Study of Value Investing based on a Modern Approach

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Abstract. Market exploration is necessary to examine and identify attractive deals. This endeavor requires potential investors to analyze the market using effective market hypotheses. This paper focused on exploring value investing as a market and investment pathway. The applicable investment paradigm requires that investors purchase shares in Industries and organizations with promising returns on investment. As a result, investors should target organizations whose share price is lower than the true value. This paper investigated the retail trade industry by exploring randomly selected 20 companies. The 20 companies provided an opportunity to explore the total return of investing in companies between 2015 and 2021. This study used the gross profit margin and return on assets (ROA) as suitable financial ratios to explore the total return of investing in the selected companies. The paper justifies the applicability of gross profit margin and returns on assets (ROA) as financial issues distinguishing between 25% top performers and 25% bottom performers of the 20 selected companies. The analysis showed that 25% of top performers excel in corporate attributes, enhancing the gross profit margin and return on investment. In contrast, the 25% bottom performance lags in market attributes that enhance gross profit margin and return on assets.

Keywords: Investment; Retail Trade Industry; Gross Profit Rate.

1. Introduction

The choice of retail trade industry follows the curiosity to explore the veracity of damning reports about its prospects. The retail industry faces several challenges ranging from declining purchasing power among populations and surging inflation. However, positive views about the retail trade industry exist with the retailers re-examining their purchasing behavior strategies and rediscovering their legacy systems. The coronavirus disease of 2019 (COVID-19) represented a dent in the retail trade industry, disrupting connectivity between sellers and buyers. However, retailers in the industry embarked on a remediation path during and after the pandemic culminating in restructuring supply chains, recalibrating advertisements reinventing the physical store, resizing inventories, and reviewing pricing strategies. The period from 2015 to 2021 had challenges that compelled retail trade players to adopt transformational thinking and long-term commitments. It was a time to explore retail trade players with traits that embrace the reset and those who maintain the status quo. At 20-retail company exploration, using gross profit margin and return on assets (ROA) offer a distinction between the top and bottom performers.

1.1 Selected Retail Trade Companies

Table 1. Selected Retail Trade Companies

Costco Wholesale	The Kroger Co	Target	The Home Depot	Best Buy
Aldi	Nordstrom	Qurate Retail	Burlington	Ross stores
Save-a-Lot	Ingles	Petco	Michaels stores	Hudson Bay
Weis Markets	Tapestry	Lululemon	Save Mart	

1.2 Methodology

The retail trade economic sector selection came after considering several personal and academic factors. Priorities in the rapidly changing retail industry sparked curiosity to explore dynamics and environmental factors in the retail trade sector. Several priorities emerged for retail trade companies between 2015 and 2021. Companies operating in developing countries have sought to reset their business approaches after grappling with digital investments resilience in the supply chain and workforce retention (Gross, n.d.). Some retail trade companies have recorded impressive

improvements in revenue generation and gross profit margin while perceiving inflation as an opportunity. Other retail trade companies had to adjust their old habits to boost margins and profits as others closed unprofitable ventures.

The retail trade sector operates with myriad challenges affecting its activities internally and externally. Retail trade companies have made headlines over the recent past on issues touching on financial performance. Financial struggles represent crucial challenges bedeviling the retail trade sector owing to economic issues such as inflation rate and fluctuations in the exchange rate (Gross, n.d.). Several forums have highlighted contemporary challenges facing retail trade players in attaining profitability. The retail trade sector is increasingly becoming dynamic as the market and consumer behavior change daily (Gross, n.d.). Consequently, the retail trade sector has to align its operations with the changing consumer behavior and adapt to the shifting environment using adaptable business strategies. Brands in the retail trade sector adjust their strategies and targets to suit the desires and needs of the shifting consumer behavior. The customer in retail trade is unpredictable and difficult to please due to changing consumer behavior (Gross, n.d.). These findings have necessitated the exploration of retail trade companies using performance metrics such as gross profit margin and return on assets (ROA). Academic issues and industry factors necessitating the exploration include the digital revolution, workforce retention, and supply chain management.

2. Digital Revolution

The retail trade industry has undergone a fusion of physical and digital experiences to explore different customer segments. Consequently, retailers made significant investments in e-commerce between 2015 and 2021. These investments in e-commerce have aspired to satisfy current and prospective business needs (Sasongko et al., 2021). Several retailers adopted digital and e-commerce platforms to align with increasing customer preference for technology and digital spaces for transactions. Additionally, retailers have invested in digital platforms to align with changing behavior and lifestyle, where populations have gone virtual in entertainment, education, and healthcare (Sasongko et al., 2021). Consumer behavior and changing lifestyles necessitated retailers to adopt physical and digital modes of shopping and transactions.

