As these merchandising renovations will further increase productivity within existing stores, implementing this strategic element will enable Foot Locker, Inc. to promote its competitive advantage.

Marketing initiatives. Sports marketing programs comprise the greatest majority of marketing dollars spent annually on behalf of Foot Locker, Inc. In its 2007 Annual Report (2008), Matthew Serra wrote "The Company supports its businesses through a number of highly-visible sports marketing programs and partnerships with well-known third parties in the global sports arena designed to increase consumer awareness of its brands" (pg. 6). In the future, Foot Locker, Inc. should complement its sports marketing programs with incongruent marketing initiatives. By using a greater variety of marketing media, Foot Locker, Inc. should realize a greater ROI from its advertising budget.

Inventory management. Foot Locker, Inc.'s last identified strategic element involves its conservative approach to inventory management. Given the degenerate economy, the company is working to scale its inventory back to healthier levels (Annual Report, 2008). As the economic recession is predicted to last throughout the 2009 year, this inventory reduction strategy is essential in relieving pressure on gross margin percentages (Monetary Policy, 2009). As Foot Locker, Inc. executives focus on low inventory costs and rapid turns, attention must be paid to ensure inventory levels are not too low that stock-outs begin increasing which force consumers to spend elsewhere.

SWOT Analysis

In the following few pages, analysis will be conducted on Foot Locker, Inc.'s strengths and resource capabilities, competitive weaknesses and resource deficiencies, market opportunities, and threats to future profitability. Together, these four elements comprise the SWOT (**s**trength, **w**eakness, **o**pportunity, **t**hreat) analysis. The company's strengths and resource capabilities will be described first.

Company strengths and resource capabilities. Four strengths and resource capabilities have been identified for Foot Locker, Inc. These strengths include its experienced and well-seasoned senior management team, its strong balance sheet, its current infrastructure, and finally, its strong brand image. An analysis of Foot Locker, Inc.'s strengths will begin with its experienced and well-seasoned senior management team.

One of the most important investments for companies today is in human capital. Recently, Matthew Serra defined Foot Locker, Inc.'s management team as a well-seasoned and experienced asset, strategically important in achieving the future corporate vision (Annual Report, 2008). This important resource can be utilized in out-strategizing Foot Locker, Inc's competition while achieving corporate goals and objectives.

A strong balance sheet represents the second resource capability for Foot Locker, Inc. As of January, 2009, the company's balance sheet listed approximately $1,754 million in current assets and only $416 million in current liabilities. This represents a current ratio of 4.22, meaning that Foot Locker, Inc. can afford to pay its current liabilities four times over (Annual Report, 2008). Additionally, the company has been able to reduce its merchandise inventory by over 13% during the 2008 fiscal year (Foot

Locker Inc ~ Reuters, 2009). Matthew Serra believes these factors, along with the company's strong debt-to-equity ratio, will furnish Foot Locker, Inc, "with the financial flexibility to execute our long-term business plans effectively and to move strategically to expand our business reach" (Annual Report, 2008, 2).

Foot Locker, Inc.'s third strength is its company infrastructure, which includes its many physical stores, its distribution centers, and its Internet and catalog distribution capabilities. Matthew Serra identified this as a real advantage, competitively speaking, in further differentiating its business units from their competitors (Annual Report, 2008). Using this infrastructure, Foot Locker, Inc. can erect a barrier to entry in its industry, and more effectively compete against current rivals.

The last identified strength for Foot Locker, Inc. is its strong brand image. Over the past years, the Foot Locker brand has become one of the most dominant names in its specific industry. The company has already utilized this strength by leveraging its strong brand in creating the successful Lady Foot Locker and Kids Foot Locker subsidiaries. In the future, Foot Locker, Inc. will be able to continue leveraging this strong brand as it expands both domestically and internationally. (Annual Report, 2008).

Company weaknesses and resource deficiencies. Secondary research has identified two significant weaknesses for Foot Locker, Inc. These two resource deficiencies include a strong reliance on mall traffic to drive sales, and low inventory turns relative to its historic average. Of these two weaknesses, Foot Locker, Inc.'s strong reliance on mall traffic is described first.

