



THE **W** REPORT™ sponsored by FORTNA

Retail & Manufacturers 2010

MOST COMPETITIVE COMPANIES



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ABOUT wRATINGS

Created by **Harvard Business Review** author and research expert Gary A. Williams, the wRatings system combines customer ratings with in-depth financial analytics to create a forward-looking view of a company's competitive strength. The system provides critical visibility into a company's pricing power by measuring how closely a company is able to meet customer expectations.

Using a systematic and disciplined approach since 1999, the patented system tracks 9 sources of competitive moats through panels of consumers and business executives. The W Score™ blends how well each company meets customer expectations with calculations of their economic profit.

Thousands of executives and investors use the wRatings system on a regular basis. The W Reports™ are available on stock research platforms at Factset Research and S&P CapitalIQ. For more information on the **wRatings Corporation**, see the Appendix or go to www.wratings.com.



US 6,658,391
Dec 1999



HBR Cover
May 2002



Warner Business
Apr 2004

Past Findings from wRatings Retail Studies

This report covers the Retail & Manufacturer industries. We define these industries as general, internet and specialty retailers that sell manufactured products for personal goods (e.g. apparel, footwear) and industrial goods (e.g. machinery).

In past years, we have typically covered Retail and Consumer Goods in a single report. Because our coverage of companies increased substantially in 2009, we now cover these sectors in multiple reports. The past findings on this page are from the combined reports.

DATE	OUR PUBLISHED FINDINGS	WHAT HAPPENED NEXT
November 2001	The most untapped consumer segment in the electronics market is the "Socials" buyer that require someone to talk and walk them through the purchasing process.	Dell's national ad campaign with Steven's "Dude, You're Getting a Dell" helps catapult them to market leadership, even surpassing a merged HP-Compaq.
July 2002	While most believe price is the core driver of internet purchases, consumers must see Financial Longevity and a strong Brand in order to "click" for their online purchase.	In the 2002 holiday season for internet purchases, retailers with dominant brands such as Coach, eBay and Niemen-Marcus win the major share of purchases.
September 2003	Image is 2X as important as execution in a consumer's decision about where to shop. Retailers must align brand with overall experience to win market share.	Specialty retailers such as American Eagle focus on core customers to win share. Despite economic pressures, consumers appetite for luxury continues to grow.
March 2005	Consumers shift to integrated shopping across physical stores, websites, phone service and catalogs. This favors the technology-driven retailer, with higher volumes.	Most retailers struggle to achieve integrated shopping methods. Yet, the resurgence of large retailers appears, especially in the discount and multi-line formats.
January 2006 (With NRF and Adjoined)	Consumers crave consistency in how retailers connect with them. Retailers must identify loyal shoppers and reward them. Staff training can create an advantage.	By mid-2006, nearly half of all retailers fell short of analyst expectations for same-store sales. Not all retailers fared equally though, with specialty retailers growing.
January 2007 (With NRF & Kanbay)	The most successful retailers are becoming truly demand-driven. Top performing retailers will find new and innovative ways to meet that demand.	Rather than incessant focus on pricing, a select group of retailers have been embarking on highly focused efforts to build competitive advantage.
June 2008 (With SAP)	With consumers cutting back on spending, retailers strong in non-discretionary spending (e.g. Grocery, Babies), discounting and web-based will win. Cosmetics was the "small indulgence" for consumers in 2008.	In a tumultuous downturn, consumers decrease their spending and focus on value-pricing. Family Dollar is the #1 S&P500 stock in 2008, and cosmetics like Avon continue to out-shine other retail categories.
April 2009 (With Fortna)	Consumers have switched to risk-based buying in 2009. While this favors the low-/value-pricing, consumers will make premium purchases if the company mitigates their fears.	Companies like Jos. A. Bank and Hyundai generate their best sales ever by offering guarantees to take back merchandise if buyers lost their jobs.

NOTE:
Some past findings are from Gary A. Williams and his research team published for Miller-Williams, Adjoined Consulting and Kanbay. All data is owned by Gary A. Williams and licensed to the wRatings Corporation.

Key Findings 2010

The trade-down message is out again for retailers and manufacturers as we head into the fall and holiday seasons. Yet, our competitive strength data shows that trade-down doesn't tell the full story.

What customers want is best price in certain categories that remain less visible to everyone. Anything behind the scenes is open to trade down based on best price.

But for products that are on public display, the choices can be much different -- even premium priced. What customers value here are preservation, which means products that both look good and will last a long time. Value-based retailers and manufacturers that don't have a compelling business framework are being forced to compete on price alone.

In this report, we will explore this price/preservation theme to see which companies are best positioned to gain competitive strength in 2010.

- ✓ While revenue has dipped along with the global economic woes, the 310 retailers and manufacturers in our universe of coverage are on track to increase their revenue beyond their mid-2008 highs. Economic profit has varied greatly over the past 8 quarters, dropping into negative territory at the end of 2009. But the recent rebound shows competitive strength is improving as companies are learning how to make money in spite of the slow growth economy. As the 2010 holiday season approaches, retailers & manufacturers are trending towards their best financial results in 3 years.
- ✓ Companies in apparel and footwear overall are performing well from both a customer and financial perspective. Customers are willing to spend premium dollars to get what they want, and companies are flexing their competitive muscle to meet their expectations. Coach (NYSE: COH) is the most competitive Large Cap retailer for the second year in a row.
- ✓ Today, internet companies are doing well at making money but having trouble maintaining their competitive advantage with customers due to ease of copying their business framework. This would favor the retailer or manufacturer that employs a multi-channel strategy to sell and distribute its products through physical stores, catalogs and online rather than just one channel.
- ✓ Machinery and department stores generate the lowest economic profit/revenue, although their challenges appear to be different. With high moat barriers, machinery companies must optimize their internal operations to generate more profits. With low moat barriers, department stores need to re-evaluate the power of their business framework and, most likely, re-design it from the ground up to create a durable advantage.
- ✓ Overall, pricing power for Mid Caps outpaces their rivals, yet their average gain in competitive strength over the past 3-years is the smallest. Five industries possess above average pricing power: Apparel, Automotive, Specialty Stores, Department Stores and Cosmetics. The internet-only business framework is last in pricing power, indicating further how difficult it will be for those firms to compete on anything else but price.
- ✓ Retailers & manufacturers out-perform other sectors in brand perception and routine reliance. These barriers create trust in their products and find ways for customers to use them on a regular basis. Significant profits are being generated today through the switching lock-in moat. This barrier locks-in customers through areas like loyalty programs and automated needs identification.
- ✓ Economic profit is very low for all the supply chain moats. For all sectors, being excellent at cost containment is generating negative economic profit. This indicates that capital has been invested but companies have yet to see a return.

This report illustrates the data behind these findings.

Most Competitive: Large Caps

Large Caps have market capitalization of US \$5 Billion or higher as of October 29, 2010

Our rankings are highly unique. Most lists rank companies by either financial (e.g. Fortune 500) or customer performance (e.g. Brands, Reputation, Satisfaction). A ^W Score combines the two metrics and represents a company's ability to earn a consistent profit above their cost of capital, along with their ability to protect that profit through multiple sources of competitive advantage with customers.

In 2009, many customers were in risk-based buying mode where retailers with guarantees and safe-buying environments came up winners. With the economy stabilizing, customers are opening up their wallets again to retailers and manufacturers that offer smart pricing and long-term preservation.

The 2010 environment favors companies that offer best pricing for items not on public display like household, auto and cosmetics, and best preservation (last the longest) for visible items that are branded like purses, sunglasses, footwear and jewelry. Coach, Luxottica, Nordstrom, Nike and Tiffany are all in the top 20. Middle players, those typically focused on value, may see their sales struggle unless the economy in general rebounds.

Coach repeats as the annual leader in competitive strength for Large Caps.

