



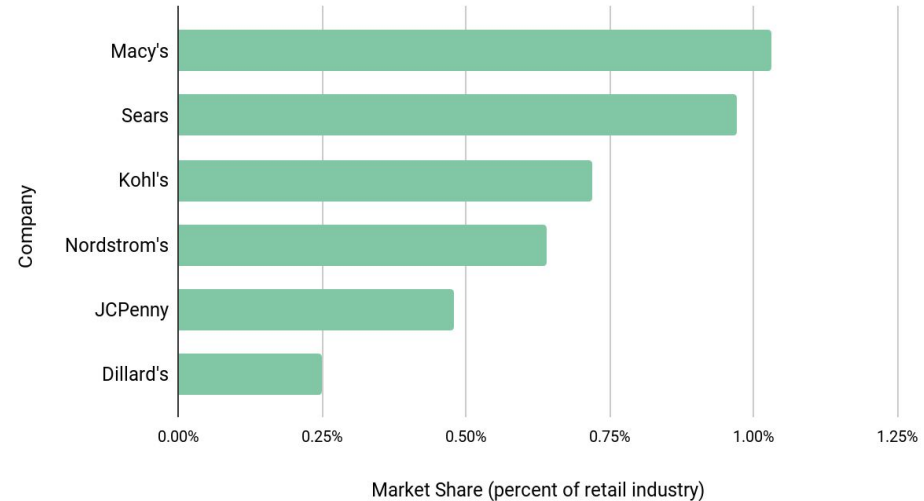
Dillard's

The Style of Your Life.

Who is Dillard's

- Founded in 1938 by William T. Dillard
- Diversified product line including clothing and household items
- 40,000 full and part-time employees
- 293 stores as of January 28, 2017

Market Share of Department & Discount Stores



Source: CSIMarket



...and where do they compete?

High-end department store industry

Stores feature fashionable clothing and household items





Although this is a competitive industry

- Hybrid

Differentiate by having exclusive brands, luxurious look and feel, luxury products

Cost leadership by vertically integrating with a company owned construction company and reducing store locations

