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Burlington Stores Inc.

Amanda Carey
Merrimack College, careyam@merrimack.edu

Amanda Carey
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Abstract

Throughout this piece, various aspects of Burlington Stores Incorporated are analyzed, giving greater meaning to their impact on the market and their success and failures as a company independently. Within this exposure, it became clear that they have come a long way from their initial creation, but with our fast-paced world they will need to continue to push past many boundaries. Generally, they are a very well-known name, but this does not necessarily mean that they are greatly successful in each part of their business. They thrive within the brick-and-mortar industry, as they direct competitors with other household names (TJX, J.C. Penney and more). While their room for improvement lies more with their online presence (or lack thereof). If they could increase this or find other competitive advantages to keep them ahead or in line with their competitors then I believe they would be in a much better place.

History and Current Events

In 1946, Burlington Coat Factory was created by a father and his son in Burlington, New Jersey (where their headquarters have remained). These two began selling specifically coats and jackets, but eventually moved into additional markets as a large wholesaler. As the company grew, the buy outs and initial public offering began; they were bought out for 2.06 billion dollars in 2006 and went public in June of 2013. These two pieces of their history impacted their finances very clearly at the time and are essential to understanding where they are now. In addition to this, they also had a very prominent issue regarding “faux fur” which was relatively well known. What happened was Burlington Industries was providing fur from raccoon dogs in China for the merchandise, while Burlington Coat Factory was labeling it as faux fur. This led to an investigation and ultimately Burlington Coat Factory relabeled their products, stating that they were not associated with Burlington Industries (Wikipedia).

In 2009, Burlington Coat Factory became Burlington Stores Incorporated, made a change where they restructured their brand. Their intention was to convey that they sell more than just coats (Burlington Investor Relations). They had a very strong recognition with their original company name. So, they made sure that when an individual goes to search for their store online, the results will come up for Burlington Coat Factory and Burlington Stores. This change was important to how their market saw them. Regarding this change, their typical customer consists of a younger demographic who is looking for something that is not too expensive but can keep up with the current style. Beyond this, Burlington offers a wide variety of options within their store, so that they can be relevant to the mass market (consisting of men's, women's, kids, baby, and home) (Stone Wall).

Furthermore, they took this opportunity to work with Fortuna Inc to improve their supply chain processes, focus on their information technology and operations (RIS). From this restructuring it is expected that their stock price would rise and their overall business would improve, unfortunately the company did not go public until after this change, but from internal findings they did have some boosts in their business holistically. Regarding the current pandemic situation, Burlington Stores has re-opened their stores and are offering a 50% discount (which could point to the trouble that they had with having to close for some time). This finding points to the financials, in that we can see flux which will help a reader better understand the true impact that the pandemic had on them (demonstrated in exhibit).

According to Morningstar's Price vs Fair Value, a major drop can be seen in March of 2020 (the beginning of the pandemic). They closed at 216 in February and dropped to 158 by the end of March; although they have recovered since then (only dropping a few from where they were prior to the pandemic) (Bhogaraju). Moreover, ecommerce is a very crucial aspect especially regarding our current world and Burlington is struggling with it. They are having trouble offering their typical price point (off price retailing) considering the added costs of moving to an online space (shipping, processing, returns, etc.), therefore the percentage of their online sales consists of 0.5% (NRF). Another aspect that is important to note is their typical store used to be very large, but as the years have gone on, they have decreased in size. Finally, they, like many other stores in the industry do have an increase during the holiday season. With all this being said, some values from Morningstar will make some of these points clearer. Refer to the table on page 3 to receive a better understanding of the profit they have coming in (as of recent). Beyond this, there will be a separate table for the industry standard and the strategic competitor.

Table 1 - Burlington Stores Basic Overview

All financials are for the TTM (trailing twelve months)

Total Sales	5.80 B
Total Earnings	2.18 B
Market Cap	14.19 B
Total count of employees	40,000
Total number of stores	631
Number of countries they are operating in	1
Primary location for operation	U.S.

Source: Morningstar

Internal Financial Analysis

Initially, Burlington seems to be in a relatively good place, but the continued research put them at a lower point in relation to their competitors. Refer to the table for further understanding. After analyzing the data from Morningstar, it becomes clear that the order from largest to smallest is Walmart, TJ Maxx, then Burlington. I selected Walmart for my industry standard because Walmart has a low-price discount structure, similar to the price cuts that Burlington offers, but they do it differently. As for TJ Maxx for the strategic competitor, this company consistently came up in my initial research as a major competitor, therefore their market most likely overlaps, and they could be taking similar approaches in gaining more market share. Refer to the table on page 4 for further understanding on each of the company's data.

