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**Sears, Roebuck and Co. vs. Wal-Mart Stores, Inc.**

1. How do the retailing strategies of Sears and Wal-mart differ?

A major difference in retail strategies is the credit card offered by Sears. Sears had significant financial struggles at the time and wanted to encourage customer spending by allowing them to pay on credit. By adopting this strategy, Sears took on a new risk of customers not paying off the cards in a timely manner or not at all. Wal-mart did not offer a credit card and as a result did not take on the same level of risk of late payments. In conclusion, Sears offered a credit card in order to boost sales, but took on substantial risk with this strategy.

1. What does Dupont analysis have to say about what’s driving the ROE performance of these two companies in 1997? Compute both the drivers of ROE (margin, turnover, and leverage) and the components of these specific drivers (listed on the spreadsheet on Sakai, and **including** common-sized balance sheets and income statements) to answer this question.

Based on Dupont analysis, we can identify the drivers of ROE. Sears is significantly levered at 6.06x vs Wal-Mart at 2.45x. This by itself could be boosting ROE of Sears (22%) above Wal-Mart (19%). Looking at the Days Sales in Receivables we see a significant difference between Sears (186) and Wal-Mart (2.8). This shows us how well a firm is collecting their receivables. This may be a sign Sears is having trouble collecting it’s A/R and could also be an indication their credit card issuance was not in the best long-term interests of the firm. Also, the AP turnover rate for Sears is only 3.86x while Wal-Mart’s is 11.15x, indicating Wal-Mart is paying its suppliers almost 4 times faster than Sears. The turnover ratio calculated as Revenue/Average Assets is much higher for Wal-Mart. This is an important ratio for retail firms and shows Wal-Mart is better at selling inventory. Finally, Sears has a margin of 0.03 which is similar to Wal-Mart. In conclusion, leverage is driving Sears’s ROE and turnover is driving Wal-Mart’s ROE.