Daily Roundup/Sector Focus June 7

As we have nominated eight companies to be the Juggernaut 8, we are going through each one to detail out why each player is devastating the other players in their current industry. We plan to examine large competitiors and their growth methods and initiatives. Today, we examine the Juggernaut Amazon.com (AMZN, $1,010.07). Beyond their dominant e-commerce business, they have the higher margin Amazon Web Service (AWS) business which will also continue to grow. However, much of their current growth efforts depend on selling everything to everyone on the web. Their only significant e-commerce competitor currently is Wal-Mart Stores (WMT, $79.15) with the acquisition of Mark Lore's Jet.com.

Mark Lore and Jet.com. To give some background on Mark Lore, he was the founder of several singular e-commerce vertical plays, such as Diaper.com, Soap.com, and Yoyo.com (for toys). This Quidsi company was subsequently acquired by Amazon.com and Mark Lore retained as management in August 8, 2016. However, his stay at Amazon was a controversial one where he was very vocal of his discontent with Amazon leadership and subsequently left to start competitior Jet.com.

Lore's Acquisitive Strategy. While Amazon's growth strategy was to broaden products across all verticals and then facilitate multiple levels of sellers on their destination site and charge a service fee for that service, Walmart e-commerce strategy (after Mark Lore was handed the keys to the kingdom from Walmart's CEO Doug McMillon) has been to grow via acquisition. Since then, they have proceeded to acquire solid ecommerce companies in niches along specific verticals, very much like Mark Lore's old strategy with Quidsi. His central premise relies on beneficial supplier relationships in a vertical to present a more efficient and valuable experience.

Shoebuy	Shoes	$70M	1/5/17
Moosejaw	Outdoor	$51M	2/15/17
Bonobos	Suits	$300M	4/17/17

Source: KWCP Research

The Pricing Battle Commences. Since then, Walmart has announced free 2-day shipping for all users without joining a club such as Amazon Prime, which typically costs users $99 per year for free shipping, however there are some limits required for faster shipping. Thus, today, Amazon offered a cheaper version of Amazon Prime for lower income users.

The Demise of Retail. As Macy's (M, $21.81) warned about a potential reduced margin outlook today, we revisit the demise of the retail sector and all the mall space in general as the main means of reaching the customer. Though many view Macy's as still possessing brand value, and having real estate value, the demise of the leader in the department store sector has signaled the greatest annual tally since the Great Depression which can only be traced back to Amazon.

Struggling Private Equity Retail Plays

J. Crew
Claire's Stores
Toys 'R Us

Chapter 11 Retail Filings

Aeropostale
Sports Authority
Sports Chalet
Payless Shoe Source
Bebe
Gordman's Stores
Gander Mountain
Radio Shack (aka General Wireless Operations)
HHGregg
BCBG Max Azria
Michigan Sporting Goods Distributors
Eastern Outfitters
Wet Seal

Limited Stores
Borders Book Stores

Potential Publicly-Listed Retail in Trouble

Macy's (M)
J. C. Penney (JCP)
Sears (SHLD)
Kmart (SHLD)
GameStop (GME)
Abercrombie & Fitch (ANF)
Barnes and Nobles (BKS)

Source: KWCP Research

Sector is dead. Is Walmart doing enough to survive? While we continue to believe small, niche retailers focused on service and box curation may succeed in niche verticals, we do not believe now any competitor is large enough to compete with Amazon itself. While Walmart's new pricing and vertical acquisition strategies are, interesting and present a compelling silver medal, the gold still only belongs to one player. We point to Amazon's recent closure of their acquired Quidsi asset on the grounds of non-profitability despite their team's enormous economies and resources.

So, the vertical by vertical strategy is not enough. Furthermore, we view the once hailed 'mini-warehouse strategy' for retail stores to enter e-commerce (and hence efficient delivery with many points of contact) and now the retail outlet as a diversified fun place offering summer camps (see Michael's (MIK, $17.51)) and cooking classes (see Williams-Sonoma (WSM, $45.77) and Sur La Table) as a good, traffic driving alternative and a bit gimmicky, but as summer camps are not Michael's specialty, neither will they be the best at providing this service. Thus, the public may not be willing to pay for these services in one way or another.

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