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## **Retail Analysis Paper: Ross Stores Inc. (Ross: Dress for Less)**

### **Overview & Current Climate**

#### **1. Overview**

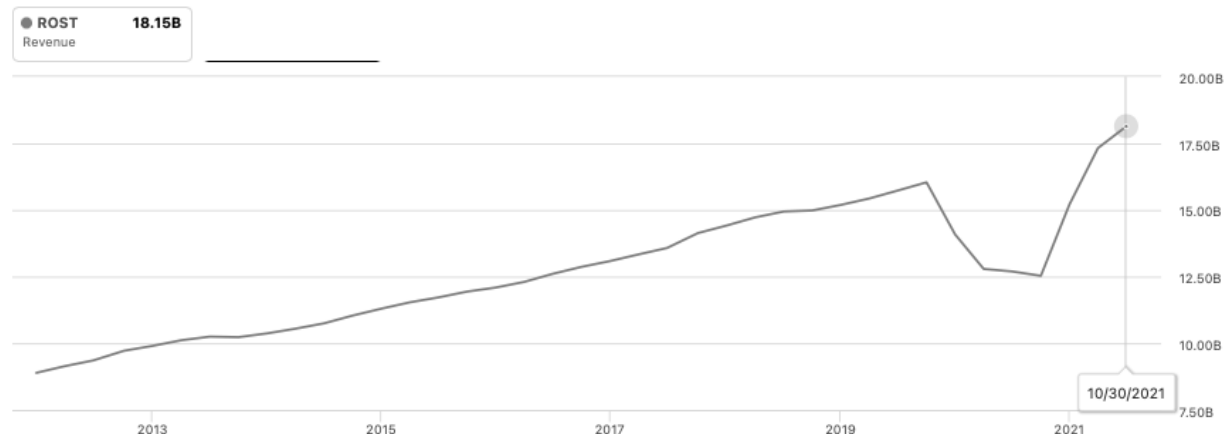
Ross Stores is an off-price retailer in the apparel and home goods category established in 1982 by Stuart Moldaw (L.A. Times, 2008). What began as a series of six small retailers in the Bay Area of California, quickly grew to become an empire among off-price retail chains, going public in 1985 and ending the following year with \$534 million in sales and 121 stores across the U.S (Ross Stores, n.d). By the turn of the century, Ross Stores had grown to 409 stores and annual sales of nearly \$2.7 billion.

#### **2. Environmental & Economic Factors**

In 2019, the company reached a record high in annual sales of \$16 billion from its 1,409 stores across the U.S (Ross Stores, n.d.). The climate for Ross Stores over the last two years, however, has not been kind. After the 2020 shutdown of non-essential businesses due to the global COVID-19 pandemic, the store took a huge loss to profits with a decline in sales down to \$12.5 billion. That decline was equivalent to being set back five years to the company's 2015 annual revenue (Ross Stores, n.d.). Given that Ross is still considered a true brick-and-mortar store, with little to no online selling channels, it is no wonder the restrictions on in-person shopping presented massive challenges.

That said, the company has—by all appearances—withstood the tumultuous pandemic economy and has seen a steady return in its growth since in-person shopping restrictions have been more or less lifted. In fact, the store saw a massive spike in revenue begin towards the end of 2020, right as the restrictions on

non-essential businesses were removed. As soon as retail shopping returned to some semblance of



normalcy, Ross exceeded its previous fiscal record of \$16 billion by a substantial amount, reaching a new high of \$18 billion (Seeking Alpha, 2022).

### 3. Changes in Demographics, Consumer Behavior, and Industry

The leap in revenue demonstrates a limited impact on the consumer behavior of Ross Store's target market. For this particular retailer, which heavily relies on consumers that still shop for apparel and home goods in brick-and-mortar stores, this maintained stability is incredibly impressive for two reasons. The first reason is that the vast majority of other apparel retailers and Ross' competitors like TJ Maxx, Marshalls, Nordstrom, and more had to pivot during the pandemic by establishing new online selling and marketing channels, developing remote delivery systems, or innovating existing practices. The second reason is that most consumers exhibited an overnight shift in buying behavior during the shutdown to favor online shopping and remote access to merchandise. There was speculation that the pandemic might be the death of brick-and-mortar shopping as we know it because the industry had to quickly make online selling consumers' primary source of shopping. For Ross Stores, though, these challenges seemed to have rolled off the proverbial shoulders. Instead, the giant off-price retailer simply weathered the storm using sheer scale and grit and continued delivering the exact same reliable and tangible service it always has. The vast majority of other retailers would not have been able to do the same.