- Single business

95% primary business in retail

Less than 5% business in construction

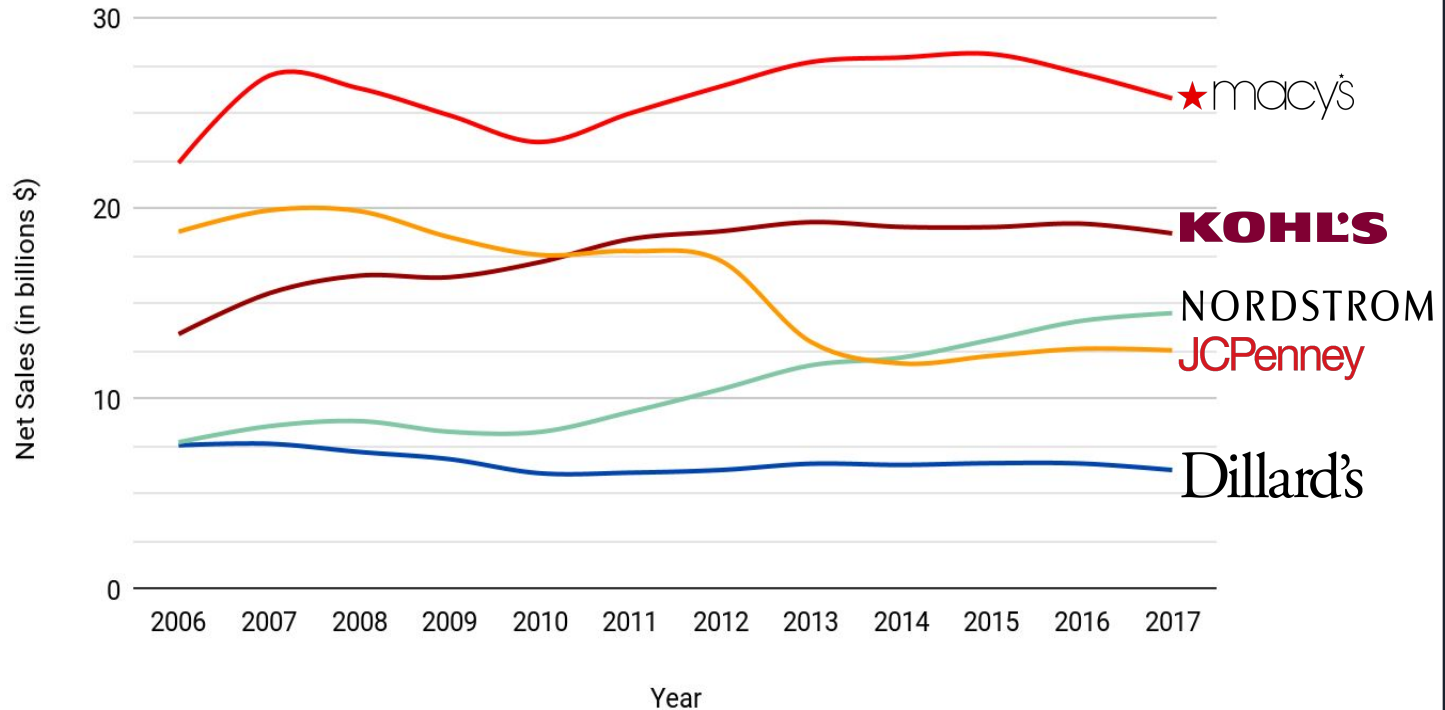




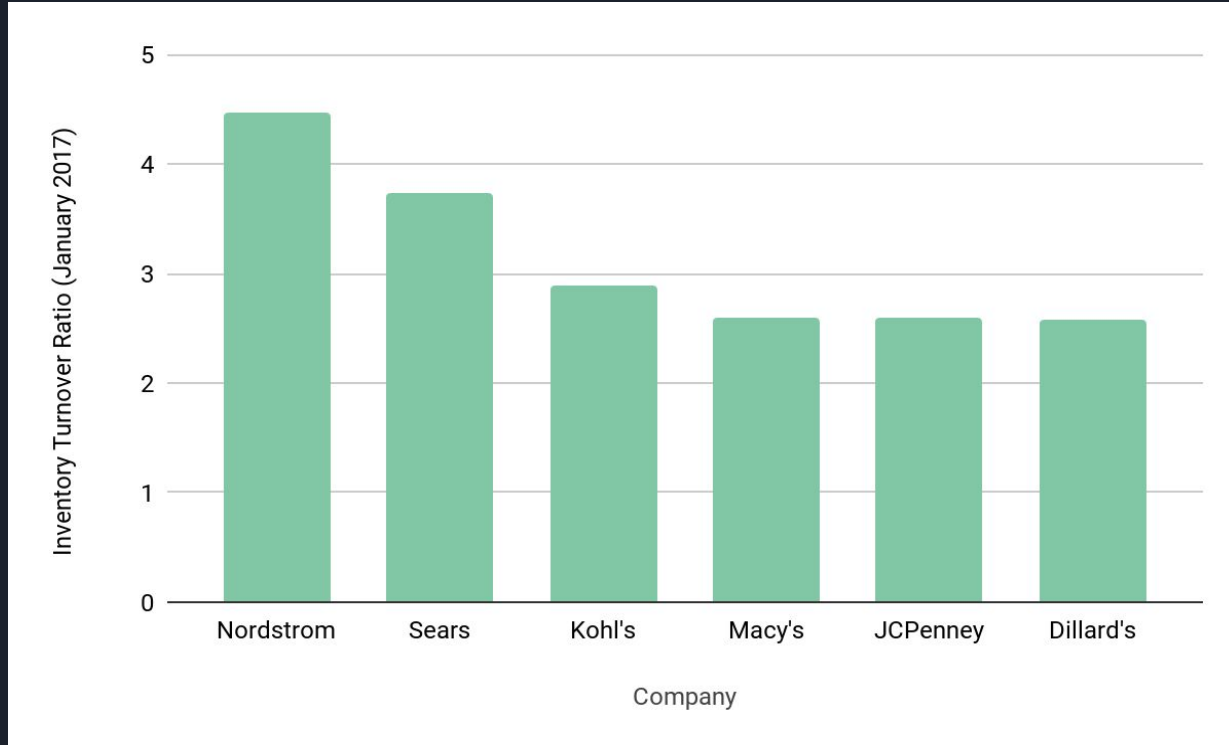
...there are resources that give Dillard's an edge.

	Valuable	Rare	Inimitable	Non-substitutable
<i>Supply chain</i>	Yes	No		
<i>Customer service/loyalty program</i>	Yes	No		
<i>Real estate locations</i>	Yes	Yes	Yes	No
<i>Company owned construction business</i>	Yes	Yes	Yes	No
<i>Brand reputation</i>	Yes	Yes	Yes	Yes

However, revenues have been decreasing



inventory turnover is low



Source: CSI Market



...but Dillard's has one of the highest ROI's in the industry.

	2017	2016
Nordstrom	22.05%	6.76%
Dillard's	12.43%	6.39%
Kohl's	11.87%	2.93%
Macy's	11.43%	4.71%
JCPenney	5.17%	-
Sears	-	-

Source: Mergent Online

The retail industry is changing dramatically

- Growing online retailers
- Large rivals in the industry
- Losing exclusive brand designers
- Potential environmental/tax regulations
- Sociocultural factors
 - Consumer spending
 - Shopping habits
 - Popularity of online shopping



8 in 10 Americans shop online



Source: Pew Research Center



...but these changes aren't all bad.

