

AutoZone: Where to Put the Next Mile of Growth?

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A strategy case for MBA students and working professionals

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Case status: Constructed strategy exercise. AutoZone did not disclose the exact choice posed here.

The decision

AutoZone had grown through new stores, a commercial program serving professional repair customers, and a network of hubs and mega hubs intended to widen parts availability. International operations were also expanding. The company said it planned higher investment in fiscal 2024, including supply-chain projects and store openings. But AutoZone did not disclose a project budget, market-by-market returns, or a formal decision to choose one growth path over another. [S1, Item 7, pp. 31-32; S2, pp. 4-5]

Recent results made the sequencing question less obvious. AutoZone reported brisk international comparable sales growth, modest domestic comparable growth, and continued commercial-sales growth. At the same time, domestic commercial sales per program per week declined in the latest quarter, while total domestic commercial sales increased. The measures described different things; neither revealed hub-level economics. [S3]

Assignment: Recommend how AutoZone's leadership should sequence its next growth priorities: deepen domestic hub and commercial capability; emphasize international store expansion; or pace expansion while focusing on operating execution. Explain what evidence should govern the next increments. The options are a classroom frame, not a claim that AutoZone announced a binary vote or a discretionary capital pool. Do not assume a fixed budget or calculate project ROI from the information provided.

A network built around availability

AutoZone served do-it-yourself customers and professional repair businesses. Its commercial program provided credit and prompt delivery to garages, dealers, service stations, fleets and other accounts. At August 26, 2023, 5,682 domestic stores had commercial programs. AutoZone described the commercial business as a strategic growth opportunity. [S1, Item 1, printed p. 4; S2, p. 4]

At the same fiscal year-end, AutoZone reported 7,140 stores: 6,300 in the United States, 740 in Mexico and 100 in Brazil. It also reported 308 U.S. hubs, 39 international hubs, 98 U.S. mega hubs and two mega hubs in Mexico. Hubs carried extra parts assortment and replenished

stores; mega hubs held about 80,000-110,000 stock-keeping units. The company said more than 6,000 domestic stores could access mega-hub inventory and that most received same-day service. These descriptions show intended network reach, not independently measured availability or incremental sales. [S1, Item 1, printed pp. 6, 10]

The network served customers with different needs. A do-it-yourself customer might value a nearby store and immediate access to a common part. A repair shop could value broader assortment and fast delivery that helps return a vehicle to service. A hub might pool slower-moving inventory across several stores, but speed, transportation, inventory and labor all matter. AutoZone did not report hub-level returns, in-stock rates, lost sales, or commercial account profitability. [S1, Item 1, printed pp. 4, 10; S3]

Growth plans and operating signals

In fiscal 2023, AutoZone's net sales were \$17.457 billion, up 7.4%. Domestic comparable sales grew 3.4%; international comparable sales grew 29.3% reported and 17.5% at constant currency. Domestic commercial sales increased \$368 million, or 8.7%, after 26.5% growth in fiscal 2022. In its shareholder letter, management said commercial growth had disappointed it, reported average weekly sales of \$16,000 per domestic program compared with \$15,500 a year earlier, and cited 340 net new domestic programs. It also described hub and mega-hub performance as exceeding expectations. Those statements were company-reported results and management assessments; the public reports did not isolate the contribution from new stores, hubs or other initiatives. [S1, Item 7, pp. 30-31; S2, p. 4]

AutoZone's plans combined rather than substituted network investments. The shareholder letter described a longer-term goal of 200 domestic mega hubs and 300 hubs, ongoing store expansion, and a long-term ambition to open as many as 500 stores annually several years out. The 10-K reported \$796.7 million of capital expenditures in fiscal 2023 and said fiscal 2024 investment was expected to increase, primarily for supply chain, hubs and mega hubs, distribution-center expansion and new stores. Store-site decisions, the company said, depended on expected future profitability and meeting its investment hurdle rate; it did not disclose the hurdle-rate figure. [S1, Item 1, p. 8; Item 7, p. 32; S2, pp. 4-6]

Exhibit 1. Fiscal 2023 network and growth snapshot

Measure	Reported value	Period / scope
Total stores	7,140	Aug. 26, 2023: U.S. 6,300; Mexico 740; Brazil 100
Domestic commercial programs	5,682 stores	Aug. 26, 2023
Hubs	308 domestic; 39 international	Aug. 26, 2023
Mega hubs	98 U.S.; 2 Mexico	Aug. 26, 2023
Domestic commercial sales	\$4.6bn	FY2023; company shareholder letter
Commercial sales growth	+8.7%	FY2023; +26.5% in FY2022
Net new domestic commercial programs	340	FY2023; 163 in FY2022
Capital expenditures	\$796.7m	FY2023; \$672.4m in FY2022

Sources: [S1], Item 1, pp. 4, 6, 10; Item 7, pp. 30-32; [S2], pp. 4-5. Figures are reported by AutoZone. The company's plans and hub-performance descriptions are management statements, not independent return estimates.