Rankings within sector only

100 = Best Possible W Score

2010 Rank	Company	Ticker	Industry	TTM Rev \$Millions	2010 W Score™	2007 W Score	2010 Pricing Power
1	Coach Inc.	COH	Specialty Stores	\$3,758	96.5	84.0	3.83%
2	Avon Products Inc.	AVP	Cosmetics & Toiletries	\$10,881	93.1	94.6	7.43%
3	Nike Inc	NKE	Footwear	\$19,391	92.1	89.1	10.70%
4	Cemex SAB de CV	CX	Machinery	\$14,149	89.0	87.4	3.36%
5	AutoZone Inc	AZO	Automotive	\$7,363	88.4	85.6	4.70%
6	Cummins Inc.	CMI	Machinery	\$12,487	86.8	78.8	3.39%
7	Luxottica Group SPA, Milano	LUX	Specialty Stores	\$7,553	86.8	79.1	3.77%
8	Caterpillar Inc	CAT	Machinery	\$37,679	86.5	83.1	3.39%
9	Advance Auto Parts Inc.	AAP	Automotive	\$5,655	86.1	66.9	4.54%
10	Amazon.com Inc	AMZN	Internet	\$30,776	85.4	85.6	5.94%
11	Target Corp	TGT	Department Stores	\$66,582	85.2	84.5	3.04%
12	Wal-Mart Stores Inc	WMT	Department Stores	\$413,606	85.2	30.9	4.57%
13	Dover Corp	DOV	Machinery	\$6,763	84.8	76.3	3.38%
14	Tiffany & Co.	TIF	Specialty Stores	\$2,882	84.8	58.3	3.73%
15	Nordstrom Inc.	JWN	Department Stores	\$8,814	84.7	82.9	3.71%
16	Dollar General Corp	DG	Department Stores	\$12,440	84.5	--	0.23%
17	Eaton Corp	ETN	Auto Parts	\$13,183	84.3	84.4	2.72%
18	Autoliv AB	ALV	Auto Parts	\$6,939	84.1	76.6	3.16%
19	Johnson Controls Inc.	JCI	Auto Parts	\$34,305	83.9	63.1	3.00%
20	BorgWarner Inc	BWA	Auto Parts	\$5,318	83.6	73.4	3.30%
				Avg =	86.8	77.1	4.09%

Trailing 12 Months as of 29-Oct-2010

W Scores are blended percentile ranks of the company's 5-Year Economic Profit and moat barriers within our universe of coverage

Margin of Error ±0.27 for all ratings

Most Competitive: Mid Caps

Mid Caps have market capitalization less than US \$5 Billion and more than US \$1 Billion as of October 29, 2010

Over the past 3 years, the top 20 Mid Caps have not increased their competitive strength as fast as Large Caps (just 6.2 improvement versus 9.8 for Large Caps). Much of this can be attributed to their inability to invest capital throughout the recession whereas Large Caps had better access to capital.

Apparel, cosmetics, footwear and specialty stores occupy 15 of the top 20 Mid Caps. Steve Madden made the largest jump since 2007 with 34.2 points, and their pricing power remains near the top as well. Hanesbrands holds the top spot for Mid Caps with a 11.6% pricing power.

After being dismissed by almost everyone as a fad, Crocs climbs back into the Top 20 Mid Caps with its recent focus on comfort over fad. Gildan Activewear is the most competitive Mid Cap.

Rankings within sector only

100 = Best Possible W Score

2010 Rank	Company	Ticker	Industry	TTM Rev \$Millions	2010 W Score™	2007 W Score	2010 Pricing Power
1	Gildan Activewear Inc	GIL	Apparel	\$1,244	95.4	67.4	4.78%
2	lululemon athletica inc	LULU	Specialty Stores	\$564	94.5	--	3.82%
3	Steven Madden Ltd	SHOO	Footwear	\$570	91.2	57.1	4.87%
4	Copart Inc	CPRT	Automotive	\$773	90.3	90.2	4.75%
5	Crocs Inc	CROX	Footwear	\$708	89.4	--	2.91%
6	J Crew Group Inc	JCG	Specialty Stores	\$1,696	89.0	--	3.84%
7	Timberland Co (The)	TBL	Footwear	\$1,316	88.8	93.2	4.85%
8	Fossil Inc	FOSL	Specialty Stores	\$1,715	88.4	85.6	3.67%
9	Iconix Brand Group Inc	ICON	Apparel	\$310	88.3	65.8	4.79%
10	Jos. A. Bank Clothiers Inc	JOSB	Specialty Stores	\$807	88.2	87.9	3.79%
11	Toro Co (The)	TTC	Machinery	\$1,642	87.6	77.9	3.47%
12	Lincoln Electric Holdings Inc	LECO	Machinery	\$1,968	87.6	77.8	3.36%
13	Sotheby's	BID	Specialty Stores	\$647	86.8	80.0	3.59%
14	Middleby Corp (The)	MIDD	Machinery	\$641	86.2	93.4	3.45%
15	Chico's FAS Inc.	CHS	Specialty Stores	\$1,830	86.1	90.9	3.78%
16	Under Armour Inc	UA	Apparel	\$985	86.0	86.6	4.82%
17	Hanesbrands Inc	HBI	Apparel	\$4,166	85.9	--	11.62%
18	Eagle Materials Inc	EXP	Machinery	\$471	85.8	87.6	3.55%
19	Abercrombie & Fitch Co.	ANF	Specialty Stores	\$3,123	85.3	81.8	3.63%
20	PetSmart Inc	PETM	Specialty Stores	\$5,486	85.1	84.8	0.79%
				Avg =	88.3	81.8	4.21%

Trailing 12 Months as of 29-Oct-2010

W Scores are blended percentile ranks of the company's 5-Year Economic Profit and moat barriers within our universe of coverage

Margin of Error ±0.27 for all ratings

Most Competitive: Small & Micro Caps

Small/Micro Caps have market capitalization less than US \$1 Billion but more than US \$50 Million as of October 29, 2010

NOTE: We expanded our coverage substantially in 2010 to include many more Small Caps, which means we may not have ratings on several companies from 2007.

Dominating the top 20 Small/Micro Caps are auto parts and machinery companies with 13 rankings. The challenge is that most possess low pricing power when compared to firms in the apparel, cosmetics and footwear business. This is often the precursor to increased commoditization as customers have become more reliant. It is this increased reliance that forces customers to seek out better pricing. To counter this, companies must seek out new ways to add value in their offerings.

Overall, the top 20 Small/Micro Caps have increased their competitive strength over the past 3 years more than Large and Mid Caps. The impressive 16.4 point increase is largely due to customer shift in buying preferences to best price and best preservation.

Companies like Kenneth Cole and Steven Madden are popular because of their powerful, iconic brands while auto and machinery purchases remain the choice of smart customers (best price/value).

Rankings within sector only

100 = Best Possible W Score

2010 Rank	Company	Ticker	Industry	TTM Rev \$Millions	2010 W Score™	2007 W Score	2010 Pricing Power
1	Volcom Inc	VLCM	Apparel	\$309	91.9	--	4.82%
2	Kenneth Cole Productions Inc.	KCP	Footwear	\$431	91.3	58.7	4.79%
3	Brooks Automation Inc	BRKS	Machinery	\$475	90.8	66.7	3.68%
4	Blount International Inc.	BLT	Machinery	\$558	85.5	84.3	3.65%
5	Dorman Products Inc	DORM	Auto Parts	\$430	85.4	66.8	3.27%
6	Maidenform Brands Inc	MFB	Apparel	\$530	85.0	58.7	4.78%
7	Superior Industries International Inc.	SUP	Auto Parts	\$601	85.0	36.9	4.49%
8	RBC Bearings Inc	ROLL	Machinery	\$293	84.9	80.3	3.45%
9	G III Apparel Group Ltd	GIII	Apparel	\$901	83.3	46.7	4.86%
10	rue21 Inc	RUE	Apparel	\$573	83.2	--	4.76%
11	Fuel Systems Solutions Inc	FSYS	Auto Parts	\$541	82.4	73.7	2.87%
12	Lumber Liquidators Inc	LL	Machinery	\$598	82.2	--	3.42%
13	John Bean Technologies Corp	JBT	Machinery	\$820	81.9	--	3.46%
14	Skechers U.S.A. Inc	SKX	Footwear	\$1,941	81.7	77.9	4.84%
15	Astec Industries Inc.	ASTE	Machinery	\$758	81.6	68.3	3.31%
16	Robbins & Myers Inc.	RBN	Machinery	\$585	81.3	70.1	3.37%
17	Oxford Industries Inc.	OXM	Apparel	\$795	81.2	64.7	4.88%
18	Altra Holdings Inc	AIMC	Machinery	\$477	80.9	--	3.37%
19	Insteel Industries	IIIN	Machinery	\$212	80.6	80.7	3.66%
20	Gorman-Rupp Co (The)	GRC	Machinery	\$265	80.6	80.2	3.51%
				Avg =	84.0	67.6	3.96%

Trailing 12 Months as of 29-Oct-2010

W Scores are blended percentile ranks of the company's 5-Year Economic Profit and moat barriers within our universe of coverage

Margin of Error ±0.27 for all ratings

Measuring Competitive Worth

We measure competitive advantage in a highly unique, but completely logical way. Our turn-key, patented system combines financials, behavioral psychology and statistics to measure the durability of a company's advantages with customers. The ratings serve as a leading indicator to future earnings. The three steps are:

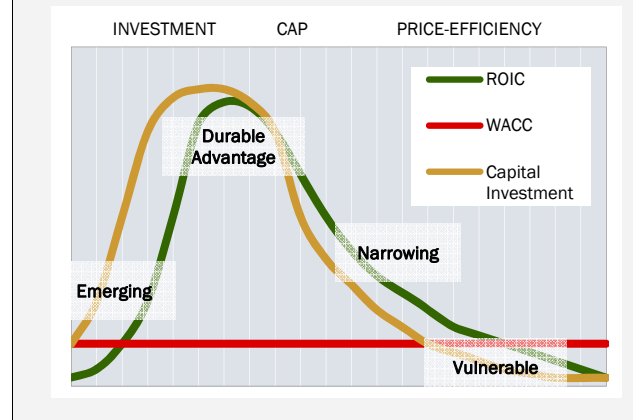
1. Calculate a company's **Economic Profit (EP)**, ROIC (return-on-invested-capital) minus WACC (weighted average cost of capital). Companies with 5+years of superior EP have built some form of protection - what famous investor Warren Buffett calls a "moat."