- Ability to benefit from e-commerce
- Geographical areas where Dillard's is not present
- Growing population
- Maintain customer loyalty through a mobile app and rewards program





So the question is...

How can Dillard's increase market share to improve a flat/declining financial performance?



What can Dillard's do?

1. Pursue a merger & acquisition
2. Expand into new geographical markets
3. Franchise





Which option is best?

	Increase Market Share	Investment Required	Risk Level
<i>Merger & Acquisition</i>	High	High	High
<i>New geographical markets</i>	Medium	Medium	Low
<i>Franchise</i>	Low	Low	Medium - High

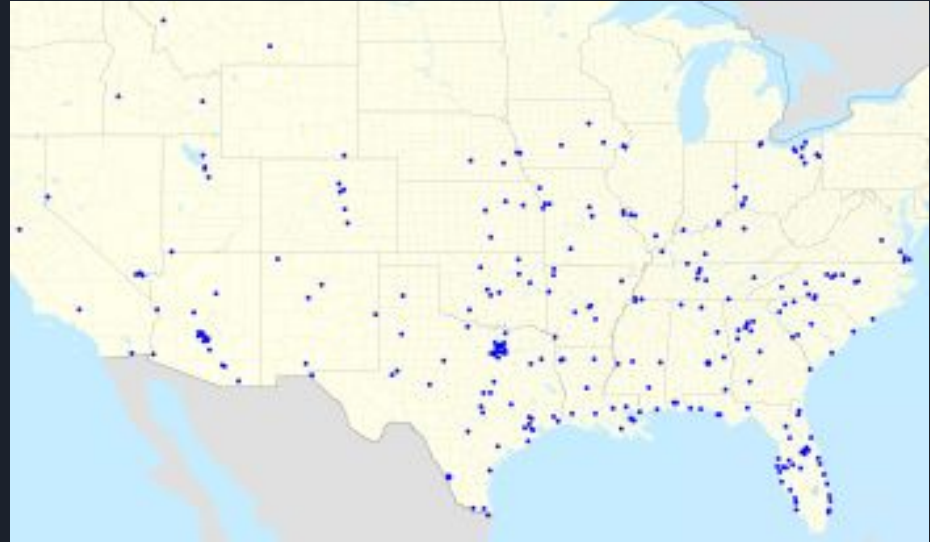
How can Dillard's expand to new geographical markets?

- Expand mall presence to establish name
- Expand to the midwest



$\frac{2}{3}$ Generation Z shoppers do most of their shopping in brick and mortar stores

Source: National Retail Federation & IBM



Current Dillard's Locations



But, how do they get there?

Market research
to identify the best
market(s) to enter

Enter market(s)

*Short-term: Malls and
other high traffic areas*

Monitor
performance

*If successful, open
distinct locations*



There will be challenges

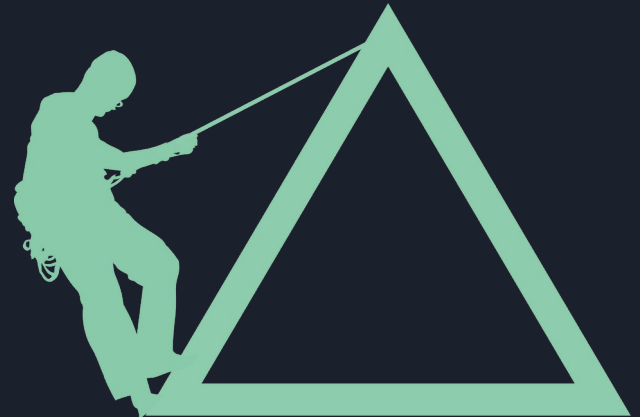
- Dead-end market research
- Finding mall or other high traffic locations
- Developing performance metrics
- Location/store style changes
- Marketing/brand image





...but they can be overcome!

- Cost of research vs. cost of expansion
- Strategic timing of location entry
- Plan goals ahead of time (exit strategy)
- Marketing campaign/loyalty program







Thank you!



Appendix

- I. PEST Analysis
- II. Five Forces
- III. Financial Analysis
- IV. Strategy



PEST: Political

- Minimum wage laws may affect the cost structure of Dillard's
- Non-discrimination laws may affect hiring policies
- Tariffs on imports (ex: BAT taxes) will affect costs
- Corporate tax reforms will change the profits of Dillard's
- Occupational Safety and Health Administration Regulations require changes in Dillard's operations



PEST: Economics

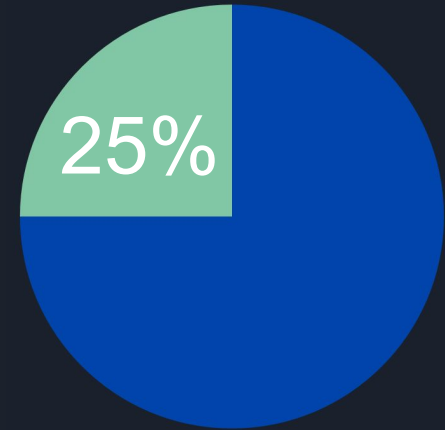
- Consumer disposable income level changes may force Dillard's to reposition itself in the market
- Stock market may affect consumer and employee trust in the company
- Real estate market may affect costs of expansion
- Input costs may affect cost of goods