A softer domestic quarter, a stronger international comparison

AutoZone released second-quarter fiscal 2024 results on February 27. The 12-week quarter ended February 10. Net sales were \$3.859 billion, up 4.6%. The comparable-sales table reported total-company growth of 3.0% as reported and 1.5% at constant currency. Domestic comparable sales grew 0.3%; international comparable sales grew 23.9% reported and 10.6% at constant currency. [S3]

For the first 24 weeks of fiscal 2024, total-company comparable sales grew 3.2% reported and 1.8% at constant currency. Domestic comparable sales grew 0.8%; international sales grew 24.5% reported and 10.7% at constant currency. Currency changes made a material difference to the international comparisons. [S3]

The same release showed domestic commercial sales of \$980.1 million, up 2.7%, for the quarter. Trailing-four-quarter domestic commercial sales were \$4.683 billion, up 4.6%. Average weekly sales per domestic commercial program were \$14,100, down 2.8%; 5,823 stores had programs. Total sales and sales per program had different denominators and could move in different directions. [S3]

Gross margin was 53.9%, up 160 basis points from the prior-year quarter. AutoZone attributed the increase to higher merchandise margins, \$24 million of net noncash LIFO favorability, and primarily favorable supply-chain costs for the remainder. SG&A was 34.6% of sales, compared with 34.1%; the company attributed the deleverage primarily to domestic store payroll and technology initiatives. Inventory was up 4.2%, which management attributed to new-store growth. These attributions do not measure the return on a particular initiative. [S3]

Exhibit 2. Selected AutoZone results

Measure	FY2023	Q2 FY2024 / 24-week period
Net sales	\$17.457bn; +7.4%	Q2: \$3.859bn; +4.6%
Total comparable sales	-	Q2: +3.0% reported / +1.5% constant currency; 24 weeks: +3.2% / +1.8%
Domestic comparable sales	+3.4%	Q2: +0.3%; 24 weeks: +0.8%
International comparable sales	+29.3% reported / +17.5% constant currency	Q2: +23.9% / +10.6%; 24 weeks: +24.5% / +10.7%
Domestic commercial sales	\$4.6bn in FY2023; +8.7%	Q2: \$980.1m; +2.7%; weekly sales per program \$14.1k, -2.8%
Inventory	-	Q2: +4.2% year over year

Sources: [S1], Item 7, pp. 30-31; [S2], p. 4; [S3], comparable-sales and commercial-sales tables. Constant-currency values are company-reported measures. Q2 commercial total sales and average sales per program are not interchangeable.

Rivals were growing at different rates

O'Reilly Automotive reported calendar-year 2023 U.S. comparable-store sales growth of 7.9% and total sales growth of 10%. Its filing described a business mix of 53% do-it-yourself and 47% professional sales and 385 hubs averaging about 52,000 stock-keeping units. O'Reilly's calendar-year period, store base and definitions differ from AutoZone's; its results do not establish that its hub network caused its growth. [S4, Item 1, pp. 5-6, 10; Item 7, pp. 32-33]

Advance Auto Parts reported fiscal 2023 comparable-store sales down 0.3%, gross margin of 40.1%, and operating margin of 1.0%. It attributed gross-profit pressure primarily to inventory-related items and costs not fully covered by pricing; it also described atypical inventory and elevated supply-chain costs in the fourth quarter. Management said it was seeking to stabilize and reset the business. Advance disclosed that its comparative financial figures included corrections of nonmaterial errors. The results provide a contrasting company context, not a like-for-like benchmark or proof that a particular strategy succeeded or failed. [S5]

Exhibit 3. Competitor disclosures available by the cutoff

Company	Period	Reported signal	Scope caution
O'Reilly	Calendar FY2023	U.S. comps +7.9%; 385 hubs	Calendar year; different footprint, mix and definitions
Advance Auto Parts	FY2023 ended Dec. 30	Comps -0.3%; gross margin 40.1%; operating margin 1.0%	Inventory and supply-chain costs affected gross profit; corrected historical comparisons

Sources: [S4], Item 1 and Item 7; [S5], results release. Company-reported figures and attributions.

The recommendation

AutoZone's public plan already included more stores and supply-chain investment. The choice was how to sequence priorities and decide where the next increments should go. A domestic hub and commercial push could support breadth and service across existing stores. International store growth could extend the footprint in regions with stronger recent comparable-sales growth, though reported growth also reflected currency. A measured pace could give teams room to improve execution and learn which investments worked, but could defer customer access or demand growth.

The evidence was incomplete. The filings offered total company sales, comparable sales, commercial program counts and aggregate capital expenditure, but not market-level overlap, store or hub costs, SKU-level economics, commercial account retention or measured changes in parts availability. AutoZone did not disclose a project budget or return by investment type.

Prepare a recommendation to AutoZone's leadership: Which growth priorities should receive attention first, and what indicators should determine whether to expand, maintain or slow each one? Address how domestic commercial service, hubs/mega hubs, international stores and execution capacity fit together. State what evidence would change your view. Do not invent a formal management decision, budget, private discussion or initiative-level return.

Discussion questions

1. What does AutoZone's network enable for do-it-yourself customers and professional repair businesses? Where do their needs differ?
2. Which signals in FY2023 and Q2 FY2024 support further domestic commercial/hub investment? Which complicate that case?
3. How should leadership compare international store growth with domestic network investment when currency-adjusted results and company-level economics differ?
4. What evidence would help distinguish customer demand from the effects of stores, hubs, assortment, service and execution?
5. Recommend a sequence and identify at least one condition that would cause you to change it.

Sources and conventions

- **[S1]** AutoZone, FY2023 Form 10-K, filed Oct. 24, 2023; fiscal year ended Aug. 26, 2023. [SEC filing](#)
- **[S2]** AutoZone, 2023 Annual Report to Shareholders, filed Oct. 30, 2023; shareholder letter, printed pp. 2-8. [SEC report](#)
- **[S3]** AutoZone, Q2 FY2024 results release, Feb. 27, 2024; 12 weeks ended Feb. 10. [Issuer release](#)
- **[S4]** O'Reilly Automotive, FY2023 Form 10-K, filed Feb. 28, 2024. [SEC filing](#)
- **[S5]** Advance Auto Parts, FY2023 results release, Feb. 28, 2024. [Issuer release](#)

Research context is documented in the source register and evidence extraction. Later AutoZone filings, results and outcomes are outside the cutoff.