Dear CEO,

There is clearly significant variation in performance across stores nationwide. The data suggests that there is material underperformance as reflected by more stores underperforming against the mean (see distribution visualizations). Several factors may account for this underperformance. One consideration is the efficiency of store management in managing costs. The data suggests that top performing stores have lower fixed and variable cost structures. The top quintile of stores has a median fixed cost ratio of 18% versus 27% for the lowest quintile. Similarly, this top quintile has a median variable cost ratio of 49% versus 57% for the lowest quintile. Some of these costs may not be controllable (e.g. may be a function of location and labor markets), but other costs may be under the control of management and suggest some managers are doing better job managing costs.

Another consideration is location with stores in certain states performing considerably better than in other states. For example, stores located in Texas, California, Illinois, Colorado, and Washington achieved similar profitability (measured by profit margin with a mean of 26.8%) that are higher on average by 31% than stores located in Georgia and New Jersey (mean of 20.4%). This could also be a function of weather patterns and products offered in those states so it is not entirely clear whether location alone is decisive. A state by state analysis may reveal additional insight.

Number of products offered seems to factor in profitability. The top quintile stores in profitability offered on average 4635 products vs. 4350 products offered in the lowest quintile. This suggests that increasing the number of products offered may improve profitability.

One other factor I considered is whether owned locations performed better or worse than rented locations but the data does not suggest that there is signification variation.

I also looked at the number of stores within each state to explore what is the optimal number of stores (are too many stores cannibalizing sales?). While I did not adjust for population or area size, I could not reach a definitive conclusion.

Sincerely,

Owen Marks