PEST: Sociocultural

- Consumer spending and demographics may force Dillard's to reposition itself in the market
- Online shopping habits could decrease traffic in brick and mortar stores
- Generational differences may affect the way Dillard's communicates with customers



8 in 10 Americans shop online



Make no purchases with cash in a typical week

Source: Pew Research Center



PEST: Technology

- Inventory tracking and security advances may reduce inventory loss and decrease costs
- Improvement in billing/transaction processing may make transactions quicker and easier for a better customer experience
- Social media popularity may change our marketing tactics
- Changes in material inputs may change inventory costs



PEST Analysis Interpretation

Sociocultural factors including consumer spending, shopping habits, and the popularity of online shopping will shape the future of the retail industry



5 Forces: Threat of Entry

- High department store startup costs
- High levels of differentiation
- Saturated market
- Large competitors
- Difficult to foster good relationship building
- Benefits of economies of scale
- Need a large budget for advertising/promotions

Overall Threat Level: LOW



5 Forces: Buyer's Bargaining Power

- Customers can go to alternative stores (choose not to buy product)
- Non-negotiable prices
- No switching costs
- Customers have indirect bargaining power

Overall Threat Level: MEDIUM



5 Forces: Supplier's Bargaining Power

- Fashion designers
- Wholesalers
- Manufacturers
- Exclusive Dillard's brands
- Mall owners

Overall Threat Level: LOW - MEDIUM



5 Forces: Threat of Substitutes

- Boutiques
- Thrift Stores
- Discount Stores
- Other online retailers

Overall Threat Level: MEDIUM



5 Forces: Threat of Competitors/Rivals

- Large, established competitors in the market
 - Kohl's
 - Macy's
 - Nordstrom's
 - JCPenney
 - Sears

