



Fidelman & Co.



QUESTION

Shoe Store Profits & Profit Margins, Rows 3-4

INSIGHTS

- In 2017, the net profit and net profit margin of large public company Foot Locker were \$510 million and 6.6%, respectively.
- The net profit and net profit margin of small, privately held company Shoe Palace are estimated at \$977,900 and 3.50%, respectively.
- Both Foot Locker and Shoe Palace are United States-based shoe retailers with an online presence; Foot Locker generates an annual revenue of \$7.687 billion, while Shoe Palace generates an annual revenue of \$27.94 million.

FINDINGS

As requested, we have populated rows 3-4 of the provided [spreadsheet \(1\)](#) with the profit and profit margin of Foot Locker and Shoe Palace, the smaller company we have identified, along with our notes and sources. As can be seen in the spreadsheet, the latest net profit and net profit margin of large public company Foot Locker are [\\$510 million \(1\)](#) and [6.6% \(1\)](#), respectively, while the estimated net profit and net profit margin of small, privately held company Shoe Palace are [\\$977,900 \(1\)](#) and [3.50% \(1\)](#), respectively.

There are different kinds of profits and profit margins (e.g. [gross, operating, pre-tax, net \(2\)](#)), but in answering this request, we took profit and profit margin to mean net profit/income and net profit/income margin, respectively. According to Investopedia, profit margin [commonly refers to net margin \(2\)](#) or net income divided by net sales.

FOOT LOCKER

Net profit

Since Foot Locker is a [public company \(3\)](#), its net profit/income is readily available. Page 1 of Foot Locker's latest annual report indicates that the company's net income in 2017 was [\\$510 million \(4\)](#).

Net profit margin

The same page also indicates that the company's net income margin in 2017 was [6.6% \(4\)](#).

SHOE PALACE

Why was Shoe Palace selected?

We consider [privately held \(1\)](#) Shoe Palace to be representative of a small shoe or footwear retailer as its revenue is estimated by Hoovers to be just [\\$27.94 million \(8\)](#). Even though this amount exceeds the [\\$27.5-million revenue threshold \(7\)](#) that the Small Business Administration has recently set for small shoe stores, it is close to the threshold and is far smaller than the latest revenue of large public company Foot Locker, which was [\\$7.687 billion \(4\)](#) in 2017. We understand from the details of this request that a small or relatively smaller shoe retailer is fine. Private company database IncFact confirms that the revenue of Shoe Palace is in the range of [\\$10 million to \\$50 million \(9\)](#).

Based in [California \(11\)](#), the company describes itself as "[one of the most-trusted \(12\)](#) athletic footwear and apparel retail chains in the United States." Its online or e-commerce presence is defined by its [online retail site shoepalace.com \(12\)](#).

We selected Shoe Palace from a list of [United States-based shoe stores \(5\)](#) that we had generated using Hoovers' company database. We filtered the companies in Hoovers' database to companies that belong to the industry with [NAICS code 448210 \(6\)](#), which comprises [shoe stores \(6\)](#). Corporate website, industry report, press, and company database searches revealed that the net profit and net profit margin of smaller shoe retailers, including Shoe Palace, are not publicly available. This is unsurprising given that smaller businesses are typically privately held companies that are not obligated to disclose financials, especially profitability-related ones.

IncFact has the [net profit and income statement \(9\)](#) of Shoe Palace, but they could not be accessed for free. The details are available in IncFact's [\\$45-premium report \(9\)](#) only.

Since only the revenue of Shoe Palace is publicly available, our only recourse in estimating the company's net profit is to use the industry average net profit margin.

Industry average for net profit margin

Financial information provider CSIMarket lists the trailing-twelve-month (TTM) profit margins of the [apparel, footwear, and accessories industry \(10\)](#) in the United States. As of the second quarter of this year, the TTM profit margins of the industry were as follows:

Gross margin - [48.97% \(10\)](#)
 EBITDA margin - [10.37% \(10\)](#)
 Operating margin - [7.28% \(10\)](#)
 Pre-tax margin - [6.44% \(10\)](#)
 Net margin - [3.50% \(10\)](#)

Please note, however, that these industry averages were based on a sample of [publicly traded companies \(14\)](#) that are relatively larger in size. As we are unable to locate any other reliable alternative, we assume that these industry averages apply too to smaller shoe retailers with an online presence.

Net profit

According to Investopedia, "[revenues reported \(13\)](#) on the income statement often represent net sales." As we already know the revenue of Shoe Palace to be [\\$27.94 million \(8\)](#), we can triangulate the company's net profit. Since the net profit margin is the net profit divided by the net sales, we can estimate the net profit to be \$977,900 as can be seen below.