Table 2 – TJ Maxx and Walmart Overview for Benchmarking

All financials (except for sales and earnings) are for the TTM (trailing twelve months)

	Burlington	TJ Maxx	Walmart
Total Sales	5.80 B	33.73 B	542.03 B
Total Earnings	2.18 B	7.96 B	133.66 B
Market Cap	14.19 B	68.98 B	411.26 B
Total count of employees	40,000	286,000	2,200,000
Total number of stores	631	4,557	11,500
Number of countries they are operating in	1	9	27
Primary location for operation	U.S.	U.S.	U.S.

, TJX Wikipedia, Corporate Walmart

Using Walmart as a comparison company was a good decision because multiple resources refer to both companies as a store that promises "everyday low prices". This is made possible due to the ways that they conduct their business. Walmart has a low-cost structure because of their sheer volume, in that they can buy in bulk and get lower unit prices. However, Burlington has a different approach, where they can offer low prices because they offer premium name brands and they offer national brands, whereas other department stores and off-price retailers only do one or the other. What is important to note is that Burlington can afford to offer lower prices to their customers since they focused on lowering their overhead (low cost structure).

This being, they also make sure to buy their inventory at “distressed prices” so that they can give their customers more value and still make a profit out of it.

A benefit that Burlington has over TJ Maxx is that their physical store space is about double the size. Another aspect that Burlington benefits in over TJX is that they have more flexible styles so they can adapt to change, whereas TJX is less flexible because they focus more on the current and upcoming season. Also, the exhibit highlights some commonalities between the two, TJ Maxx has a higher volume for all of the categories, but when looking further, their sales in relation to the number of stores that they have are almost proportional. A smaller aspect that is still important is the fact that when an individual searches for either company there is a section on google that recommends other stores that are similar and they both come up in the top three for each other.

Within Table 3 all three companies did not have dividend yields (only TJX and WMT), therefore I was not able to compare their payout ratio. This is because Burlington does not offer dividends. Therefore, instead of comparing the two that I do have from my benchmarks, what is more important is the fact that Burlington is still growing so they are not able to offer that. Instead they are reinvesting their capital to build their business, whereas TJ Maxx and Walmart are stable companies that can offer that benefit to their customers. Burlington Company Incorporated had the highest revenue growth in comparison to the two companies that were being benchmarked. This is in line with their financials and other ratios because they are in the growth stage whereas the other companies are more mature. Therefore, their growth within revenue could be higher, but they are still working on managing their initial debt. They have managed this debt relatively well; it is just making sure they are keeping equity in mind.

When analyzing the return on equity it becomes clear that Burlington is in a poor situation, especially compared to others that are like them. They are at a deficit for this, meaning that they are not even making a return off what they own. Even more so, the debt to equity ratio is more telling because it conveys the same message, they are clearly calling to attention the aspect that they have a high amount of debt for the amount of equity that they have. The others could have more or equal to the same amount of debt, but they could have more equity therefore pushing down their ratio and making them more stable. Although, the current ratio on line three clearly identifies that all three companies can handle the amount of debt that they have (as they are all in the same range). This being, it is impressive that Burlington had this apparent trouble with managing their returns on equity and handling their debt, but their structure supports them in making sure they can handle what they are taking on.

As for the Inventory Turnover ratio and Accounts receivable ratio, these two ratios convey that TJ Maxx and Burlington are similar in the capacity they have for getting inventory out and ordering it, as well as receiving payments. Whereas Walmart is above them, this is because of the sheer size of their company that they can achieve this. Therefore, Walmart is the most efficient, but Burlington does fall in line in relation to their direct strategic competitor.

Table 3 – Current Financial Health Comparison

Operating Performance - TTM (trailing twelve months)

	BURL	TJX	WMT
Return on Equity	(26.92)	14.28	24.57
Debt/Equity ratio	18.43	3.36	0.92
Current Ratio	1.54	1.51	0.79
Payout Ratio	-	123.21	34.13
P/E Ratio	302.24	102.52	23.05
Inventory Turnover	5.07	5.84	9.58
Accounts Receivable Turnover	78.19	82.15	103.31

After analyzing all these pieces that are demonstrated in the exhibit, one aspect that should be analyzed is the overall impact on Return of Equity. As discussed, prior, Burlington Stores is struggling with their return on equity and their debt to equity ratio supports that, but the current ratio is in line with the benchmarks used. Therefore, the conclusion would be that they have a lot of debt and it impacts the return that they can have on what they own, but they are in a relatively normal position as to how well they can handle it. In relation to the inventory turnover ratios and accounts receivables turnover ratios, Burlington is still in a lower position, but the difference is not very drastic between BURL and TJX. Walmart has a much higher turnover, but again this could be due to the sheer size of their company.