Overall Threat Level: HIGH

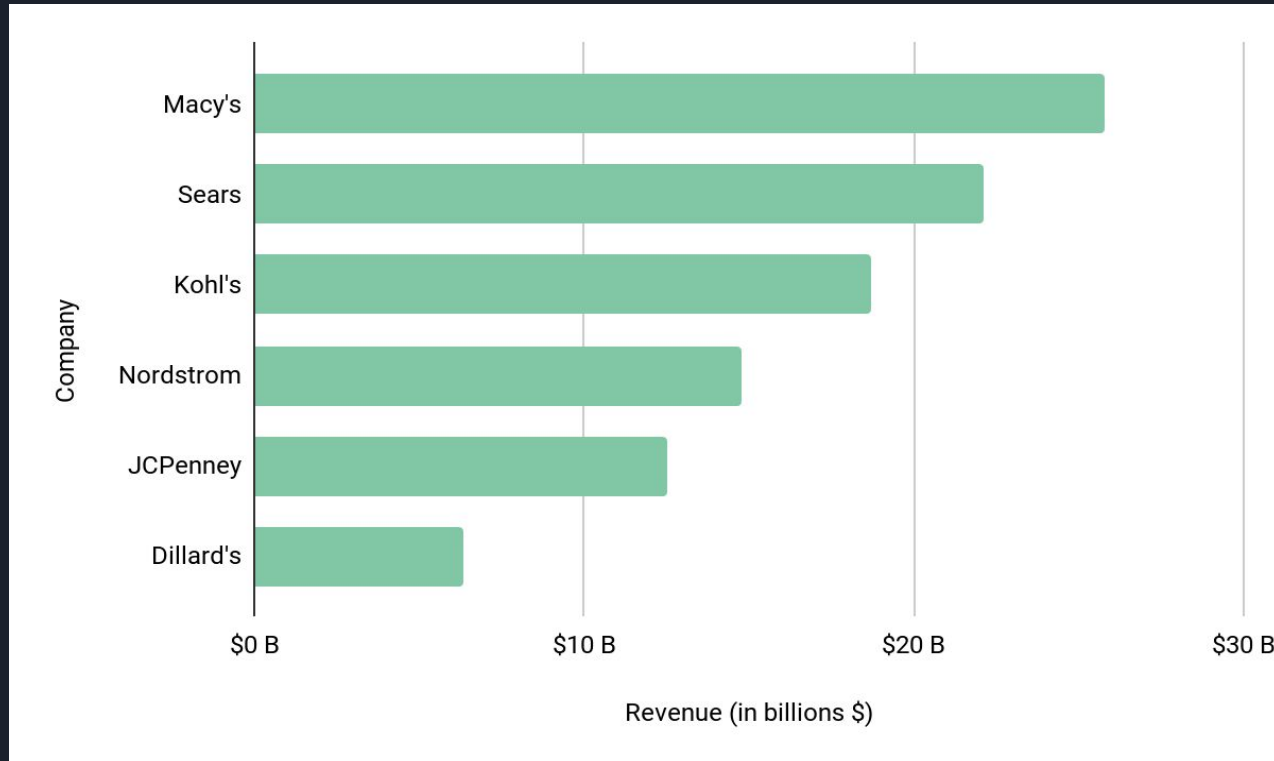


5 Forces Analysis Interpretation

Overall this industry is NOT Attractive

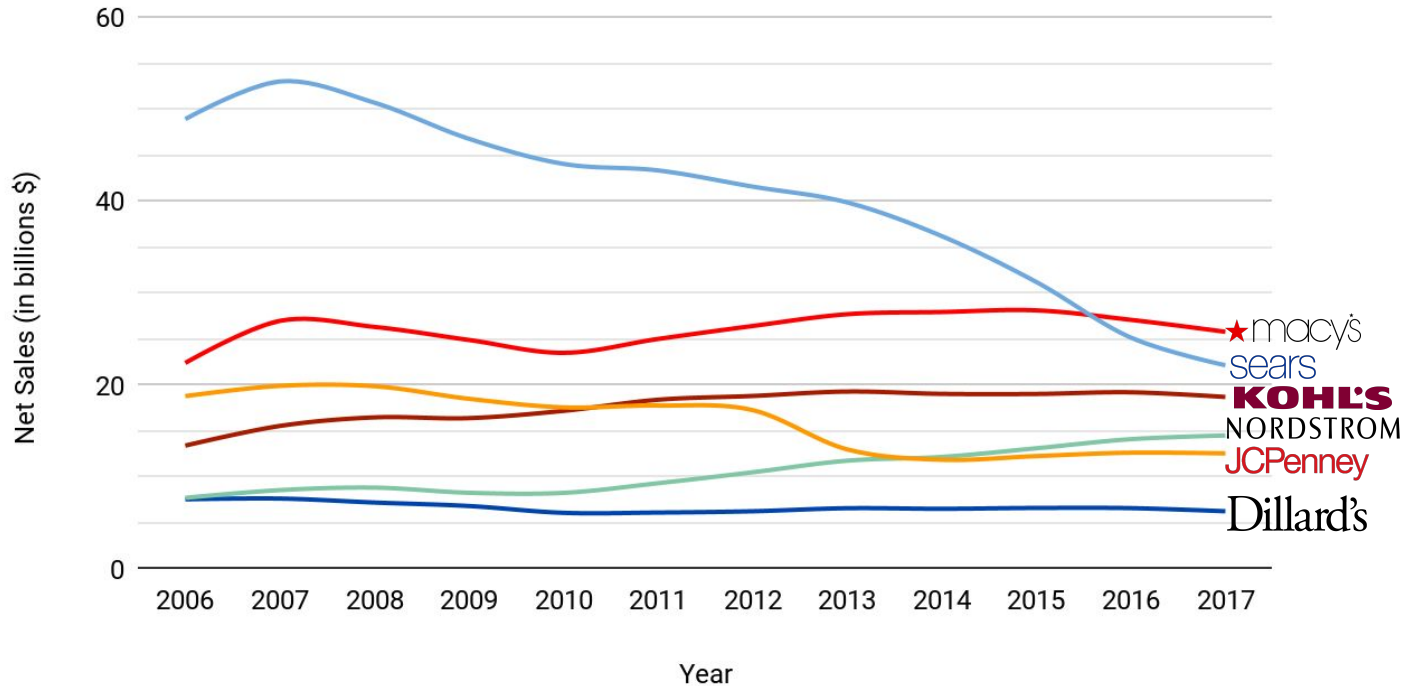
While there is little threat coming from new entrants and suppliers, the industry is difficult to become successful in due to the power of existing competitors and potential substitutes.