While many other retailers saw a massive change in consumer behavior and had to adapt, Ross Stores' customer market seems to have remained considerably stable. Not only did business return to standard once in-person shopping restrictions were lifted but shoppers were also eager to be back! The maintained demographics, consumer behavior, and steady revenues of Ross Stores since the pandemic restrictions were lifted are likely attributable to the distinct "hidden treasures" experience and the benefits of try-before-you-buy. Unlike other apparel and home goods retailers, most shoppers don't visit Ross for a regular shopping experience or for staple goods. Instead, Ross shoppers are usually hoping to find something they didn't know they needed at an affordable price. The experience is largely driven by customers' hedonic motivations, meaning the experience could not be easily replaced by eCommerce strategies. This also explains Ross' sales boost in 2021, customers have joyously returned to shopping at Ross as a social relief after nearly a year of isolation.

All that said, the current stability Ross Stores has may not last forever. Online shopping is still growing and convenient, many supply chain and merchandising issues have come from the impacts of COVID-19, and the mindset of shoppers has still changed. Still, Ross Stores benefits from its fun and unique shopping experience and the comfort customers feel with try-before-you-buy. Also, as more retailers move to online-only selling and marketing channels, the brick-and-mortar sector grows larger for Ross Stores to inhabit. These two primary elements of its sustainable competitive advantage have given it some immunity from both the growing e-commerce sector and the challenges of the pandemic (Peterson, 2018).

## **Retail Organization, Audit, and Corporate Strategy**

### **1. Business Model, Corporate Strategy, & Retail Concept**

Ross Stores operates as an off-price retailer offering brand-name and even designer items at discounts anywhere from 20% to 60% off the MSRP (Levy et al, 2019, pg. 53). The store does this by jumping at opportunities to buy overstock, closeouts (canceled orders), or irregular items from other

retailers or manufacturers (Levy et al, 2019, pg. 53). They are able to buy at incredibly low prices because they do not ask for the same agreements that would be expected from a normal department store such as advertising allowances, return privileges, markdown adjustments, or delayed payments (Levy et al, 2019, pg. 54). Ross takes items as they are, which benefits the supplier because they would not have otherwise been able to sell their products. Ross is then able to take these savings and pass them on to their customers, generating their competitive pricing and high-profit margins.

This business model is also what generates the “treasure hunt” experience of shopping at Ross, which stands at the core of its retail concept. Because nearly all of Ross’ inventory is limited stock and inconsistent, consumers can browse a completely new selection of merchandise every time they visit, even if it's at the same store location. This model offers a huge appeal to low-income shoppers, thrifters, bargain shoppers, and impulse buyers because they are able to buy new, branded products at discount prices. This unusual shopping experience is what gives Ross Stores its sustainable competitive advantage in the off-price retail market and allows the company to build customer loyalty through reliability and unique merchandise (Peterson, 2018).

## **2. Future Goals & Increasing Revenue**

Ross Stores’ primary goals and methods for increasing revenue are simply to continue growing their market share. Their method for market penetration is to open 100 more brick-and-mortar stores across the country in 2022 (Johns, 2021). According to Ross Stores 2021 10-K report, the 100 new stores will “ increase [Ross’] market penetration and leverage overhead and advertising expenses as a percentage of sales in each market. We also expect to continue our store expansion in newer markets” (Orvos, 2021).