Investments in automated shopping, digital marketing, and e-commerce have coincided with retailers' fortunes, as manifested by return on assets and gross profit margin metrics. In the last five years, retailers in the retail trade industry have experimented with cashless stores, physical world digitization, and digital goods sale (Sasongko et al., 2021). Several retailers plan to spend 70% of their budgets on elevating digital marketing. This development shows how retail companies intend to increase their customer base by finding new customers. Retail company executives are exploring approaches to convert in-store shoppers to online shoppers but focusing on long-term profitability from both channels. Several retailers have not defined metric measures of return on investment (ROI) of digital investments.

2.1 Resilience in the Supply Chain Network

The retail trade sector has underlying issues on the supply chain manifested through manufacturing bottlenecks and difficulties in distributing products worldwide. The retail trade sector encounters periodic disruptions in the supply chain. The sudden and surprise disruptions in the supply chain necessitate strategies that promote resilience (Sasongko et al., 2021). Installing resilience points along the supply chain requires resetting the entire supply chain. Stakeholders in the retail trade sector understand consumer behavior that prefers stock availability over maintaining retailer loyalty.

Economic downturns and the COVID-19 pandemic between 2015 and 2021 affected the supply chain on the upstream and downstream sides. Employee expectations have changed while consumers have altered their shopping trends. The purchasing behavior of consumers is less predictable since consumers dictate their mode, time, and retailer channel to use during the shopping action (Dunkerley et al., 2022). Consequently, players in the retail trade sector adjust their strategies around forecasting

demand surges, managing inventory, and planning for demand. Moreover, retail trade players should amass information volumes through research while upgrading their strategies and technologies to handle emerging customer segments. Maximizing supply chain operation requires gathering data to inform system and technological upgrades that eliminate underlying supply chain inefficiencies (Dunkerley et al., 2022). Players with inadequate capacity to deploy data management strategies utilize alternative approaches such as maximizing their asset value, adopting transparency, and partnering with players in related industries.

2.2 Workforce Transformation

The retail trade sector faces similar challenges of employee attraction recruitment and retention as other economic sectors. The recent past has seen an increase in resignations, where employees voluntarily leave their jobs without alternatives. Struggles to retain talented employees have left several retail trade players stranded (Dunkerley et al., 2022). Research indicates that over 83% of retail trade players invest heavily in recruiting new personnel and retaining them for a significant period. Consequently, stakeholders in the retail trade industry have identified the workforce as a significant retail concern necessitating reset and strategic planning to address the issue in the long term (Dunkerley et al., 2022). Several retailers have shifted their focus to employees by fashioning their organizational culture with values of work-life balance, flexibility, diversity of the workforce, and inclusivity.

The past five years have seen retail executives classify labor shortage as a primary concern and a source of competitive edge. As a result, retailers have adjusted their human resource structure by incorporating flexibility and work-life balance to attract and return a competent workforce. The principal pain points for retailers are customer-facing and store-level positions that exhibit steep shortages in the labor force (Dunkerley et al., 2022). Retailers must align with the labor shortage concern by adapting business models and exploring alternative strategies. Moreover, the operating environment for several retailers has experienced shortages in logistics Warehouse supply chain and distribution positions, with employee turnover recurring. The employee turnover in these working positions has been exacerbated in the last two years following the effects of the pandemic. Focus on technology and automation provides alternatives to retailers aiming to lessen their reliance on physical labor (Dunkerley et al., 2022). However, migration to automation and technology requires skilled workers in the data analytics and information technology areas. However, a shortage of skilled labor is apparent owing to increased demand from other industries such as big tech and telecommunication.

2.3 Data Collection

The internet provided a platform to find relevant information regarding the retail trade sector and companies. It provided information on the top 100 retail trade companies in North America and globally. A sample of 20 retail companies was preferable for the study. Selecting 20 retailers from 100 retail companies used a randomized sampling approach. Mergent online provided valuable financial information for the selected retailers. The platform made the research on the retail trade sector efficient and complete due to the availability of financial information organized in one location. Data collected between 2015 and 2021 was relevant for the study to ascertain challenges and opportunities for the retail trade sector. Besides Mergent online, additional financial information about the selected retailer companies came from literature reviews and financial reports on Yahoo's financial websites. Crucial financial information includes net sales, income, revenue, profit margin, EBITDA, quick ratio, evenings per share, and return on assets.

The research narrowed to gross profit margin and returned on assets (ROA) to provide a complete and accurate situation of retailers' financial outlook. Gross profit margin shows how the retailer is profitable by dividing gross profit by net sales. Gross profit is the difference between retailers' cost of goods and net revenue (Liu & Si, 2022). The use of gross profit margin is relevant in the retail trade sector since it relates to the company's inventory items in store. On the other hand, return on

assets is a crucial metric for retail trade players since retailers depend on inventory to generate sales. ROA assesses the capability of retailers to generate revenue using available assets (Liu & Si, 2022). In calculating the ROA, one divides the company's total earnings by its total assets. Investors use ROA to gauge the company's optimization of assets through service and product pricing against inventory turnover.