Current Revenues for Dillard's and Competitors



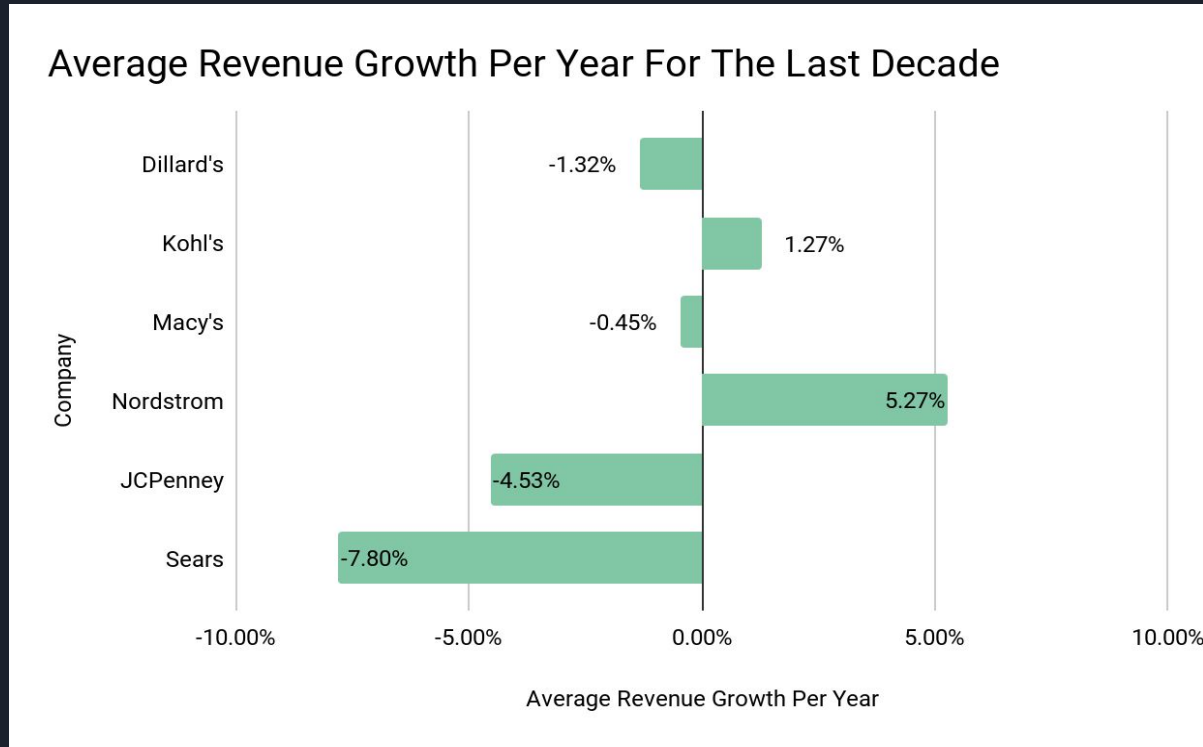
Source: Mergent Online

Revenue Trends



Source: Mergent Online

Sales Growth: A look at the Industry

