

MCA 2021 SUMMER BOARD MEETING

Retail Committee Brief to Exec Committee

(9 Aug 2021)



Agenda

- Background
- Problem Statement
- The Process
- COA 1 Retain
- COA 2 Hybrid
- COA 3 Divest
- Financial Data
- Way Ahead



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Problem Statement

“Should the MCA have a retail operations line?”

Points to consider: history, charter, profitability, legalities, conflict of interests, philosophy, organizational confusion, etc.

MCA Retail (Marine Shop & E-Commerce) have 3 purposes:

- Provide funds to support MCA programs
- Increase membership
- Provide other services to members



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Possible COAs

COA 1 Retain. Stay the course and/or improve/scale

COA 2 Hybrid. Retain some retail lines, divest others and/or export partnerships and minimize MCA active management

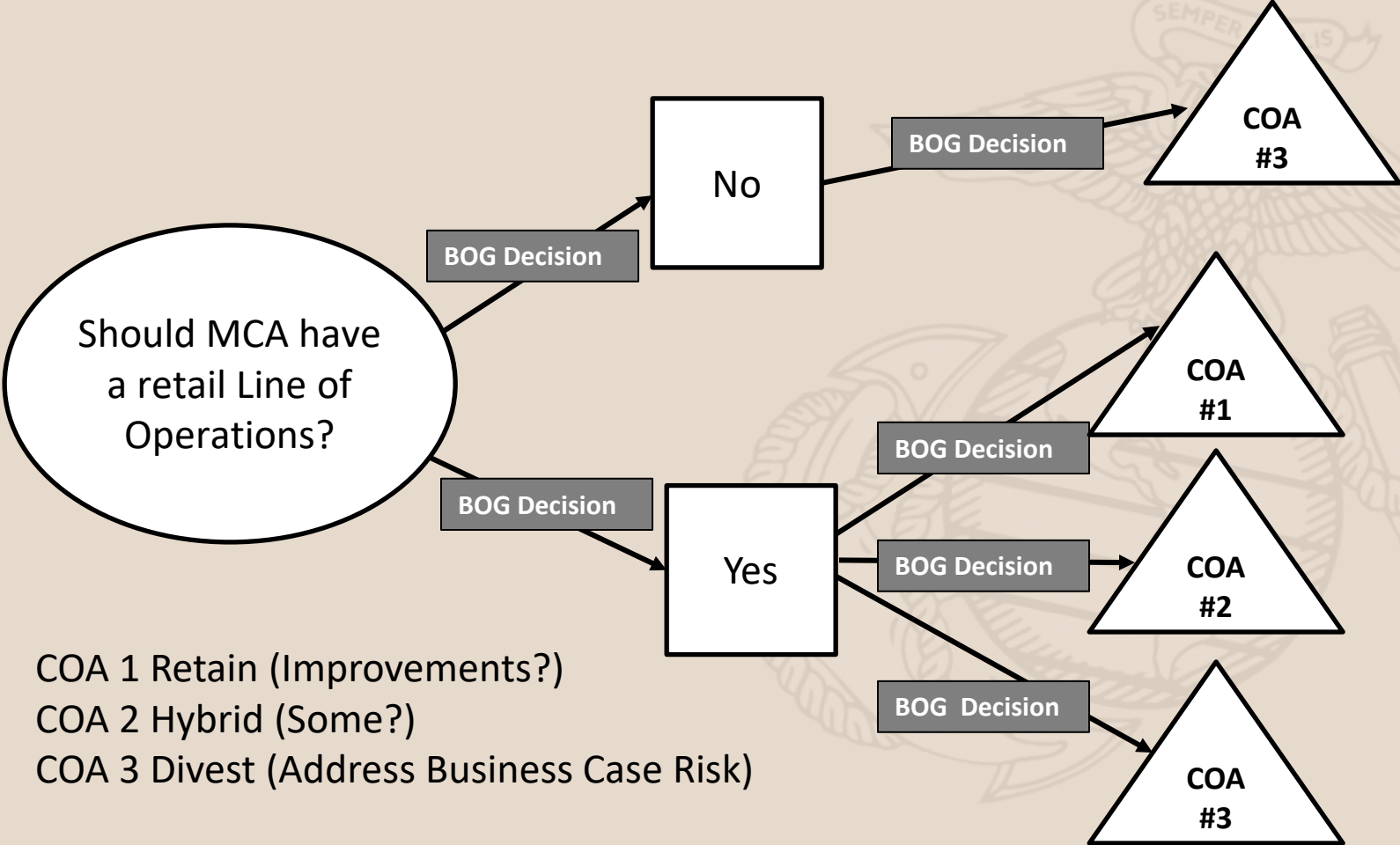
COA 3 Divest. Sell and divest “All Things Retail”



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Process



- COA 1 Retain (Improvements?)
- COA 2 Hybrid (Some?)
- COA 3 Divest (Address Business Case Risk)



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COA 1 Retain: Stay the Course/Improve Retail