Foot Locker, Inc.'s strong reliance on mall traffic presents a considerable risk on future profitability. Matthew Serra identified this weakness when he stated, "Our sales …

are dependent in part on a high volume of mall traffic [as] our stores are located primarily in enclosed regional and neighborhood malls" (Annual Report, 2008, 19). Recently, both the economic recession and the changing socio-cultural trends of consumers have caused a decline in mall traffic. Robert McHugh, chief financial officer (CFO), identified in March of 2009 that the company's revenue declines were largely caused by the dampening mall traffic in correlation with the economic recession (Q4 Call Transcript, 2009).

The recent growth decline in mall traffic has also been affected by the changing social cultural behaviors of consumers. Today, an increasing number of consumers are flocking to lifestyle centers, which offer a more boutique style shopping experience. These lifestyle centers tend to attract the more affluent shoppers who accommodate Foot Locker, Inc.'s premium brands (NetAdvantage, 2009).

Foot Locker, Inc.'s low inventory turns represent a second weakness for the company. A company's inventory turns portray the efficiency with which it manages its inventory. A high turnover indicates less cash tied up in inventory, and more available for other investment options. A low turnover suggests the opposite. Because of its low turnover, Foot Locker, Inc. is not efficiently employing its invested capital. However, the company is currently implementing strategies to eliminate this weakness, as indicated by Robert McHugh, CFO (Q4 Call Transcript, 2009).

Company market opportunities. A few current opportunities exist for Foot Locker, Inc. These opportunities include the ability to negotiate lower occupancy rates with traditional malls, global growth and expansion, the growth of lifestyle centers, and

finally, the acceptance of high-tech offerings by the consumer market. The ability to negotiate lower occupancy rates will be described first.

As traditional malls are being affected by the global economic downturn, Foot Locker, Inc. resides in a unique position to renegotiate its occupancy rates. In the U.S., mall vacancy rates rose to 8.2% in the second quarter of 2008. With these high vacancy rates, many businesses are negotiating lower lease rates with their increased bargaining power. In capitalizing on this opportunity, Foot Locker, Inc. can reduce its operating costs and work to improve its future profit margins (Katherine Field, 2008).

Global growth and expansion represent the second opportunity for Foot Locker, Inc. As the U.S. market becomes increasingly saturated, many retailers are expanding overseas. These retailers will find more opportunities for continued growth in Eastern European and Asian countries were buying power is growing rapidly (NetAdvantage, 2009). Foot Locker, Inc. has already expressed its intent to grow into these opportunistic markets.

The third opportunity exists in the recent growth of lifestyle centers. As defined previously, lifestyle centers offer a more boutique style of shopping for its customers. They also tend to attract the more affluent shoppers. According to the International Council of Shopping Centers, there are over 150 of these lifestyle centers currently operating in the United States, with approximately 50% of these having been opened after 2002. As more consumers begin to choose lifestyle centers over traditional malls, Foot Locker, Inc. can capture a greater market share by having a dominant presence in these centers (NetAdvantage, 2009).

The acceptance of high-tech offerings by consumers, the last identified opportunity, has encouraged many companies in recent years to develop technologically advanced products within this industry. The Adidas shoe that monitors running and walking statistics and the Under Armour apparel that helps control the body temperature are both examples of this recent trend. Consumers today are welcoming these products in the marketplace. In taking advantage of this consumer trend, Foot Locker, Inc. needs to partner closely with its key suppliers in developing these high-tech products and services, which will help to establish Foot Locker, Inc as a relevant shopping destination.

Threats to company's future profitability. Three threats have been recognized as endangering Foot Locker, Inc.'s future profitability. These threats include the impact from the current economic trend, the low entry barriers associated with this retail industry, and finally, the growing possibility of forward integration by suppliers. The impact from the current economic trend will be described first.