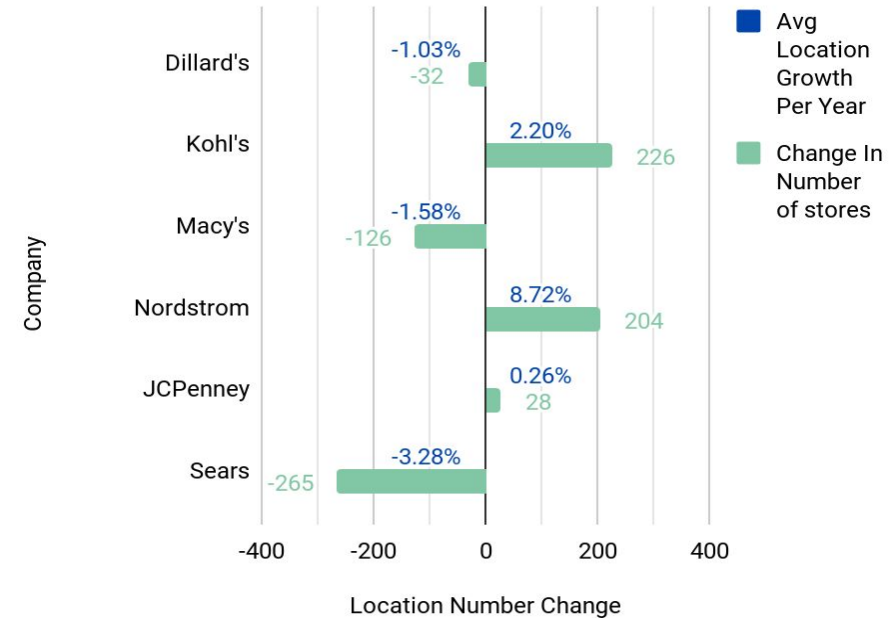


Source: Mergent Online

Store Location Growth

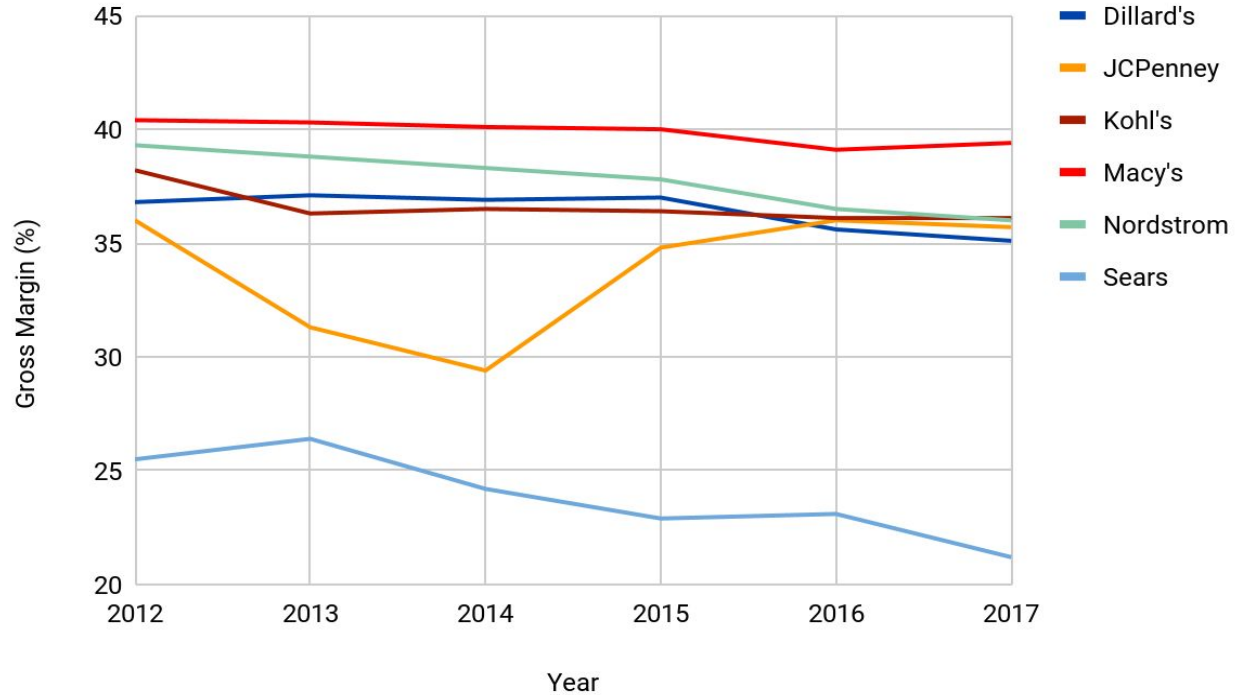
- Store locations may become less desirable
- Online locations reduce the need for physical locations