2. **Moats** are barriers to entry a company builds to protect their economic advantage. The precursor to every economic advantage is a consumer advantage, and we've statistically determined that nine moats exist.

3. We blend economic profit and moat barriers into a **competitive strength** score and then combine with earnings and inflation to measure the worth of each company in comparison to its current stock price.

For more information on the **wRatings** approach, see the Appendix.

1 Competitive Life Cycle



2 Moat Barriers

SUPPLY CHAIN	Economies of Scale
	Economies of Skill
	Cost Containment
PRODUCTS	Design Dominance
	Brand Perception
	Routine Reliance
DELIVERY CHAIN	Channel Lock-Out
	Switching Lock-In
	Network Effect

Stages of Competitive Life Cycle

INVESTMENT PERIOD

Emerging ROIC with High Investment

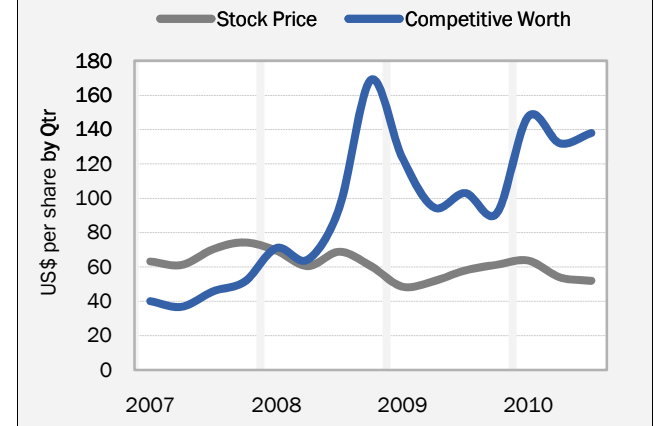
COMPETITIVE ADVANTAGE PERIOD (CAP)

High Economic Profit with continual Fade Rate

PRICE-EFFICIENCY PERIOD

Low or Negative Economic Profits

3 Competitive Worth



The wRatings system utilizes multiple patents

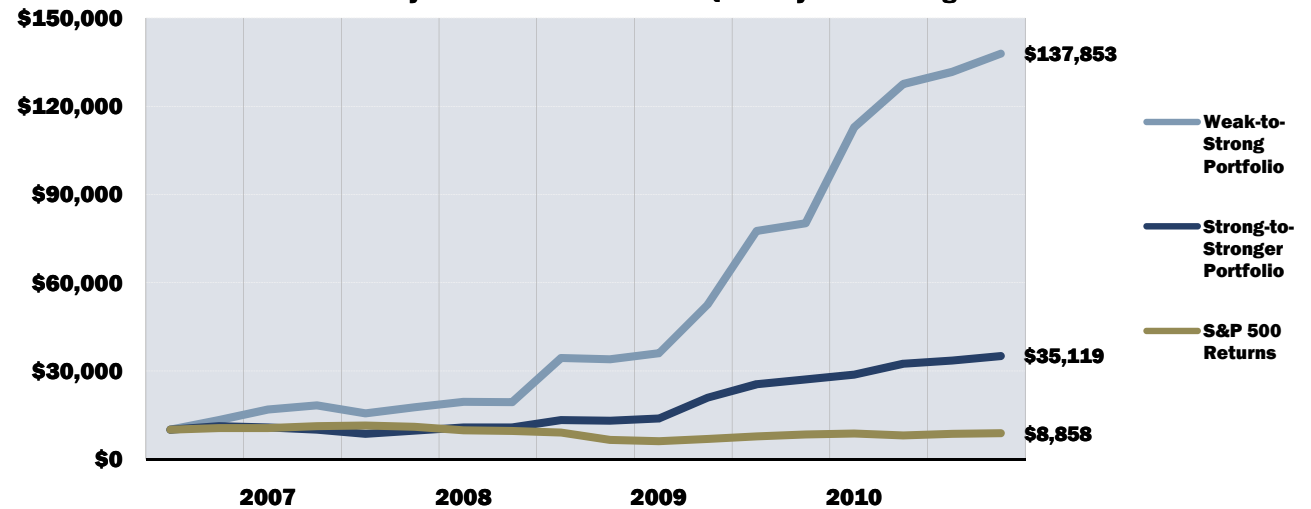
Market Returns using Competitive Strength

We continually backtest our algorithms to show the power of tracking competitive strength. At wRatings, we have a variation on 'long-short' that we call 'strong-weak'. We rank every single company in our coverage (~4,000) to identify those with the highest and lowest competitive worth in comparison to their stock price. Those at the extreme high end we call 'strong-to-stronger' and at the low end 'weak-to-stronger.' Since both are projected to get stronger, both portfolios are buys.

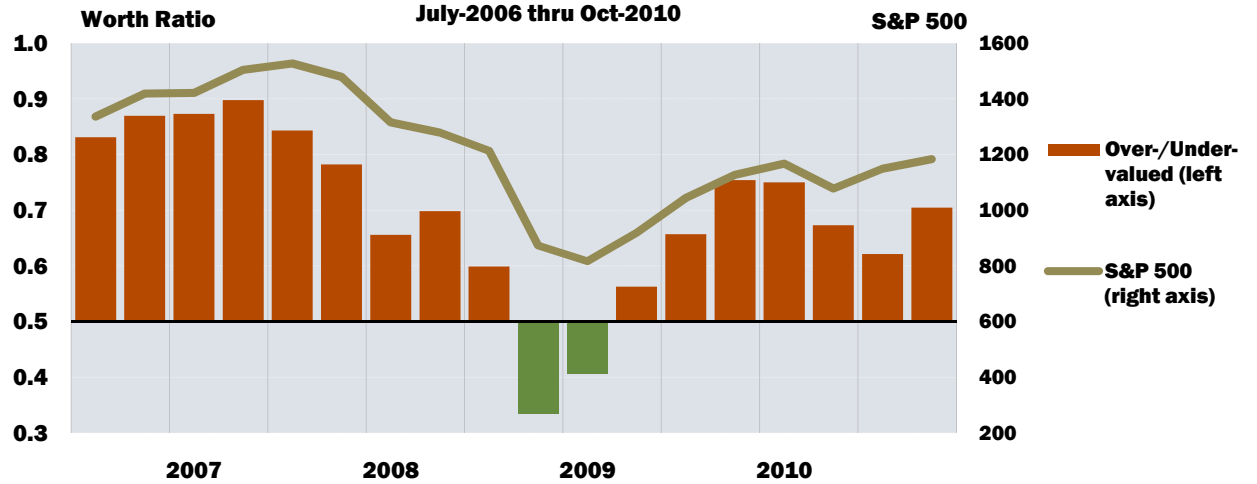
Starting with a \$10,000 equal-weight investment, both portfolios have beat the S&P500 since the start of Q3-2006. The competitive worth value are based on three known powerful forces on a stock's price: the cost of capital for a company (including inflation), corporate earnings and the competitive strength of their business framework. We use the increase or decrease in each company's competitive strength to determine its growth rate.

The bottom chart shows when the market is over- or under-valued. We use trends up or down to determine market entry and exit.

Competitive Strength Portfolios vs. S&P500
July-2006 thru Oct-2010 with Quarterly Rebalancing



Competitive Worth vs. S&P 500
July-2006 thru Oct-2010



NOTE: Market Returns do NOT include dividends or transaction costs.

