

Zumiez: Where Should the Next Stores Go?

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Strategy case for MBA students and working professionals

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A retailer at an inflection point?

On the afternoon of June 6, 2024, Zumiez reported results for its first quarter of fiscal 2024. The company's release described its North American region as having "inflected positive" in the quarter. Management also said its focus on full-price selling in Europe had expanded merchandise margins, more than offsetting expense deleverage, even as European sales remained under pressure. "We still have much work to do to return to historic levels of both sales and profitability," CEO Rick Brooks said in the release. [C3]

The release also carried two other signals. Four-week May net sales rose 1.8% year over year, while comparable sales fell 0.2%. For the second quarter, management projected net sales of \$199 million to \$204 million and a loss per share of \$0.30 to \$0.40. These were company outlook figures, not results. [C3]

For this classroom exercise, assume Zumiez's leadership team has asked for a recommendation on its current store plan. This is a hypothetical analytical assignment, not a claim that management or the board had a pending vote on the plan.

A global specialty-retail model

Zumiez sells apparel, footwear, equipment and accessories associated with action sports, streetwear and related youth culture. It operates under the Zumiez, Blue Tomato and Fast Times names, with stores and ecommerce sites in North America, Europe and Australia. At June 1, 2024, it operated 751 stores: 593 in the United States, 47 in Canada, 86 in Europe and 25 in Australia. [C3]

The company describes its stores as places for customer interaction and product discovery. Its FY2022 filing also said that its domestic store network fulfilled the "vast majority" of online customer purchases. Zumiez has described site-selection criteria that include traffic, customer demographics, lease terms and local competition, and says it seeks an appropriate store count within each trade area. [C1, C4]

The growth plan was still active. Zumiez intended to open approximately ten new stores in fiscal 2024. Its June release specified up to three in North America, three in Europe and four in Australia. The company's FY2023 filing estimated FY2024 capital expenditures of \$14 million to \$16 million, most of which would relate to new-store leasehold improvements and fixtures, remodels or relocations. It cautioned that the net investment required to open a store varied

substantially with geography, size and landlord arrangements. [C1, C3]

Different signals across regions

Zumiez's fiscal 2023 ended February 3, 2024. Annual net sales were \$875.5 million, compared with \$958.4 million the prior year; the company reported a \$62.6 million net loss. North America sales declined \$104.7 million, or 13.1%, while other international sales increased \$21.8 million, or 14.0%. Excluding foreign-exchange effects, those changes were a 12.9% decline and an 11.8% increase, respectively. "Other international" combined several markets and did not disclose store-level returns. [C1]

The latest quarter brought a less severe consolidated sales decline. First-quarter fiscal 2024 net sales were \$177.4 million, down 3.0% from \$182.9 million a year earlier. The company reported a \$16.8 million net loss, compared with \$18.4 million in the prior-year quarter. Management said North America drove the year-over-year sales-trend improvement and described it as an inflection; the release did not provide a full regional comparable-sales series. [C3]

Europe's margin commentary coincided with an accounting warning about Blue Tomato, Zumiez's European business. For fiscal 2023, the company recorded a \$41.1 million goodwill impairment. Management said Blue Tomato's sales growth had been more closely tied to store growth than to comparable-sales trends needed to keep pace with the cost of doing business; operating losses were its largest since acquisition. Management also said it cut the store-growth assumptions in Blue Tomato's five- and ten-year plans by 50% to prioritize positive cash flow and profit. [C1]

The impairment was based on management's expectations about future cash flows and goodwill value. It was not a cash payment for fiscal 2023 and did not report the return of any particular store. The long-range plan reduction and the fiscal 2024 plan to open up to three European stores were both in the public record by the cutoff. The filings did not explain how the long-range assumption change translated into individual openings.

Capital and competitive context

At May 4, 2024, Zumiez reported \$146.6 million in cash and current marketable securities, compared with \$155.3 million a year earlier. The release attributed the decline to \$17.5 million of capital expenditures over the period, partly offset by \$9.1 million of operating cash provided. It also reported that the board had approved a repurchase authorization of up to \$25 million on June 5, expected to continue through June 30, 2025 unless changed by the board. The authorization did not mean the company had repurchased shares or would use its full amount. [C2, C3]

The credit agreement previously in place with Wells Fargo had been terminated effective May 3, before the authorization. Zumiez reported no borrowings or open commercial letters of credit at termination; \$3.4 million of undrawn standby letters of credit were transitioning to restricted deposits. Those deposits were not unrestricted funds. The previous agreement had restricted buybacks without bank approval, but the agreement had ended by the June 6 cutoff. [C1, C2]

Public competitors were also making portfolio choices. Tilly's, a U.S. youth-oriented apparel retailer, reported fiscal 2023 net sales down 7.3% and comparable sales down 10.6%, including ecommerce. Non-comparable store sales increased \$21.5 million, primarily from new stores; Tilly's ended that year with 248 stores and expected five openings in fiscal 2024. Its fiscal year had 53 weeks and its comparable-sales definition includes ecommerce, so its metrics are not directly comparable with Zumiez's May four-week figures. [C5]

Foot Locker reported beginning a store-refresh program in 2023. Its FY2024 plan included refreshing approximately two-thirds of Foot Locker and Kids Foot Locker locations by year-end and opening approximately 20 WSS and 15 Foot Locker/Kids Foot Locker stores. Its brands, scale and customer proposition differ from Zumiez's. [C6]

The decision

For the classroom exercise, the leadership team must recommend one of three approaches to the approximately ten-store fiscal 2024 plan:

1. **Execute the announced regional mix:** up to three North America, three Europe and four Australia openings.
2. **Reallocate the openings:** retain approximately ten in total but direct more or fewer toward one or more regions.
3. **Stage or reduce the plan:** make openings conditional on explicit operating evidence and defer or cancel locations that do not meet the team's stated criteria.

The public disclosures do not provide store-level investment, local demand, lease flexibility, regional contribution margins, ecommerce spillovers or new-store cohort returns. A recommendation should therefore distinguish what the filings establish from what additional evidence or hypothetical assumptions it needs.

Discussion questions

1. Which signal should carry the most weight in the near-term footprint decision: the North American trend, Europe's merchandise-margin improvement, the Blue Tomato impairment, the May net-sales/comparable-sales divergence, or another measure? Why?
2. What evidence would you require before adding stores in each region? Which indicators would support continuing, reallocating or pausing openings?
3. How should Zumiez assess a store's contribution to its local trade area and ecommerce network, rather than relying only on store sales?
4. What does the \$25 million repurchase authorization add to the decision? What can and cannot be concluded about its relationship to the store plan?
5. What data should management collect before making its next location and capital-allocation decision?

Source note

Source IDs refer to the source register in the Zumiez research dossier. Company facts and management statements are cited to the dated filings/releases in C1-C3; prior company strategy in C4; and public competitor information in C5-C6. The case's information cutoff excludes the June 6 earnings-call remarks after 5:00 p.m. ET, the June 10 Form 10-Q, and subsequent events.