Of all these companies, the one that investors would favor the most would be Walmart because it has the lowest price to earnings ratio. This was expected because Walmart and TJ Maxx both offer dividends and are stable companies. Therefore, it's a less risky for investors; some investors prefer to go with high risk because of the saying "high risk, high return", but with a stable and mature company like Walmart it is understandable that investors could appreciate the consistency (Morningstar).

Strengths and Weaknesses

BURL is a company that has gone through some major changes in management that have enhanced the business, but there is still room for improvement. This becomes increasingly clear when analyzing the financials and how they stack up in comparison to their strategic competitor and industry standard. The key point to take away is that Burlington had a major shift in brand in 2009 and it has been shaping the way they have done their business. Furthermore their primary strength would be their ability to differentiate, they are similar to others like TJ Maxx, but they have such a wide variety (as their merchandise spans over many categories) so they can compete in many different spheres. As for a major current weakness that is very apparent is the lack of ability to move into the e-commerce field. This has become increasingly important in our virtual world and the fact that they can not push down their cost structure to support their typical low prices, raises some concern (NRF). The struggle that they are facing to get fully immersed in it will continue to be a barrier for them when competing with others in the industry. Overall, Burlington is in a relatively stable position, but still trying to grow as much as possible. They do have a very well-known brand and could continue to grow beyond how much they have grown already if they can improve some business aspects.

External Competitive Analysis

Burlington Stores Incorporated, also known as BURL on the New York Stock Exchange, displays their fair share of financial highs and lows. To reflect on the previous piece, it is crucial to note the nature of Burlington (and T.J. Maxx their strategic group company). They are within the off-price industry, which impacts what they sell and how they sell it. From the Morning Star report, it can be gathered that this company demonstrates a narrow economic moat because of this model that they operate under. The reason for Burlington being specifically in this position resorts back to the lack of economies of scale, as well as the limit on their free cashflow due to the sheer size of their company in comparison to their competitors. Their key advantage that keeps them relevant in our current world continues to be their ability to offer discount prices on name brand products. In addition, they positioned themselves ahead of their online competitors by avoiding the shipping costs, they enjoy this benefit because of their larger in store presence, as well as being directly from the manufacturer In turn this cuts down the costs associated with a lengthy distribution chain. While this could be seen as a great aspect, the first assignment clearly identified that this could be a weakness in our pandemic stricken world, one that will continue to heavily rely on purchasing online for the near future to avoid having to go out and risk health and safety.

Another aspect that Akbari mentions in the report is the strategy that Burlington built, one that fosters almost a “treasure hunt” like experience, drawing bargain hunters in. When they do this, they draw in various customer demographics including a range of individuals with different salaries and spending budgets, although their average customer does have a lower average salary compared to their strategic competitors. This is key to note because they need to approach these customers in different ways whether it be focusing on demographic specific discounts (military discounts help to target a specific group) or other methods. In correlation with consumer income comes their attention to high value brand, these companies that sell their excess merchandise to Burlington at a discount are able to do this because of the discrete channels that they use to set their plan. As well as the “treasure hunt” kind of atmosphere allows customers to feel as though they found an amazing hidden deal, so it only heightens the brand which betters the outside company brand. Although, the risk of this could be that these high value companies could lose purchasing power and elite brand recognition if they are too known for funneling into a store such as this one, so they must find the balance together as a team (Akbari, 2020).

Another very valuable benefit that Burlington enjoys is an inventory turnover that supersedes their competitors while also relying on a pack and hold system. This system is built on the idea that Burlington purchases inventory and sells them in a different season, specifically they purchase one third of the inventory in the season before and two thirds of the inventory during the season so that they can have a better idea of what their customers want. A system such as this one holds risk, but it allows them to get some great inventory when it might be at a lower figure and as long as the value stays true to the product then they will find a larger margin on it (Cosgrove, 2020).