Companies In This Report

INDUSTRIES

Apparel, 25 companies
 Auto Parts, 29 companies
 Automotive, 14 companies
 Cosmetics & Toiletries, 9 companies
 Department Stores, 29 companies
 Footwear, 13 companies
 Internet, 6 companies
 Machinery, 106 companies
 Specialty Stores, 94 companies

Large Caps

AMZN	Internet	M	Dept Store
AVP	Cosmetics	MGA	Auto Parts
AZO	Automotive	NFLX	Internet
BBBY	Specialty Store	NKE	Footwear
BBY	Specialty Store	ORLY	Automotive
BWA	Auto Parts	RL	Apparel
CAT	Machinery	ROP	Machinery
CMI	Machinery	ROST	Specialty Store
CNH	Machinery	SHLD	Dept Store
COH	Specialty Store	SWK	Machinery
COST	Dept Store	TGT	Dept Store
CX	Machinery	TIF	Specialty Store
DE	Machinery	TJX	Specialty Store
DG	Dept Store	URBN	Specialty Store
DLTR	Dept Store	VFC	Apparel
DOV	Machinery	WHR	Machinery
EBAY	Internet	WMT	Dept Store
EL	Cosmetics		
ETN	Auto Parts		
FDO	Dept Store		
FLS	Machinery		
GPC	Auto Parts		
GPS	Specialty Store		
IR	Machinery		
ITW	Machinery		
JCI	Auto Parts		
JWN	Dept Store		
KSS	Dept Store		
LTD	Specialty Store		
LUX	Specialty Store		

Mid Caps

AAN	Dept Store	DCI	Machinery	LECO	Machinery	SKS	Dept Store
AAP	Automotive	DDS	Dept Store	LII	Machinery	SKX	Footwear
ACV	Cosmetics	DECK	Footwear	LKQX	Auto Parts	SNA	Machinery
AEO	Specialty Store	DKS	Specialty Store	LNR.TO	Machinery	SSD	Machinery
AGCO	Machinery	DRC	Machinery	LULU	Specialty Store	TCLA.TO	Machinery
AIT	Machinery	DSW	Specialty Store	MAS	Machinery	TEN	Auto Parts
ALV	Auto Parts	EQY	Dept Store	MIDD	Machinery	TEX	Machinery
AN	Automotive	EXP	Machinery	MKTAY	Machinery	TIH.TO	Machinery
ANF	Specialty Store	FDML	Auto Parts	MLM	Machinery	TKR	Machinery
AOS	Machinery	FL	Specialty Store	MSM	Machinery	TRN	Machinery
ARM	Auto Parts	FOSL	Specialty Store	MTW	Machinery	TRW	Auto Parts
ARO	Specialty Store	FTT.TO	Machinery	MW	Specialty Store	TTC	Machinery
ATDB.TO	Dept Store	GDI	Machinery	NDN	Dept Store	UA	Apparel
ATU	Machinery	GES	Apparel	NDSN	Machinery	ULTA	Specialty Store
AWI	Machinery	GIL	Apparel	NRGP	Specialty Store	USG	Machinery
BID	Specialty Store	GME	Specialty Store	NRGY	Specialty Store	VMC	Machinery
BIG	Dept Store	GT	Auto Parts	NTY	Specialty Store	WAB	Machinery
BJ	Dept Store	GYMB	Specialty Store	NUS	Cosmetics	WRC	Apparel
BKE	Specialty Store	HBI	Apparel	OC	Machinery	WSM	Specialty Store
CBI	Machinery	HSNI	Specialty Store	PAG	Automotive	WTS	Machinery
CHS	Specialty Store	ICON	Apparel	PETM	Specialty Store	WTW	Specialty Store
COLM	Apparel	IEX	Machinery	PLCE	Specialty Store	WWW	Footwear
CPRT	Automotive	JAS	Specialty Store	PVH	Apparel		
CRI	Apparel	JCG	Specialty Store	RBC	Machinery		
CROX	Footwear	JCP	Dept Store	RCII	Dept Store		
CTB	Auto Parts	JNY	Apparel	RET.TO	Specialty Store		
CTCA.TO	Automotive	JOSB	Specialty Store	RSH	Specialty Store		
CW	Machinery	KDN	Machinery	SBH	Cosmetics		
DAN	Auto Parts	KMT	Machinery	SCC.TO	Dept Store		
DBRN	Specialty Store	KMX	Automotive	SHAW	Machinery		

Check wRatings.com for the most current sectors and industry coverage.

Companies In This Report (cont'd)

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Small/Micro Caps

ABG	Automotive	CALI	Specialty Store	GTLS	Machinery	MOV	Specialty Store	RUS	Specialty Store	URI	Machinery
AGX	Machinery	CASC	Machinery	HAYN	Machinery	MSA	Machinery	RUSHA	Automotive	VLCM	Apparel
AIMC	Machinery	CBK	Specialty Store	HDNG	Machinery	MWA	Machinery	RVI	Dept Store	VLN.TO	Machinery
AIN	Machinery	CHRS	Specialty Store	HEES	Machinery	NCS	Machinery	SAH	Automotive	VOXX	Specialty Store
ALG	Machinery	CIR	Machinery	HELE	Cosmetics	NILE	Internet	SCHS	Specialty Store	VSTN	Auto Parts
AMN	Machinery	CMCO	Machinery	HGG	Specialty Store	NNBR	Machinery	SCVL	Footwear	VTV	Specialty Store
AMWD	Machinery	CMRG	Specialty Store	HIBB	Specialty Store	NPD	Specialty Store	SHOO	Footwear	WATG	Auto Parts
ANN	Specialty Store	CONN	Specialty Store	HOTT	Specialty Store	NSIT	Specialty Store	SHS	Machinery	WCSTF	Auto Parts
APOG	Machinery	CPWM	Specialty Store	HVT	Specialty Store	NWY	Specialty Store	SMP	Auto Parts	WEYS	Footwear
APP	Apparel	CTR	Specialty Store	HWK	Machinery	NX	Machinery	SMRT	Dept Store	WIRE	Machinery
ASTE	Machinery	CTRN	Dept Store	HZO	Specialty Store	OSTK	Internet	SSI	Specialty Store	WMAR	Specialty Store
ATA.TO	Machinery	CWTR	Specialty Store	IBI	Machinery	OXM	Apparel	STRT	Auto Parts	WTSLA	Specialty Store
ATAC	Auto Parts	DELTY	Apparel	IIN	Machinery	PBY	Automotive	SUP	Auto Parts	XIDE	Auto Parts
AXL	Auto Parts	DEST	Apparel	INSU	Machinery	PCCC	Specialty Store	SYMS	Specialty Store	ZLC	Specialty Store
BAMM	Specialty Store	DLA	Apparel	IPAR	Specialty Store	PERF	Dept Store	TA	Specialty Store	ZQK	Specialty Store
BBW	Specialty Store	DORM	Auto Parts	JBT	Machinery	PERY	Apparel	TBL	Footwear	ZUMZ	Specialty Store
BEBE	Specialty Store	DSCM	Specialty Store	KALU	Machinery	PIR	Specialty Store	TECUA	Machinery		
BECN	Machinery	DUCK	Dept Store	KCP	Footwear	POWL	Machinery	THMD	Machinery		
BGFV	Specialty Store	FINL	Specialty Store	KSWS	Footwear	PSMT	Specialty Store	TITN	Specialty Store		
BGG	Machinery	FLWS	Internet	KYCN	Machinery	PSS	Specialty Store	TLB	Specialty Store		
BGP	Specialty Store	FRED	Dept Store	LAD	Dept Store	PSUN	Specialty Store	TNC	Machinery		
BKS	Specialty Store	FSTR	Machinery	LAWS	Machinery	PTRY	Specialty Store	TRLG	Apparel		
BLDR	Machinery	FSYS	Auto Parts	LIZ	Apparel	RBI	Specialty Store	TWI	Auto Parts		
BLT	Machinery	GAIA	Specialty Store	LL	Machinery	RBN	Machinery	TWIN	Machinery		
BONT	Dept Store	GCO	Footwear	LNN	Machinery	RDEN	Cosmetics	TWMC	Specialty Store		
BRKS	Machinery	GIII	Apparel	MFB	Apparel	REV	Cosmetics	TWP	Machinery		
BWS	Footwear	GMTN	Specialty Store	MLI	Machinery	RGS	Cosmetics	TXI	Machinery		
CAAS	Auto Parts	GOLF	Specialty Store	MLR	Machinery	ROLL	Machinery	UFI	Apparel		
CAB	Specialty Store	GPI	Automotive	MNRO	Automotive	RSC	Specialty Store	UFPI	Machinery		
CACH	Specialty Store	GRC	Machinery	MOD	Auto Parts	RUE	Apparel	UNS.TO	Auto Parts		

Check wRatings.com for the most current sectors and industry coverage.