After successfully opening 60 stores in 2021—even with the lingering effects of the COVID-19 shutdown—the forecast for Ross Stores’ growth plans looks bright. This is reflected in a statement from Ross Stores CEO, Barbara Rentler, who said in an interview with Chain Store Age, “we remain confident

about our opportunity to gain market share as we expect to benefit significantly from the favorable competitive climate, given the large number of retail store closures and bankruptcies in recent years. This, along with the consumers' heightened focus on value and convenience, bodes well for our ability to achieve solid results into the future,” (Wilson, 2022). As of summer, 2021, Ross Stores had 1,896 stores across 40 U.S. states and in Guam. Its current plans would bring it to nearly 2,000 stores across the country.

### **3. Revenue Sources**

Ross Stores' 2021 annual report on the sales shares of Ross merchandise shows that home decor and bed & bath categories made up the majority of store sales, accounting for 28% of sales followed by women's apparel at 23% (Orvos, 2021).

The vast majority of stores are located in California (431 stores) and Texas (260 stores) which reel in the majority of sales (Orvos, 2021). For comparison, the majority of states with Ross Stores locations average anywhere from one to fifty stores. California, Florida, and Texas are the only locations that surpass one hundred (Orvos, 2021).

## **Competition**

### **1. Direct Competitors**

Ross Stores' current direct competitors include TJX companies including TJ Maxx and Marshalls, both off-price retailers of similar scale to Ross Stores. TJ Maxx operates 1,271 stores across the U.S. as of the end of 2021. Marshalls operates 1,131 stores as of 2021 (TJX.com). As these competitors are both owned and run by TJX companies, the combined size is quite a bit larger than Ross Stores' current running 1,859 stores (Orvos, 2021). However, their combined net sales for 2021, \$19 million, only barely exceed that of Ross Stores for the fiscal year. Ross Stores still has a big advantage in net sales and

profitability in the market, even with overall smaller size and market dominance. Still, TJX stores pose major competitive threats to Ross' Market shares as they open more locations and increase revenue.

## **2. Indirect Competitors**

One of Ross Stores' primary indirect competitors is Overstock.com. Overstock is an online off-price retailer, allowing it to sell to the same target audience but in a slightly different market from Ross Stores. While Ross' customers enjoy the in-store hunt for unexpected treasures and bargains, Overstock.com customers prefer the same experience but in an internet setting. Another way these two companies are differentiated is that Ross markets itself primarily for apparel while Overstock.com focuses on furniture, home decor, and bed & bath (Overstock.com).

Even with its vast online market, Overstock.com does not even come close to the annual net revenue of Ross Stores. At the end of the 2021 fiscal year, Overstock.com reeled in a minor \$2.8 billion in comparison to Ross Stores' \$18 billion (Overstock.com).

Ross Stores still has the largest market share and profitability compared to its competitors and has weathered the pandemic shutdown better than most.

Ross Store's leading competitive advantage over TJX stores is the unique in-store experience customers get with every visit and the high variety of truly off-price retail that it offers. While TJX stores advertise as off-price retailers and claim to offer a similar experience, the majority of its merchandise is actually same-season items purchased at wholesale prices directly from manufacturers and claims that less than 5% of its retail is irregular (Levy et al, 2019). This means that most of their items are not the same bargain prices that Ross Stores offers, which largely defeats the appeal of off-price retailing.

## **Retail Market Strategy**

### **1. Image & Position**

Ross Stores' image is centered around giving great deals and a happy shopping experience to its customers as well as giving back to the communities its stores operate in. This is evident by its corporate social responsibility statement, which emphasizes empowering employees, serving the community, and operating sustainably and ethically (Ross Stores inc., 2022). By living up to these commitments, Ross Stores generates a brand that represents community values.

Some of Ross brand building activities include partnering with the Boys and Girls Club of America and First Book, funding scholarships for academic success, and promoting in-store fundraisers for education and literacy (Ross Stores inc., 2022). Its popular slogan "dress for less" also solidifies in shoppers' minds the off-price retail brand and big discounts.

## **2. Target Audience**

Ross Stores also builds its brand as a quality discount store for every friendly neighborhood by positioning stores in community-centered areas and targeting primarily low-income families, thrifters, bargain hunters, and impulse buyers throughout the U.S. The first demographic relies heavily on Ross Stores' affordable prices and variety for basic household needs, a service that Ross is happy to provide and serves underprivileged communities who can't afford department store prices. Other demographics, in contrast, simply enjoy the experience and the quality deals.