Table 2. Around 25% of retailers

Top 25% of Retailers	Bottom 25% of Retailers
Costco wholesale	Weis Markets
The Kroger Co	Tapestry
Target	Lululemon
The Home Depot	Save Mart

2.4 Justification of Financial Ratios

Gross profit margin and return on assets are crucial metrics differentiating between the top and bottom-performing retailers. A significant portion of the final retail price caters to half of the gross margin and the entire cost of goods. Consequently, retailers increase their gross profit by reducing the cost of goods and gross margin (Carter, 2019). Retailers incur the cost of goods through sourcing and exporting commodities from domestic and foreign markets. About 60% of expenditure goes to sourcing manufactured commodities in the domestic market, while 40% of the cost of goods goes to the exportation expenditure (Carter, 2019). Expenditures on sourcing commodities and exportation account for about 50% of the final price of retailers' commodities. Moreover, retailers spend about a third of their final price servicing gross margins. This scenario implies that retailers remain with two-thirds of the final price as net profit margins.

The cost and margin aspects of retail trade business are crucial in calculating gross profit margin and determining retailers' profitability. Margins and costs increase for retailers whose inventories have an infrequent turnover (Carter, 2019). Conversely, margins and costs are low on those commodities with a frequent turnover leading to frequent inventory turnover. An increase in costs of goods emerges when retailers have a low turnover in their inventories, increasing expenditures in distribution labor and inputs in the warehouse and storage. Consequently, top-performing retailers explore strategies to reduce inventory time, reducing the cost of goods (Carter, 2019). Moreover, retailers deploy alternative strategies to lower expenditure on inputs, labor, and distribution cost, reducing the cost of goods.

Expenditure on the retail supply chain contributes to a significant portion of the cost of goods and gross margins. Retailers incur expenses in the price of inputs during commodity distribution from their manufacturing point to the selling point. The prices of distributors and labor increase the cost of goods along the retail supply chain (Carter, 2019). Consequently, retailers have targeted the retail supply chain with cost-cutting measures such as automation and technological integration. Cost-cutting measures in the retail supply chain involve retailers sourcing commodities from various suppliers, particularly from foreign markets. Retailers also utilize several distributors forcing distributors to improve efficiency and productivity through model shipment methods and incorporating technology in the distribution process (Carter, 2019). Consequently, retailers have gained the bargaining power of suppliers and distributors, which compiles suppliers and distributors to improve productivity and efficiency.

The return on assets (ROA) depicts how retailers optimize their assets. Inventory items represent a critical asset owned by retailers in the retail trade sector. Retail business implies bank purchasing for resale in small quantities to generate profit. Retailers target end-user customers and small and medium-sized businesses (Lukić & Vojteski-Kljenak, 2017). As assets, inventories vary among retailers depending on the product category and retailer store. Since the assets of different retailers are dissimilar, the return on assets measures how different retailers optimize the unique assets. Top-performing retailers optimize their inventory assets by setting the retail price at a premium. Elevating prices requires top-performing retailers to attract customers by enhancing brand reputation (Lukić & Vojteski-Kljenak, 2017). The power of branding is significant in the retail trade sector as it enables retailers to amass a considerable customer base and achieve customer loyalty. Moreover, retailers acquire brand equity by guaranteeing the quality of services and items while providing unique shopping experiences. These provisions enable top-performing retailers to set premium retail prices and attract more customers than bottom-performing retailers.

Besides brand building, top-performing retailers gain a competitive advantage by enhancing other asset categories. Top-performing retailers such as Home Depot, Target, Aldi, and Costco wholesale have a high return on assets since they integrate technological advancements and deploy strategic planning (Lukić & Vojteski-Kljenak, 2017). Moreover, these top-performing retailers have massive investments in automation and communication technologies. Information and communication technologies facilitate knowledge sharing among the workforce, increasing competencies and innovation. As a result, these top-performing retailers enhance the quality of the workforce and create opportunities for innovation, particularly in the retail supply chain warehousing and inventory management (Lukić & Vojteski-Kljenak, 2017). Workforce competencies, technological advancements, and marketing edge are crucial assets contributing to brand value and simplifying the retail supply chain. These assets improve the efficiency and productivity of top-performing retailers while reducing expenditure on the retail supply chain.

3. Conclusion

Ultimately, an evaluation of retailers shows how the retail landscape changes with consumers' shifting behavior. The retail trade sector is dynamic and competitive since players must adjust short-term and long-term strategies depending on the consumers' shopping behavior and other market factors. An evaluation of retail trade players based on the return on assets and gross profit margins indicates how the retail supply chain, technological integration, inventory management, and workforce retention influence profitability and survival. Top-performing retailers maneuver through underlying challenges in the retail trade sector by exploring strategies that reduce the cost of goods and gross margins to improve their net revenue and gross profit margins. Moreover, top-performing retailers outperform bottom-performing retailers through branding strategies that enhance brand equity and consumer awareness. Brand building to enhance brand equity enables top-performing retailers to adopt a premium pricing strategy to increase their net revenue and gross profit margins. An increase in net revenue is proportional to an increase in return on assets (ROA), representing positive fortunes for a retailer.

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