Retail Competitiveness

Revenue, Earnings & Economic Profit

Competitive Worth

Future Earnings Growth

Pricing Power & Customer Expectations

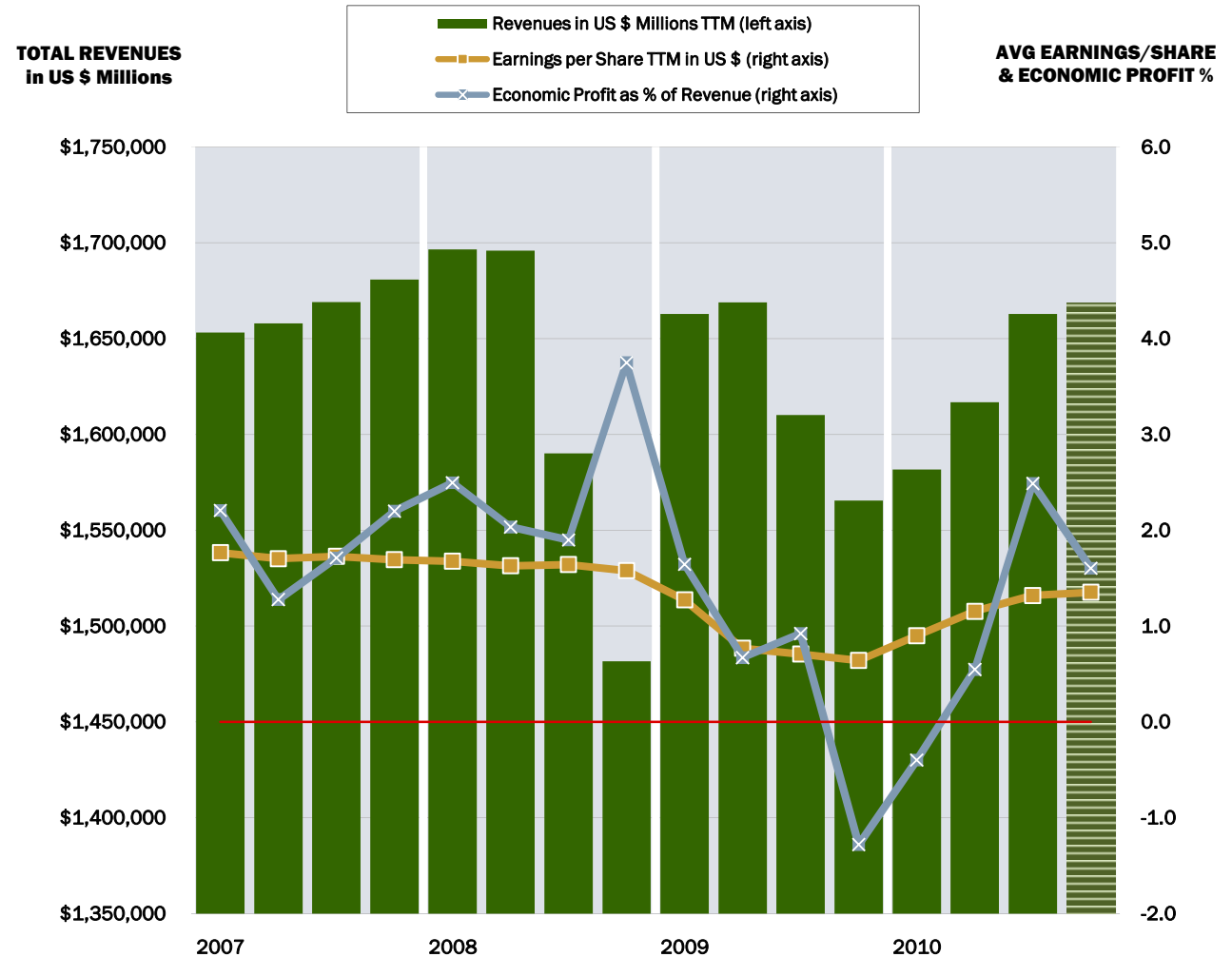
Unfair Share of Economic Profit

Revenue, Earnings & Economic Profit

This chart shows the past 16 quarter trends in revenue (left axis, green bars), earnings per share (right axis, gold line) and economic profit as % of revenue (right axis, blue line) for the wRatings coverage in this report. Data is for each company's trailing twelve months (TTM) as of the last Friday of each quarter.

While revenue has dipped along with the global economic woes, the 310 retailers and manufacturers in our universe of coverage are on track to increase their revenue beyond their mid-2008 highs. Economic profit has varied greatly over the past 8 quarters, dropping into negative territory at the end of 2009. But the recent rebound shows competitive strength is improving as companies are learning how to make money in spite of the slow growth economy.

As the 2010 holiday season approaches, retailers & manufacturers are trending upwards for revenues and EPS.



n = 310 companies (adjusted from full total for comparison purposes)

TTM = Trailing Twelve Months

NOTE: Charts show companies in wRatings coverage only. Shaded bar is through October 2010 only.

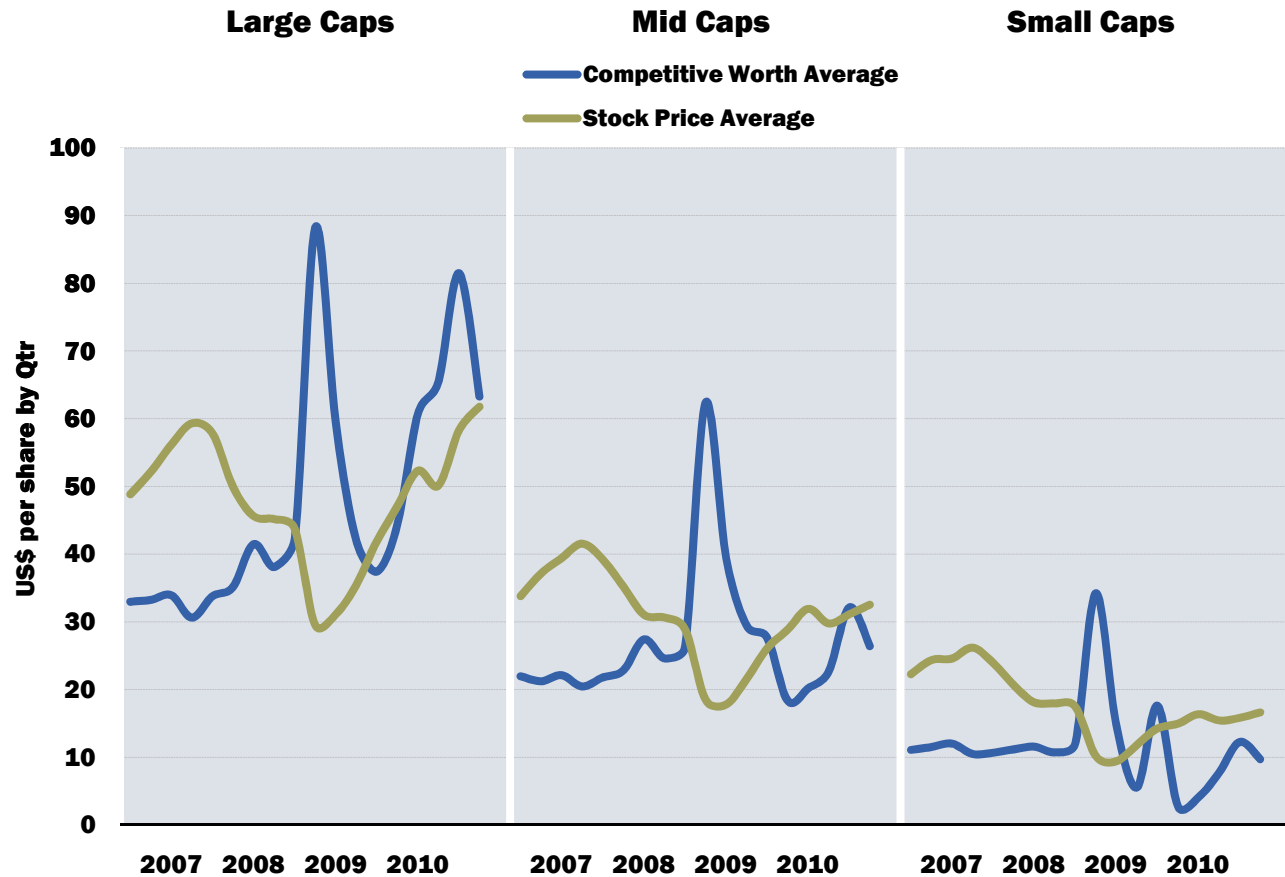
Competitive Worth

Where do the best buys exist within Retail & Manufacturers today? Try Large Caps but only ever so slightly.

We measure a company's worth (in \$ per share) by combining earnings, economic profit growth, and moat barriers growth in comparison to their cost of capital and inflation (Consumer Price Index). The price is not the same as an analyst 'target price' of a stock, but rather a quantitative valuation of what the company is worth based on its future ability to generate (grow) earnings. A company is undervalued when its stock price is less than its competitive worth, and overvalued when more than it.

Although we saw earlier the Top 20 Small/Micro Caps were gaining in competitive strength faster than their larger rivals, the overall category of Small/Micro Caps remains high-priced. Large Caps still represent a buying opportunity today, as their competitive worth produces a high margin of safety (2.4%) for investors. With their significant market share, Large Caps are lower risk to investors that are still skeptical of the economic rebound.

Mid Caps had crossed above the line to become a better value in Q3 but only briefly. Overall, retailers and manufacturers remain expensive to buy on average.