[\\$27.94 million \(8\)](#) x [0.035 \(10\)](#) = \$0.9779 million or \$977,900

CONCLUSION

Public company Foot Locker recorded a net profit of [\\$510 million \(4\)](#) and a net profit margin of [6.6% \(4\)](#) in 2017. Privately held company Shoe Palace, on the other hand, recorded a revenue of [\\$27.94 million \(8\)](#). If we assume that the industry average net profit margin of [3.50% \(10\)](#) applies as well to smaller shoe retailers with an online presence, we can estimate Shoe Palace's net profit at [\\$977,900 \(1\)](#). As requested, these values were entered in the provided [spreadsheet \(1\)](#).

SOURCES

1) SPREADSHEET: Shoe Company Profits & Margins

<https://docs.google.com/spreadsheets/d/1t4ey9T7dlqe9Z3dd-3Wyn0Yw9dxi52mjhg-RS2mios/edit#gid=0>

2) Profit Margin

<https://www.investopedia.com/terms/p/profitmargin.asp>

- *"While there are a few different kinds of profit margins – including “gross profit margin,” “operating margin,” (or “operating profit margin”) “pretax profit margin,” and “net margin” (or “net profit margin”) – the term “profit margin” is also often used simply to refer to net margin."*
- *"The method of calculating profit margin when the term is used in this way can be represented with the following formula:*

Profit Margin = Net Income / Net Sales (revenue)"

3) Foot Locker | LinkedIn

<https://www.linkedin.com/company/foot-locker>

- *"Foot Locker, Inc. (NYSE: FL) is the world's leading retailer of athletic footwear and apparel. Headquartered in New York City, it operates approximately 3,600 athletic retail stores in 24 countries in North America, Europe and Australia under the brand names Foot Locker, Footaction, Lady Foot Locker, Kids Foot Locker and Champs Sports. "*
- *"Additionally, the Company's Footlocker.com/Eastbay business operates a direct-to-customers business offering athletic footwear, apparel and equipment through its Internet and catalog channels."*

4) Foot Locker - 2017 Annual Report

https://www.footlocker-inc.com/ns/pdfs/2017/annual-report/docs/Foot_Locker_2017_Annual_Report.pdf?reload=1523564497169

5) Company Search | Company Information | Hoovers Company Profiles - D&B Hoovers

<http://www.hoovers.com/company-information/cs.html?maxitems=25&sortDir=Descending&sort=SalesUS&nvcnt=76&nvics=1448210L&nvloc=1>

6) NAICS Search - 448210 (Shoe Stores)

<https://www.census.gov/cgi-bin/sssd/naics/naicsrch?code=448210&search=2017%20NAICS%20Search>

- *"This industry comprises establishments primarily engaged in retailing all types of new footwear (except hosiery and specialty sports footwear, such as golf shoes, bowling shoes, and spiked shoes). "*

7) SBA Table of Size Standards

<https://www.sba.gov/sites/default/files/2018-07/NAICS%202017%20Table%20of%20Size%20Standards.pdf>

8) Shoe Palace Corporation Company Profile | D&B Hoovers

http://www.hoovers.com/company-information/cs/company-profile.shoe_palace_corporation.c740ca7bf82f58b9.html

9) Shoe Palace Revenue, Company Growth, Competitor Research: Shoe Palace Annual Report - IncFact

<https://incfact.com/company/shoepalace-morganhill-ca/#>

10) Apparel, Footwear & Accessories Industry Profitability by quarter, Gross, Operating and Net Margin from 2 Q 2018

https://csimarket.com/Industry/industry_Profitability_Ratios.php?ind=401

11) Shoe Palace | LinkedIn

<https://www.linkedin.com/company/shoe-palace/?originalSubdomain=ph>

- *"Shoe Palace is one of the most-trusted athletic footwear and apparel retail chains in the United States. What began as a small, family business in 1993 has now grown into an extremely-popular chain of stores and an online retail site — shoepalace.com."*

12) Shoe Palace - About Us

<http://www.shoepalace.com/about-us/>

- *"Shoe Palace is one of the most-trusted athletic footwear and apparel retail chains in the United States. What began as a small, family business has now grown into an extremely-popular chain of stores and an online retail site — shoepalace.com."*

13) Net Sales

<https://www.investopedia.com/terms/n/netsales.asp>

- *"Net sales are the sum of a company's gross sales minus its returns, allowances, and discounts. Revenues reported on the income statement often represent net sales. "*

14) Apparel, Footwear & Accessories Industry Profitability, Gross Margin, Net Margin, Cash Flow Margin, ROE

https://csimarket.com/Industry/Industry_Profitability.php?ind=401