Pros

- Provide Profits
- Increase membership
- Synergy with our member services

Cons

- Continued revenue & P&L risk to MCA
- Continued manpower and staff cycle time lost to retail operations
- Divestiture plan driven by external events (Fit concerns) beyond control of MCA with potential of higher relative losses



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COA 2 Hybrid: Create a business structure to reduce/eliminate active MCA role in retail ops

Pros

- Experienced retail mgmt.
- Supports increased focus on core functions
- May support alternate use of TMS building

Cons

- Potential reduction in profit
- Potential quality mgmt concern (business ops may try to increase profit w/lower-quality items)
- Intellectual property rights may require protection

Hybrid construct would require a decision about which items to sell/divest under MCA Brand



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COA 3 Divest: MCA actively develops plan to eliminate all retail ops

Pros

- Improve operating income to support MCA Strategic Plan
- Focus on improving services to Marines in accordance with the MCA Mission

Cons

- Potential reputation and reduction of control over quality of services to Marines
- Loss of exposure to Marines, families of Marines, and NROTC Students who may purchase memberships
- Loss of revenue stream and possibility of future profits, specifically related to E-Commerce
- Loss of Book Stores distribution channel



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Financial Data and P&L Analysis

Tim O'Hara

The Marine Shop

Condensed Combining Statement of Operations

For the years ending December 31, 2020, 2019, and 2018

	TMS Actual	Retail Support / B2B Actual	Ecommerce Actual	Customer Care Actual	Total Retail Actual	Normalized Estimates Adjustments	Notes	Adjusted Total
2020								
Revenue	3,603,920	431,073	1,451,265	247,877	5,734,135	0		5,734,135
Cost of Goods	(2,674,747)	(159,028)	(587,150)	(214,361)	(3,635,287)	(150,000)	1	(3,785,287)
Gross Margin	929,173	272,044	864,115	33,516	2,098,848	(150,000)		1,948,848
Operating Expenses	(813,683)	(129,234)	(283,338)	(687,908)	(1,914,164)	(284,916)	2	(2,199,080)
Overhead Allocation	0	0	0	0	0	(882,975)	3	(882,975)
Net Income / (Loss)	<u>115,490</u>	<u>142,810</u>	<u>580,776</u>	<u>(654,392)</u>	<u>184,684</u>	<u>(1,317,891)</u>		<u>(1,133,207)</u>
2019								
Revenue	4,515,905	1,243,074	169,650	1,076,768	7,005,398	0		7,005,398
Cost of Goods	(3,236,922)	(678,992)	(85,862)	(423,863)	(4,425,639)	(150,000)	1	(4,575,639)
Gross Margin	1,278,983	564,082	83,788	652,905	2,579,759	(150,000)		2,429,759
Operating Expenses	(910,977)	(1,015,179)	(106,177)	(43,594)	(2,075,927)	(284,745)	2	(2,360,672)
Overhead Allocation	0	0	0	0	0	(1,120,580)	3	(1,120,580)
Net Income / (Loss)	<u>368,006</u>	<u>(451,097)</u>	<u>(22,389)</u>	<u>609,311</u>	<u>503,831</u>	<u>(1,555,325)</u>		<u>(1,051,494)</u>
2018								
Revenue	4,620,197	2,510,939	395,282		7,526,418	0		7,526,418
Cost of Goods	(3,177,849)	(1,247,441)	(182,950)		(4,608,240)	0		(4,608,240)
Gross Margin	1,442,348	1,263,498	212,331		2,918,178	0		2,918,178
Operating Expenses	(973,739)	(1,098,853)	(214,499)		(2,287,090)	(284,769)	2	(2,571,859)
Overhead Allocation	0	0	0		0	(1,172,093)	3	(1,172,093)
Net Income / (Loss)	<u>468,609</u>	<u>164,645</u>	<u>(2,167)</u>		<u>631,088</u>	<u>(1,456,862)</u>		<u>(825,774)</u>

1. Impact of replacing salaries of retail experts in purchasing, systems security, inventory management who left after 2018
2. Applying an arms length rents for a 16,000 sf store and 6,000 sf warehouse @ \$15 and \$7 per sf, respectively = \$239,871 and \$45,045
3. Overhead allocation accounted for in MCA&F books which would be reclassified down to TMS, if TMS was a stand alone entity



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Financial Data Takeaways

- Retail typically has low margins and needs volume to be profitable. TMS has one location with a relatively small customer base
- Bricks and mortar are not efficient and the location can limit customer base
- More investment needed to hire retail expertise and address replacement of quality skilled workers that have or will soon retire
- Develop a more robust Strategic Plan and budgeting process which includes money for Capital Expenditures (CAPEX) to address Ecommerce business to be more competitive with competition
- Improvements in people, processes, and systems can result in significant in efficiencies and cost savings



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Way Ahead

- 9 Aug – Retail Committee brief to Exec Comm
- 10 Aug – Brief to MCA Board of Governors
- Guidance for next steps and timeline



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