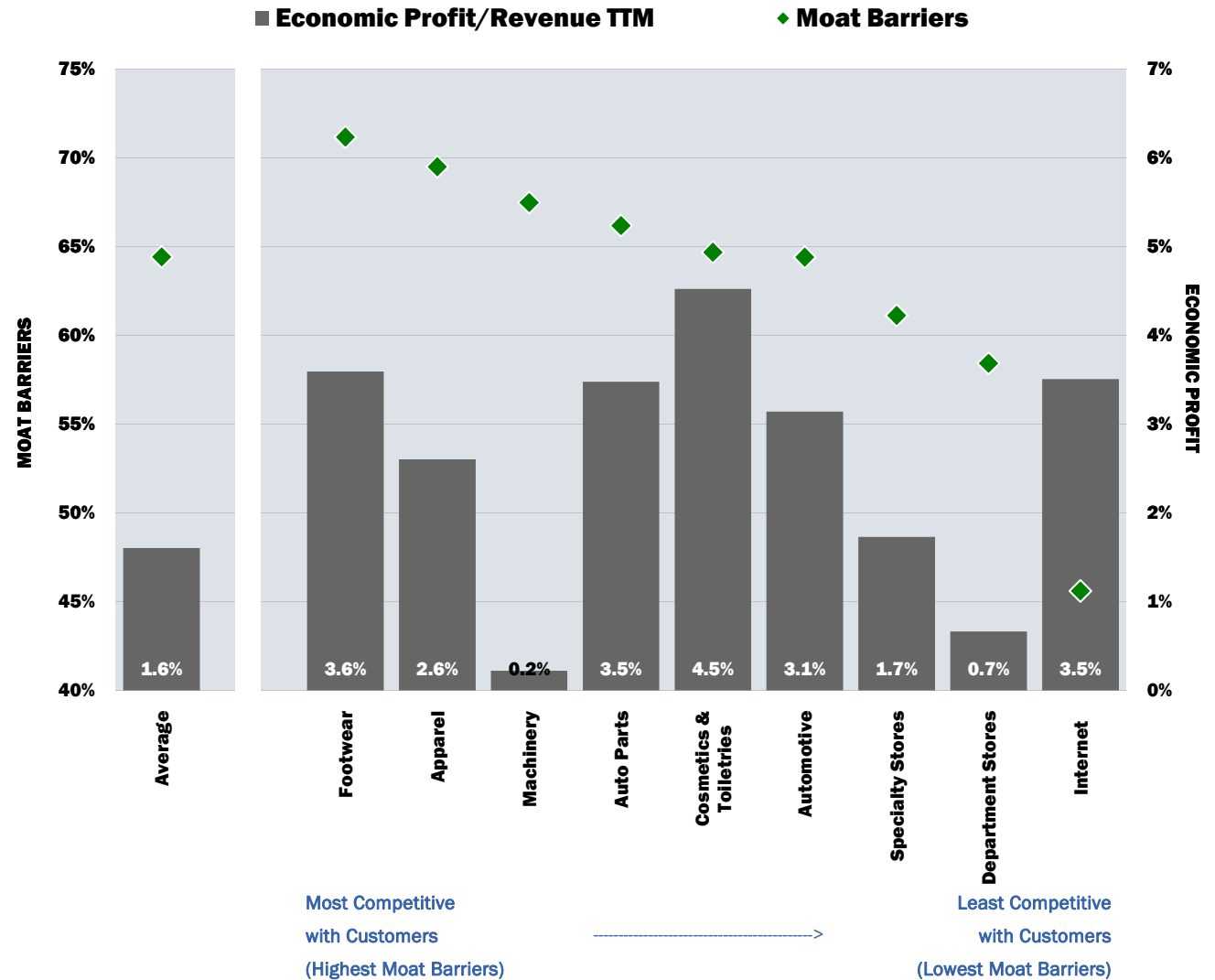
See wRatings coverage by ticker on Page 9.

Future Earnings Growth

Because Moat Barriers identify the ability of a company to protect its customers from defection, they are leading indicators to the ability to generate more Economic Profit/Revenue (EPR). In turn, we can get an early look at where earnings should improve.

Footwear and apparel are performing well from both a customer and financial perspective. Customers are willing to spend premium dollars to get what they want, and companies are flexing their competitive muscle to meet their expectations. Interestingly, internet companies are doing well at making money but having trouble maintaining their competitive strength. Appears the internet model is quite easy to duplicate. This would favor the retailer or manufacturer that employs a multi-channel strategy to sell and distribute its products through physical stores, catalogs and online rather than just one channel.

Machinery and department stores generate the lowest economic profit/revenue, although their challenges appear to be different. With high moat barriers, machinery companies must optimize their internal operations to generate more profits. With low moat barriers, department stores need to re-evaluate the power of their business framework and, most likely, re-design it from the ground up to create a durable advantage.



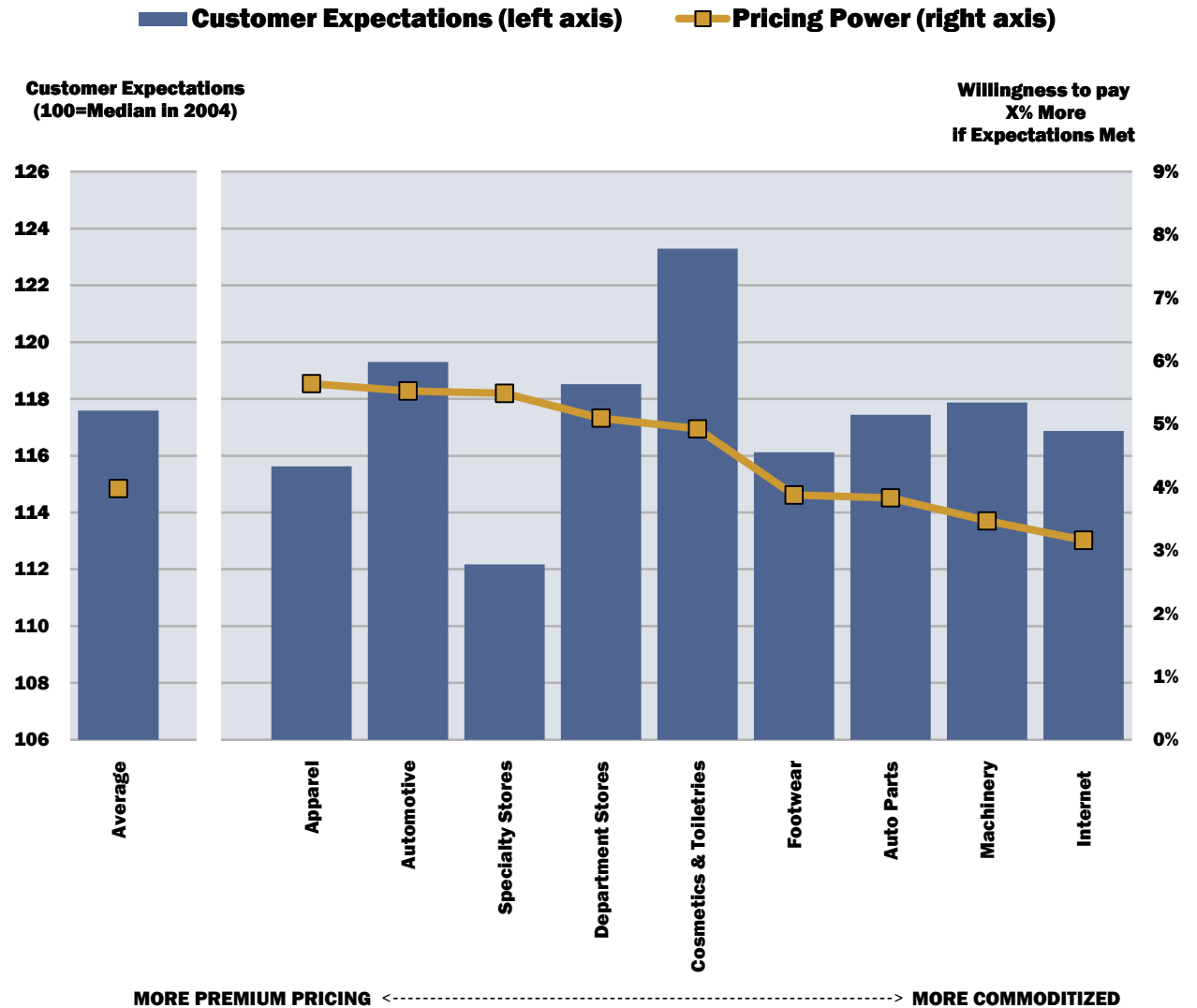
Pricing Power & Customer Expectations

Pricing Power is the amount more (if any) customers are willing to pay if a business fully met their expectations. The maximum is 50%, minimum is 0%. High, stable pricing power indicates that future customer demand for the business remains strong and the ability to grow earnings is available.

Customer Expectations are the average score that customers rank companies across 17 critical needs (i.e. Quality, Uniqueness, Trust, Stability) that build competitive advantage. High expectations prevent commoditization and allow companies to compete in areas other than just price.

Five industries possess above average pricing power: Apparel, Automotive, Specialty Stores, Department Stores and Cosmetics. The internet-only business framework is last in pricing power, indicating further how difficult it will be for those firms to compete on anything else but price.

Specialty Stores are lowest in customer expectations yet are maintaining a high pricing power. This is due to the high disparity in Specialty Stores as an industry, where some hit the mark very well and thus drive up pricing power.