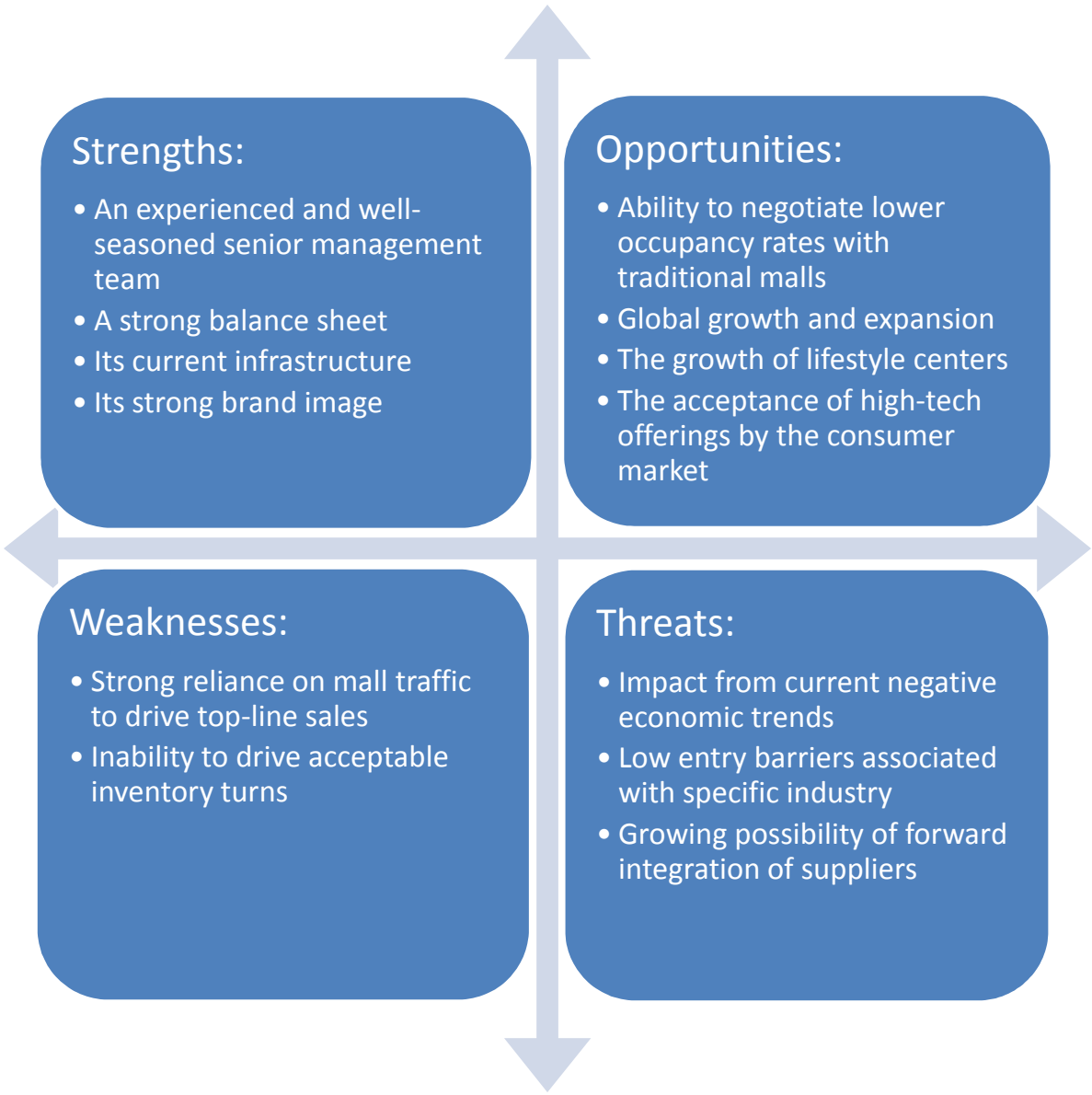
As the Dow Jones has recently hit levels unseen since 1997 and the unemployment rate has exploded to 8.1% as of February 2009, the impact from the current economic conditions is threatening Foot Locker's profit margin and its return on equity. Stockholders already have identified this threat by driving down the stock price in recent months. Matthew Serra has also expressed his company's vulnerability to economic swings when he stated "purchases of discretionary athletic footwear, apparel, & related products, tend to decline during recessionary periods when disposable income is low and customers are hesitant to use available credit" (Annual Report, 2008, 4).

The industry's low entry barriers represent another material threat to Foot Locker, Inc. The low entry barriers have the potential to significantly increase the competitive

nature of the industry. This increased competition will shrink profit margins, dampen market share, and endanger the future survival of industry participants (Annual Report, 2008).

The last threat for Foot Locker, Inc. is the growing possibility of forward integration by its key suppliers. Matthew Serra has already informed the company's shareholders of this growing threat (Annual Report, 2008). Many of Foot Locker, Inc.'s current suppliers are already operating physical retail locations and deriving revenue through website sales. In response to this threat, Foot Locker, Inc. must continually offer its customers exclusive value in order to drive foot traffic through its doors.

This completes the SWOT analysis for Foot Locker, Inc. Below, a summary table has been provided to reinforce the main points for each strength, weakness, opportunity and threat that was identified above.



