

Title: Loss Leader Strategy - What to watch in earnings

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First off, of course, buy, HODL, ■!

Secondly, come back to earth for a second with me ahead of earnings. While I personally think we've near exhausted the DD that strongly infers trapped short positions for an eventual squeeze, I want to bring us back to fundamental conversation that ultimately holds the intrinsic value of GME, floor, and long term growth value that combats the bear thesis. When all else fails, this is the anchor.

About me: my background is in engineering and industrial sales so I have some background in pricing strategies and market share campaigns that can be relatively universally applied. Retail can be different due to individual consumer customer base vs corporate buyers etc but bear with me for principle take always to better understand what we're looking for in the earnings report in the week to come.

Facts: GameStop has drastically increased their product offering of electronics and the like this last year. You need look no further than their online page to see more computers, accessories, and TVs being listed. For this reason, I especially find it dumbfounding why there's not more conversation or articles written about Best Buy being a direct competitor. In Best Buy's most recent earnings, they ranked due to waning e-commerce sales and margin shrinking due to theft. Their sales however were still good; a beat and shows general customer demand is still there and strong. I speculate the thesis of the bigger correction on Best Buy e-commerce sales to be less covid related and return to stores and potentially a loss of market share. The thought is not even entertained in a recent Bloomberg article. <https://www.bloomberg.com/news/articles/2021-11-23/best-buy-margin-disappoints-on-tough-comparisons-product-woes>

Hold on to that thought and I'll bridge it back again in a moment. Now let's talk about a quick browse through GameStop's store online. I'm actually floored by how many products keep popping up sold out. Old Apple products, TCL and Vizio TVs, and of course the consoles. Some of this can certainly be due to supply chain shortages globally occurring. But I see this as incredibly bullish because regardless of shortage or not, 1 sale is more than 0 for GameStop since a lot of these product offerings are new. This would dispel any FUD published on supply chain constraints that would typically be headwinds on earnings and guidance for other retail but not for GameStop with it being new endeavors beside console sales.

The next observation that strikes me is the incredibly low pricing of some of these items. I struggle to believe some of these have any profit margin left in them. This plus selling out and reports of crazy volume of e-commerce shipments from store and warehouse testimonies leads me to my next conclusion. They are employing a loss leader strategy. <https://www.investopedia.com/terms/l/lossleader.asp>

This is to prioritize total revenue and growth over the bottom line profit. With their large nearly \$2B cash reserve, this makes perfect sense to me. It drives more consumers to you for pure volume and market share grab away from competitors. It's a short term play in hopes to retain more future customers and also grow your own ecosystem.

So... what to look for if you believe my thesis on their 2021 strategy. Don't be scared by profitability being stagnant or not positive yet. They buy new customers and brand realization. Do look for total sales growth with more focus. Look at power rewards members count. Of these both trend up, I'll be elated that they're indeed carving into market share and also converting customers to future customers.

Last earnings showed outstanding improvement to SG&A.; This is general overhead and costs to run the company essentially. If this continues to improve, that's icing on the cake. <https://www.investopedia.com/terms/s/sga.asp>

TLDR; looking for overall sales growth and rewards member growth. Overhead costs improvement is bonus, and profitability less of a concern as they continue their transformation.

Looking for additional indicators of erosion to Best Buy's e-commerce to review if it is caused by GameStop success as a larger player indicating market cap should be compared more directly between the two than in the past.