Unfair Share of Economic Profit

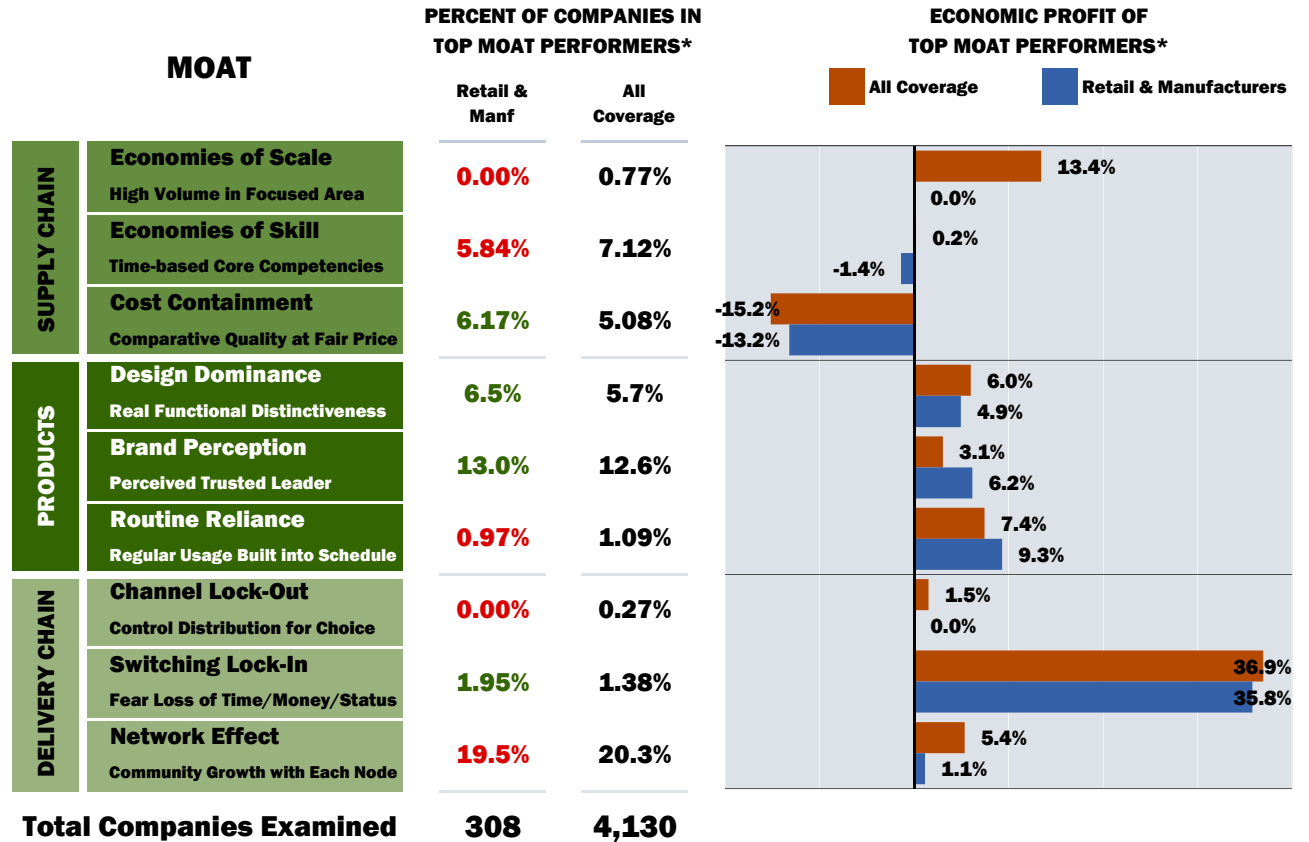
Which actions, programs and other initiatives generate an unfair share of economic profits? Certain aspects of a company's business model generate far superior ROI than others.

In this chart, we segment top performing companies (>= 4Ms) for each moat today and compare the percent of Companies (numbers) to their Economic Profit/Revenue TTM (bar chart).

Retailers & manufacturers out-perform other sectors in brand perception and routine reliance. These barriers create trust in their products and find ways for customers to use them on a regular basis.

Significant profits are being generated today through the switching lock-in moat. This barrier locks-in customers through areas like loyalty programs and automated needs identification.

Interestingly, economic profit is very low for all the supply chain moats. For all sectors, being excellent at cost containment is generating negative economic profit. This indicates that capital has been invested but companies have yet to see a return.



MOAT KEY	
(M)(M)	Weak Advantage
(M)(M)(M)(M)	Most Competitive
(M)	No Advantage
(M)(M)(M)(M)	Strong Advantage
(M)(M)(M)	Non-Competitive
(M)(M)	Competitive
-	Disadvantage

* Top Moat Performers determined by those companies with a (M)(M)(M) or higher rating for each moat.

Competitive Spotlights

NIKE, Inc. (NYSE: NKE)

J. Crew Group, Inc. (NYSE: JCG)

Volcom, Inc. (NASDAQ: VLCM)

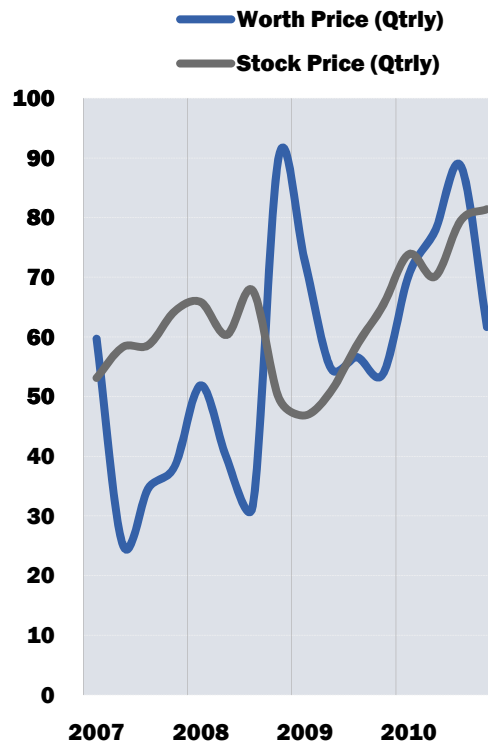
Selling to about 23,000 retail accounts around the world, Nike is one of the largest and most successful footwear and apparel companies in the world.

While we are familiar with the company's commercials and famous tagline, "Just Do It.", Nike's competitive strengths go far beyond simply an iconic brand. Management has always focused on building a great business, and not just another brand. Nike understands how to connect their celebrity endorsements (a Channel Lock-Out moat barrier) with its core products.

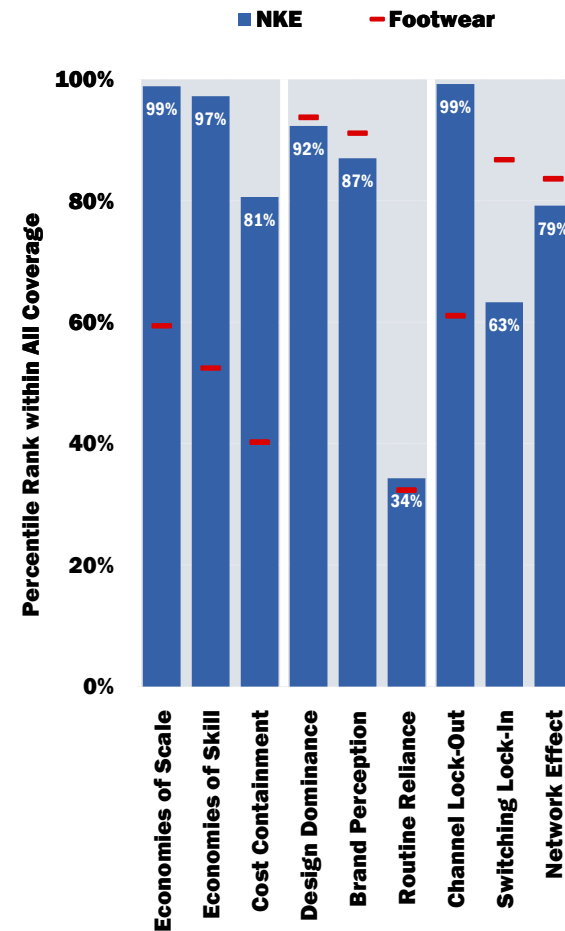
More so, the company tightly integrates their distribution channels with marketing. This ensures product availability (or scarcity for the collector items) at the right place and right time, which are true economies of scale moats. Through their significant network of suppliers all over the world, Nike also optimizes its supply chain, thereby extending their cost containment strength.

For four of the nine moat barriers, Nike is significantly stronger than the industry average. The Nike way of doing business results in significant pricing power with consumers.