Strategy and Growth

When taking a closer look at Burlington's strategy and how it has developed it became clear that they use a segmentation strategy. They cater to various segments while offering numerous options that cover different consumers within the industry. This can be seen on their website as well as in stores, since their departments cross over from apparel to home goods, as well as other minor pieces. This is more of a segmentation strategy rather than standardization. This company mainly thrives off the customer demands and brand recognition as stated before; Burlington is not just making a standard product, one that is "one size fits most". Rather it is focused on the trends and what is relevant for a few segments, rather than just one, such as a company that only focuses on the sale of cosmetics or jewelry. They pull in these popular brands so that they can pull their customers in store, then promote their own products, giving them a sense of duality.

Furthermore, Burlington also has a known business level strategy that is mostly identified as a broad low-cost strategy. To explain this further, this company thrives off of keeping their departments flexible, in terms of "leaving it to the voice of the consumers", following their trends while also providing some steady options that remain within their own brand. This sense of duality allows them to be focused on a certain segment (one that is looking for those high value finds) as well as ones that come across the discounted general apparel while searching for their sought out prestige products. Whereas their strategic competitor TJX almost solely focuses on that off pricing model, making them more of a focused low costs business.

Regarding the specifics that support this finding, it has to do with the direct shipment from manufacturer as discussed before. This factor allows them to have some cost leadership, in that they can offer prices that not even their largest competitors can. For example, on Burlington's website they have an offer that most definitely beats even Walmart's prices. This offer that they have consists of men's coats starting at $3.99, whereas Walmart has lightweight coats for $21.00 and $24.99 at TJX. Some factors that contribute to this price gouging consist of their operating efficiency being really strong in 2018, but drastically going down since then. The timeline here is consistent with what could be expected, as 2019 is when the pandemic hit and their e-commerce only accounts for 1% of their sales. Although their strong brick and mortar set up helps to combat this struggle that they face, they still have leeway that needs to be made up for (Burlington Stores Inc., 2020).

International

Burlington Stores Incorporated does not have a strong international presence. They do ship internationally, not to all countries, but they have that capability. Although, after looking into it more, there are ways around this complication. Customers can have a shipping forwarder work with them to get the product to them even if they live somewhere that Burlington does not ship to. To reflect on this, it creates a barrier for Burlington because they are cutting some other companies that could have potential customer bases (Borderoo, 2020). As the text discusses, it is important to recognize culture and the impact that it can have on consumers buying decisions and what they are looking for. The products that they offer here in the United States may be very different from what another country's customers is looking for.

Corporate Strategy

As the previous paper discussed, Burlington has had organic growth since 1946, but in 2009 they had a restructuring which led to the change in their name (Burlington Coat Factory to Burlington Stores Inc.) as well as a change in management. This being, they have not acquired any other companies, but they have expanded in what they sell. Since they originally sold primarily coats, they have switched over, so now they incorporated related diversification by selling other apparel items. A change such as this one allowed them to expand to other customer bases and related industries.

Assess and Project

After looking over each aspect of this business, the one key piece that stands out as very prominent is that their e-commerce within the COVID era is lacking. Therefore, I believe that they must rethink how they should be getting in front of customers. Taking advantage of the omni channel would allow a customer to order merchandise from technology to be delivered to store or to their home, which would give them a competitive advantage, but as the research shows they have many barriers to getting to where they need to be. Currently, their store is holding up well, staying relatively steady, but they need to find a differentiator to keep them relevant. Personally, I believe that their success is someone held onto their brand being a "household name". Their frame is held on their low prices and for them to ship would impact the ability to work with those low prices that they are known for. This weakness is one that I know other companies that are in the same off pricing industry are having, but they are a little ahead. As a consumer I would not have even thought about online purchases for this kind of store, because of the "treasure hunt" feel that it puts off. Although, a strength that they have is that they offer a credit card for their customers, which only promotes brand loyalty (Schulz, 2020). Going forward, I believe that they will survive since there are still people that do not like buying clothes online, instead they like to try them on and see them in person. These people may combine minimal online purchases with in store purchases, but nonetheless, I do not think it would be ruled out completely.

Suggested Changes

I believe that as difficult as it may be, Burlington should continue to research and better understand how a business like theirs can thrive in an e-commerce space or continue to improve strictly within the brick and mortar space. Whether it be continuing the discounts and shifting prices elsewhere or finding some way to stay competitive in that market. According to Morning Star, they do have some faith that Burlington will make it through this pandemic, even with the lack of e-commerce that they have. I understand this perspective, but I think that some people are faithful to shopping in person rather than online. This is not to say I do not think that their ability to grow will be stunted due to COVID, but when some normalcy comes back they will probably see their business improve, not as much as before (since they would probably lose some to the convenience of online shopping), but if they are loyal before then the chances are that they will return.

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