

# Saks fifth avenue vs. neiman marcus essay sample



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I am writing to analyse the company's current balance sheet and income statement. Particularly, I will critique on the company's results, compare it to past years, compare it to competitors, and make recommendations on how to improve its financial position.

Neiman Marcus department stores offer luxurious and high-quality men's and women's apparel and accessories. The Neiman Marcus Group operates 35 stores in nearly 20 states. The 2004 net income was an impressive \$204 million and revenue was \$3.5 billion. More importantly, their gross profit was \$1.2 billion. Their net income is approximately 5.8% (compared to total revenue) and 1.7% (compared to their gross profit). This may seem little, but when a company revenues such a large amount, a small percentage net income is a very large amount, as exemplified. Comparing it with their largest competition - Off Fifth Saks Avenue (Saks) - Neiman Marcus earns 5 times their competition's income. The profit figure is very adequate.

Neiman Marcus' income statement shows their fiscal period ends in July. The total revenue was \$3.5 billion but their cost of revenue was \$2.3 billion. This is 66% of their revenue. This is significantly high, but again, to increase revenue comes with expenses. After calculations, the total expenses were approximately \$1 billion. On the given income statement (attached) they show mostly taxation and interest expenses. These expenses cannot be commented on because they are standard, as directed by the government. However, we are given the "selling general and administrative expense", which was \$875 million. These are associated with payrolls and running the company. These expenses are 71.5% of the company's gross profit. These

expenses are high and should be lowered; but in comparison to their competition, it is 10% lower.

There is always room for improvement and by lowering expenses, one can increase net income. One suggestion are to reduce staff, as in such a large company, some locations must have poor salary control. Remember to keep employees with high seniority. Another suggestion is to reduce the lines of apparel that are not selling as well so there is not a surplus of inventory. Lastly, create a new service, such as child-care because many shoppers prefer to shop without children. This will increase the number of buyers and logically increase revenue. For best results, conduct a survey of all stores. Shut down or make improvements to stores that are not producing as well. Remember to consider location; Neiman Marcus is an upscale department store.

By comparing Neiman Marcus' income statement to Saks' income statement, one can see that Neiman Marcus is doing an exceptional job at maintenance. For one, Neiman Marcus' net income is \$204 million meanwhile Saks' is \$82 million. This is almost 1.5 times! Another noticeable difference is that Saks revenues \$6 billion which is almost doubled Neiman Marcus; but their expenses consume 95% of that revenue. Neiman Marcus controls their expenses very well. One criticism is that cost of revenue is 65%, but Saks' cost of revenue consumes only 61%. Therefore, one goal for Neiman Marcus is to reduce the cost of revenue, meaning freight prices and labour.

According to Neiman Marcus' balance sheet (attached), we possess a total of \$2.5 billion in assets. This mostly comes in the form of " property plant and

equipment". This asset, valued at \$693 million is 27% of the company's total assets. This is a little risky because there is a large depreciation associated on these kinds of goods, which can potentially lower the total assets. The cash account is figured at \$368 million, which is 15% of their total assets. This is good because in comparison to Saks, they have doubled the amount (in comparison of total assets). Another positive outcome of Neiman Marcus is that their current liabilities are a mere \$727 million. Our total assets more than double our current liabilities.

The accounts payable is a little high at \$576 million. This is just about 50% of their total liabilities. There are two sides to this: 1) It is high and a significant part of liabilities; and 2) Because it is so high, once it is paid off, liabilities will be reduced by half. Unfortunately, the accounts payable outweighs the cash account, but nevertheless, the " net receivables" account is at \$560 million. After receiving that amount and including the cash, they will be able to pay off their entire accounts payable, as well as short term and long term debt. Lastly, the long term debt is at a mere \$324 million. This is only 13% of their total assets, meaning that the company owns most of their assets.

Again, in comparison to Saks, Neiman Marcus is far better managed. Saks's total assets are an impressive \$4. 7 billion, but current assets make up only 44% of it. Most of their money is valued in " power plant and equipment" - \$2 billion. Also, Saks has high current liabilities of \$966 million and an even higher \$1. 1 billion in long term debt. They are not able to pay off these liabilities with their cash.

Recommendations based on the balance sheet are little, since the company is performing so well. Firstly, we can increase cash - meaning, make more sales and have more discounts to attract buyers. Furthermore, increase "service" sales. Introduce a dry-cleaning line or a tailor service. Secondly, increase property - more stores. We see that we are performing well and with more stores, we will increase assets. By doing so, we increase our collateral and gain more financial status. Overall, the company is performing very well and little changes have to be made.

In comparison to previous years, the Neiman Marcus Group has grown into a powerful and dominating business. In reference to the income statement, net income in 2002 was only \$99 million; in 2003, it was \$109 million. Most recently, it has almost doubled to a remarkable total of \$204 million. There is a trend of growth each year, but most recently, it took the largest increase (87%). In the course of three years, net income increased 107%. Using the balance sheet, the same positive results can be made. In 2002, total assets were valued at \$1.9 billion; in 2003, it was \$2 billion, and in 2004, it was \$2.5 billion - taking another large jump (25%) because of good financial decisions.

In conclusion, the Neiman Marcus Group is an exceptionally well maintained company. The financial position is very good and stocks are at an all time high. The only recommendations to be made are to keep increasing sales and finding new methods of doing so. Primarily (as researched), a good way to increase sales is to have more promotions. As well, consider adding another "kind" of inventory, such as lavish electronics. Reduce lines of clothing and the selection of those which are selling well. There is a steady

growth each year and a goal will be to try and maintain so. Because we possess such a large amount of money, keep investing so we can have an even higher return. Lastly, because the Neiman Marcus Group is now globally recognised as a strong and powerful company, one more suggestion will be to go international. Right now, there are only locations in the United States. Our reputation has gained us respect globally and I believe it will be a good decision to begin expanding primarily in Europe.