## **3. Technology**

Ross is a very traditional brick-and-mortar company. Technology is a limited part of the process, aside from a corporate website and some social media presence. Its website, [rossstores.com](https://www.rossstores.com), consists of a store locator and a page dedicated to customers' favorite in-store finds (Ross Stores Inc., 2022). The company's social media presence includes Instagram, Facebook, and an Email subscription with updates on merchandise in your area (Ross Stores Inc., 2022).

## **4. Human Resources**

According to its Corporate Social Responsibility page, Ross Stores manages and retains its human resources (employees) by offering “competitive pay and benefits,” “safe working environments,” “opportunities to volunteer in the community,” and a “scholarship program for associates and their dependents” (Ross Stores inc., 2022). Some of the Human Resource Management strategies under these statements include extrinsic benefits such as higher wages and benefits, volunteer opportunities, and scholarships. The company also provides structured training programs for new employees as well as on-the-job training, utilizing a blended approach that ensures the competence and confidence of employees (Ross Stores inc., 2022).

## **5. Location Strategy & Global Presence**

Ross Stores’ location strategy selects store locations according to the following criteria: "access, visibility, traffic counts, and a strong mix of co-tenants, all supported by [their] targeted demographics" (Retail Merchandiser). Prime locations for Ross Stores include local strip malls and neighborhood shopping centers in heavily populated areas (Orvos, 2021). This strategy aligns well with the company’s target market and branding objectives, given that one of the company's main values is accessibility to middle- to low-income households and appealing to a “friendly neighborhood discount store” image.

Store environments for Ross reflect the same goals, with grid-style floor layouts that are simple, efficient, and promote treasure-hunting and self-service (Orvos, 2021). Overall, Ross Stores follows a simple location strategy, with a high emphasis on customer-centered/people-driven decisions in every aspect of the company.

As of 2022, Ross Stores only operates in The U.S. and Guam and has yet to break into an international market. This could be considered an opportunity for this retailer as Ross Stores grows its market share and annual revenues. Competitors such as TJ Maxx have found success in Canada and Europe, Ross Stores may also find an untapped market in these areas (TJX.com).

## **6. Merchandise, Pricing, and Promotional Strategy**



As previously discussed, Ross Stores' merchandise strategy is focused on the opportunistic purchases of overstock, closeouts, and irregulars. Instead of a deep assortment of items, Ross focuses on a variety of merchandise categories from lingerie and other apparel to kitchenware and home decor, plus everything in between

As an off-price retailer, Ross Stores purchases opportunistically at below wholesale prices and passes those savings of anywhere from 20%-70% onto its customers (Orvos, 2021). This allows Ross to have highly competitive prices that cannot be beaten by department stores. These methods are an Everyday Low Pricing (EDLP) strategy, which keeps merchandise pricing somewhere between the regular and deep sale price (LEVI CHAPTER 13).

Ross Stores' promotional strategies rely primarily on email marketing and Instagram. The company offers an email subscription service where customers can get updates on merchandise in their local area. However, this is a voluntary subscription and isn't advertising that customers come across organically. Ross Stores has an Instagram page with depictions of happy customers and cool store finds but lacks targeted promotions like an ad campaign, television clips, direct mail, or a more advanced website.

## 7. Challenges

Ross Stores' greatest challenge in the aforementioned elements of its retail strategy is the use of technology. The company has a host of untapped opportunities in internet marketing and e-commerce that—if addressed creatively and appropriately—could generate huge growth for the company.

## MINI SWOT ANALYSIS

### 1. Strengths

Currently, Ross Store's biggest strengths are the following: size and profitability; sustainable competitive advantage baked into its business model, the wide variety of merchandise, and its iconic “treasure hunt” shopping experience.

Ross Stores' size and profitability have allowed it to weather a few storms in the volatility of today's U.S. economy. With a commitment to open more stores in the near future as well, it has a strong launchpad to get back on track with its planned growth and market penetration in the coming years.