Change in Number of Physical Stores in the Last Decade



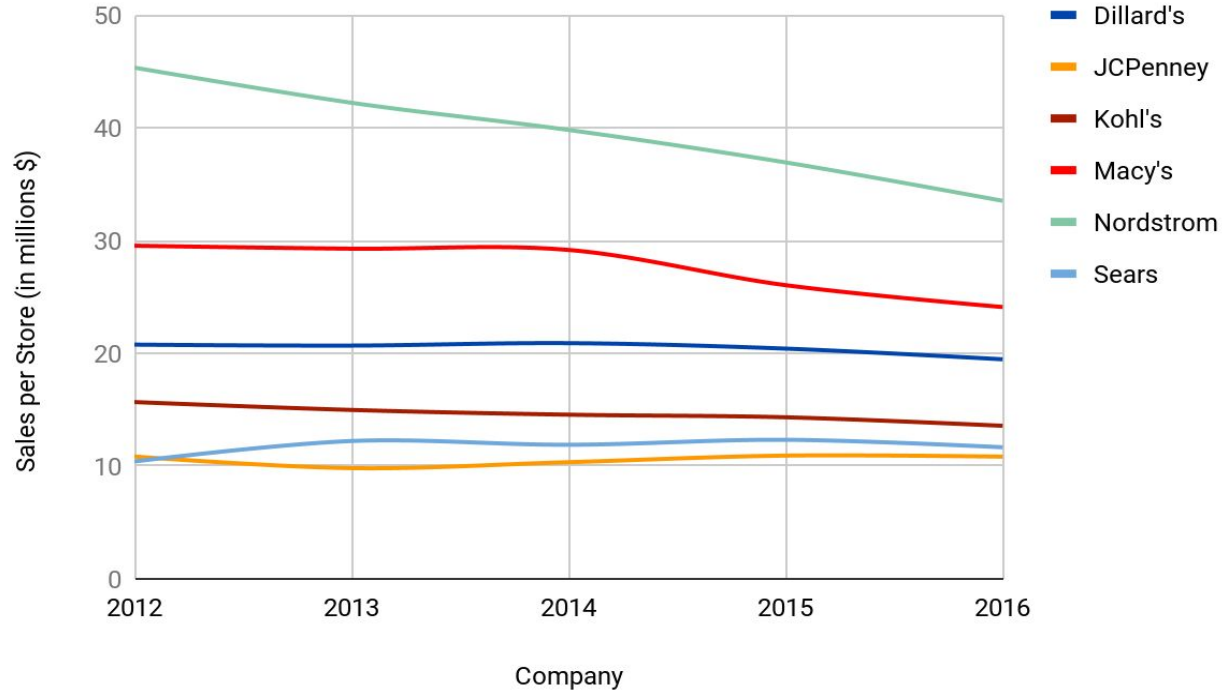
Source: Company Financial Reports

Gross Margins



Source: Mergent Online

Average Sales per Store



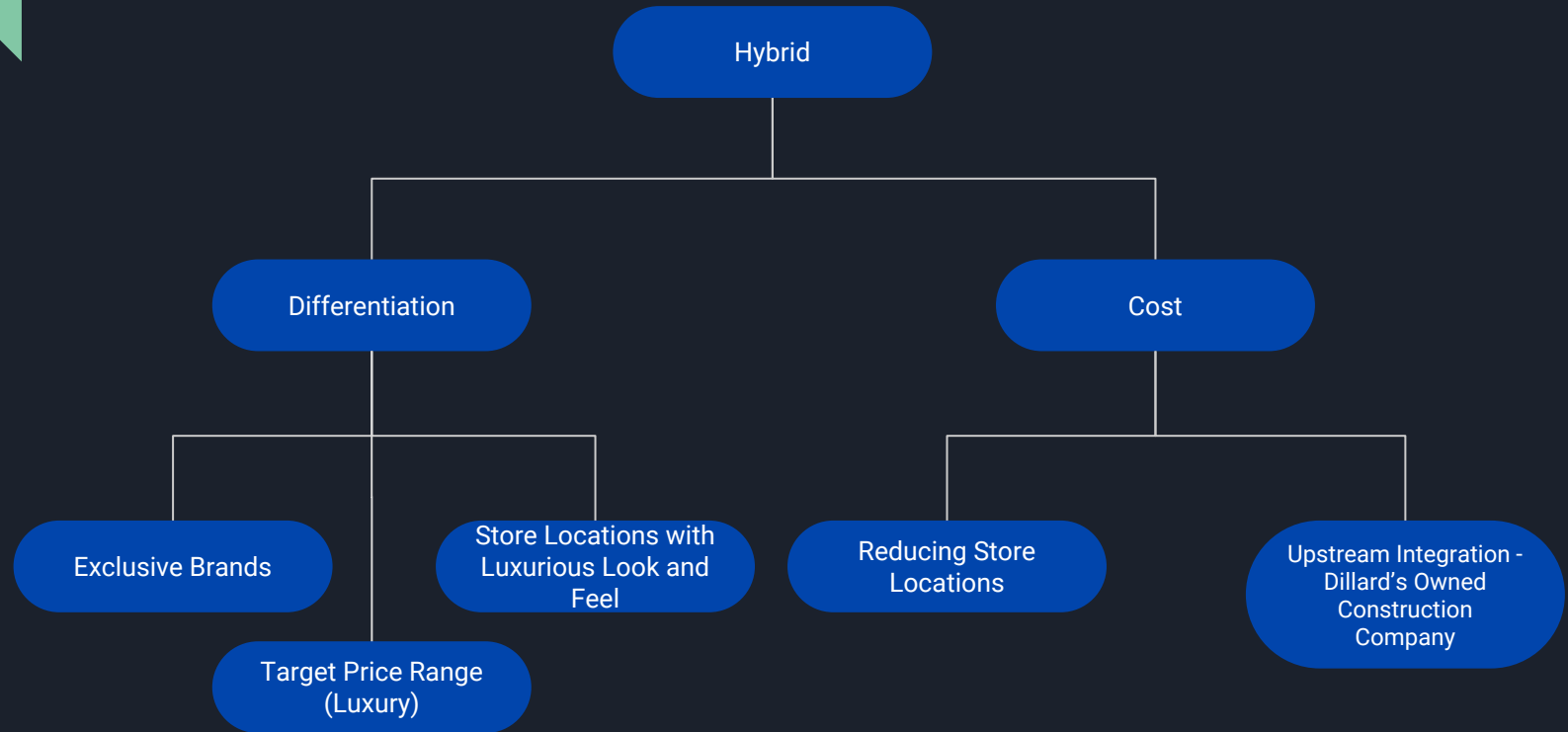
Source: Company Financial Reports



Financial Analysis

- Dillard's sales are shrinking
- Only Kohl's and Nordstrom are gaining market share
- Large established department stores seem to be reducing brick and mortar store locations

Strategy



Differentiation

- Exclusive brands
 - Stay up to date on fashion trends
 - Brand reputation
- Luxury product price range
 - Loyalty program
- Luxurious look and feel
 - Wood floors and fixtures
 - Warm colors





Cost Leadership

- Reducing store locations
 - Leasing real estate
 - Store sizes
- Upstream integration
 - Company owned construction company
 - Sourcing materials from foreign countries





Largest Strategic Issue

- Market Saturation

- Low overall market share
- Many competitors
- Medium buyer bargaining power
- Indirect competitors stealing business (*i.e. Amazon and other online retailers*)

While Dillard's continues their strategy of differentiation and cost leadership, the firm continues to have the smallest market share in the industry, lowest inventory turnover, and flat/declining revenues. In order to improve, a new strategy must be adopted.