Proposed Elements of Future Strategy

From the preceding analysis, several elements have been identified for Foot Locker, Inc.'s future strategic direction. These elements include global expansion, continued focus on efficiency of current operations, a conservative approach to the company's balance sheet, an increased cooperation with key suppliers in delivering differentiated products and services to its consumers, the expansion of its retail outlets into lifestyle centers, negotiating lower lease rates with current traditional malls, and an

increased focus on differentiating its online sales channel. Global expansion is the first proposed strategic element.

Global expansion. Foot Locker, Inc. must be at the forefront of globalization in this industry to gain a first-mover advantage. Being first to establish itself in new opportunistic markets will build a strong foundation upon which it can erect barriers to entry. In implementing this strategic element, Foot Locker, Inc. should divert its dividend payouts to more productive uses overseas. This elimination of cash dividends will provide for greater future cash inflows and is therefore in the best interest of company shareholders.

Continued focus on efficiency of current operations. Currently, as addressed to the shareholders by Matthew Serra, Foot Locker, Inc. is focusing its attention on increasing its return from operations. Implementing this strategic focus has required the company to close unproductive stores, and invest financially into re-merchandising and updating its other stores to reflect changing social-cultural trends in the market. This strategic element for Foot Locker, Inc. is essential to improving the company's future profit margin. For this reason, Foot Locker, Inc. should continue this implementation into the future.

Conservative approach to its balance sheet. In 2008, Matthew Serra used a financially conservative approach in dealing with the financial collapse and downturn in the global economic community. Because of this, Foot Locker, Inc. was able to significantly decrease its inventory asset and uphold its gross margin percentages to an acceptable level. In 2009, Foot Locker, Inc. should continue using this conservative approach while ensuring the company does not ignore any opportunities that typically emerge during economic recessions, especially during the recovery phase.

Increased cooperation with suppliers for differentiated products. Foot Locker, Inc.'s core strategy is differentiation. In delivering differentiated products and services to its consumers, the company must work closely with its key suppliers in developing exclusive market offerings that are technologically sophisticated and trendy. The key factor here is exclusivity. If Foot Locker, Inc. can develop exclusive and unique products for its channel members, the company will benefit from higher gross margin percentages.

Expansion into lifestyle centers. As lifestyle centers continue to attract an increasing number of consumers, Foot Locker, Inc. needs to begin purchasing space in these centers to take advantage of the affluent shoppers it attracts. In the future, if these lifestyle centers continue to lure more customers away from traditional malls, Foot Locker, Inc. will need to ensure its stores are already strategically placed and positioned to capitalize on the opportunity.

Negotiate lower lease rates. With the current economic downturn, stores in traditional malls are finding themselves with increased negotiating power. Foot Locker, Inc. needs to take advantage of this recently acquired power to negotiate better lease rates with its shopping malls. This will help reduce its operating costs and increase its profit margins in the near term and potentially long-term.

Differentiating its online sales channel. Because an increasing percentage of consumers are choosing to purchase products and services online rather than in the traditional brick and mortar stores, Foot Locker, Inc. must learn how to compete effectively within this sales channel. Currently, the company does sell its merchandise via the Internet; however, its website is very similar to its competitors' and suppliers' websites. If Foot Locker, Inc. wants to ensure that these competing websites do not steal

its future market share, the company needs to invest the necessary resources to more effectively differentiate this sales channel.

Conclusion

The current situation surrounding Foot Locker, Inc. is unfavorable. As the economy continues to place more pressure on profit margins and the industry's competitive forces continue to intensify, Foot Locker, Inc. will need to carefully manage its balance sheet items in order to ensure its future survival and profitability. Additionally, by recognizing the key success factors, the industry's opportunities and threats, as well as the company's own strengths and weaknesses, Foot Locker, Inc. will be in a much better position to match its own 'DNA' to that of its industry. Finally, by taking all this into consideration, including the competitive position of its competitors and its current strategy, Foot Locker, Inc.'s future strategic elements must include global expansion, a continued focus on efficiency of current operations, a conservative approach to its balance sheet, increased cooperation with suppliers for differentiated products, expansion of its stores into lifestyle centers, negotiating lower lease rates, and differentiating its online sales channel. By focusing on these core elements, identified from the analysis in the first two-thirds of the paper, Foot Locker, Inc. can once again provide a healthy return on investment (ROI) for its shareholders and bring its share price back up to its 2004-2005 levels.

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