Ross Stores' competitive advantage is built on the opportunistic buying and offering of a wide variety of merchandise—and the fun, affordable experience that creates for its customers—the company's competitive advantage is baked into its business model. Having these things come hand-in-hand requires less time and resources because Ross does not have to build its competitive advantage through, marketing, branding, or other less tangible means.

## **2. Weaknesses**

Ross Stores' primary weaknesses are as follows: purely brick and mortar, lack of online presence and marketing, and the design and organization of stores.

Being a brick-and-mortar store can be one of Ross' strengths, as it continues to dominate a market space that other retailers are leaving behind for a more technological approach. That said, it can also be a weakness. Because Ross Stores isn't utilizing any omnichannel retailing approaches, it is losing out on the potential benefits to customer loyalty, positioning, sales, and marketing that could come with establishing some simple omnichannel retailing methods.

Another major weakness of Ross Stores is the disorganization and disorderly appearance of many of its stores. This retailer has, unfortunately, become someone known for its messy racks and displays. In fact, an article from Business Insider (2018) named a Ross location in Richmond, Virginia as “the most disastrous store [they've] ever seen” (Peterson, 2018). The disarray of Ross Stores largely does not bother low-income shoppers whose shopping intentions are purely utilitarian. However, the appearance of the store can have a huge impact on thrifters, bargain shoppers, and impulse buyers whose shopping motivations are often much more hedonic. If the shopping experience is chaotic, uncomfortable, and

messy, Ross Stores could be losing a lot of sales from those target customers who are turned off by the presentation of the store.

### **3. Opportunities**

Some of the opportunities presented to Ross Stores are the potential online and e-marketing channels could offer as well as the impacts of the pandemic actually driving sales rather than decreasing them.

Since Ross stores currently utilize a very limited number of online marketing channels, there is huge potential for the company to generate more customer loyalty and improve its brand image by implementing a simple integrated marketing communication program. Things like more sophisticated email lists or apps that instantly update customers on new merchandise or social media fundraisers and giveaways can make a huge difference in how customers perceive the quality of merchandise and the reliability of the store. Partnering with influencers interested in promoting products, offering limited coupons for additional bargains, and special events can also be effective ways of building customer loyalty and brand image, as well as liquidating old inventory fast.

The slowing of the U.S. economy as a result of the global pandemic could also end up being an opportunity (SWOT & PESTLE). Ross has seen steady growth in revenue since the re-opening of non-essential businesses, indicating that the long-term impact has the potential to actually be positive for off-price retailers. Shoppers with lower disposable income due to economic trouble may actually flock to more affordable retailers like Ross Stores because their prices are so competitive.

### **4. Threats**

On the flip side, the economic slowdown can also be a threat because of many supply chain issues and inflation (SWOT & PESTLE). The most critical component of Ross Stores' business model and retail concept is its relationship with vendors. In order to buy opportunistically, there have to be opportunities.

With a whole host of supply chain issues sweeping through every industry as a result of COVID-19, many vendors may not have as many opportunities to present or be unwilling to let go of their closeouts and irregulars. Ross Stores could struggle to find off-price merchandise from vendors it historically has.

Another threat is the possibility of other off-price retailers finding success using integrated marketing communication programs and e-commerce settings. If other off-price retailers take advantage of the opportunities available to Ross before it does, Ross Stores' market share could quickly start to slip away as a competitor starts to take the best parts of Ross' customer experience and integrate it with the technology and culture available on the internet.

### **Looking to the Future**

Overall, the future of Ross Stores looks bright. Sales have been on a steady increase with little signs of slowing down. The company's growth trajectory is reasonable and within reach. Under my management, I would launch an advertising campaign as soon as possible to promote the company's philanthropy and its image as a friendly discount store of high-quality items to low-income families. During an especially volatile time and uncertain economic climate, an ad campaign focusing on helping people and bolstering the community has the potential to solidify Ross's brand image as a positive force in communities across the U.S. and promote itself as an affordable source for goods during a time when inflation and job stability is negatively impacting consumers' disposable income.

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