NIKE, Inc. (NYSE: NKE)



Moat Barriers

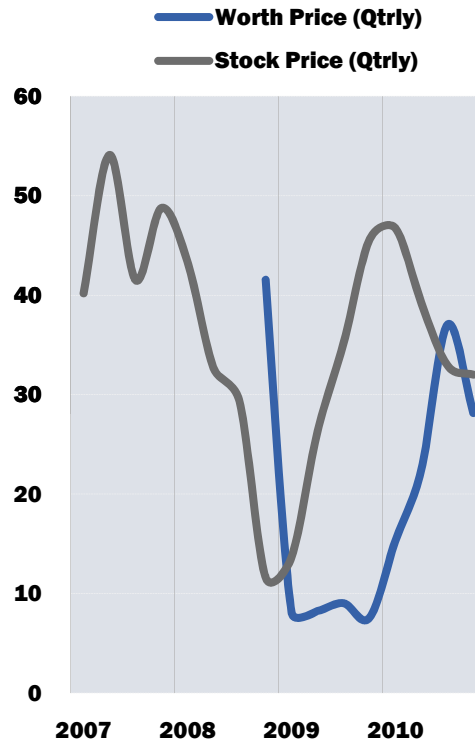


J. Crew has come a long way since Mickey Drexler took over as CEO in 2003 after leaving Gap. The retailer reinvigorated its brand with designer merchandise offered at price points below the high-end luxury niche. This fits in nicely with consumers seeking out quality alternatives at better prices.

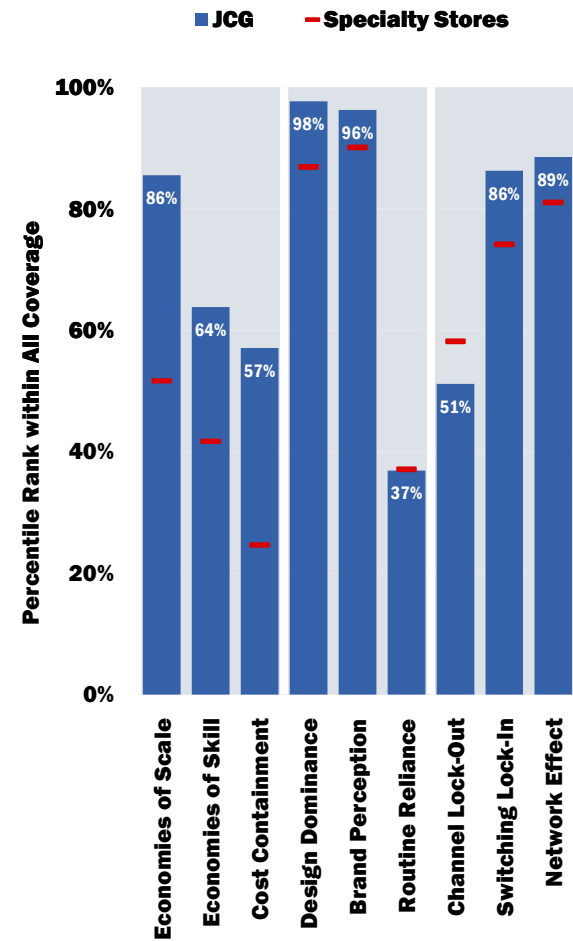
J. Crew holds competitive strengths in both design dominance and brand perception, scoring above the apparel industry average. While commendable, the challenge is these moat barriers are also held by many others in consumer-driven industries. And with clothes, rivals are often able to quickly copycat any new hot trends which will inevitably cut into a retailer's profits.

To build additional strengths, management has been busy opening new stores and growing e-commerce sales. This type of growth improves supply chain moats, where JCG is substantially outperforming industry averages for economies of scale, economies of skill and cost containment.

J. Crew Group, Inc. (NYSE: JCG)



Moat Barriers

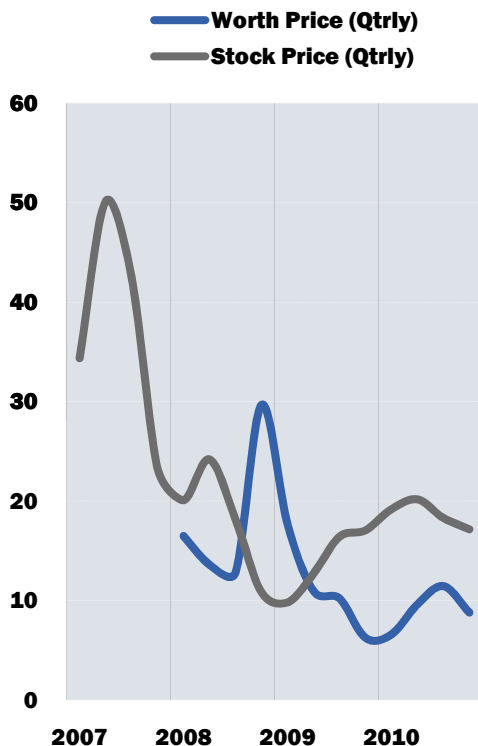


The founders of Volcom wanted to build a company based on the three sports they love: surfing, skateboarding and snowboarding. Started in 1991 out of their bedrooms, Richard Woolcott and Tucker Hall are building a highly competitive apparel manufacturer of t-shirts, fleece, denim and outerwear. In addition to 21 Volcom stores, the company also sells their products through specialty retailers, department stores and online retailers.

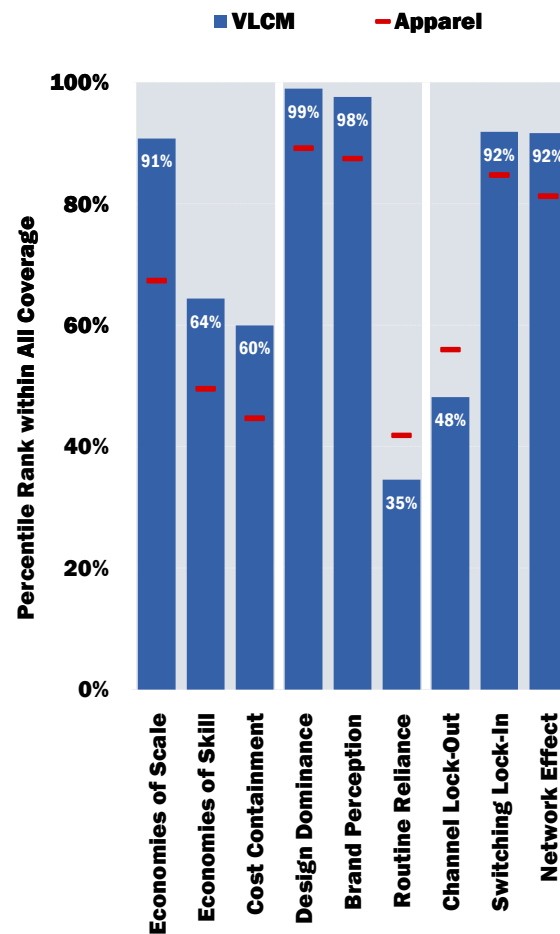
Today, Volcom has managed itself phenomenally well both financially and with its target market. With no debt and \$100+ million in cash, management has allocated capital wisely. In 2008, they acquired Electric Visual Evolution and Laguna Surf & Sport. They are expanding internationally and building their direct-to-consumer channel with an upgraded website focused on e-commerce.

Volcom customers appreciate their branded merchandise, and see the fit into best price and best preservation. Their economies of scale moat reflects the company's focus on its niche market. Volcom is keen to sponsor athletes, host events and produce videos that extend their brand.

Volcom, Inc. (NASDAQ: VLCM)



Moat Barriers



Appendix

Terminology

Our Panels

Why Our Ratings Work

Your Competitive X-Ray™

Our Universe of Coverage

For More Information

Terminology



Competitive Worth

The value of a company in \$ per share based on its earnings, moat barriers, economic profit in relation to its cost of capital and inflation. This not the same as an analyst's "target price" but instead is a reflection of the company's future value.

Delivery Scores

How well a company performs on each of 12 attributes. Each score is indexed using 100 as the median across all national desires in 2004. A score of 100 indicates the company is delivering fully against customer expectations. See Expectation Scores.

Expectation Scores

How high up customer expectations and needs are on each of 12 attributes. Each score is indexed using 100 as the median across all national desires in 2004. A score of 100 indicates the company is delivering fully against customer expectations. See Delivery

Economic Profit/Revenue (EPR)

A measure of how well a company is efficiently deploying its capital to generate profits. EPR is calculated as $\text{NOPAT} - (\text{Invested Capital} * \text{WACC})$.

Moat Barriers

The ability of a company to create barriers to entry that prevent rivals from taking customers and profits.

Net Operating Profit after Taxes (NOPAT)

NOPAT is calculated by adding a company's Interest Expense to its Net Profit.

Pricing Power

The percentage more customers are willing to pay if companies met their expectations. A small gap between Expectation and Delivery scores with a high Pricing Power indicates an increasing demand for innovative approaches.

Return on Invested Capital (ROIC)

Return on Invested Capital is a non-standard accounting financial measure that quantifies how well a company generates cash with capital they invest in their business.

Weighted Average Cost of Capital (WACC)

Weighted Average Cost of Capital is the required return needed to make an investment worthwhile in which each portion of capital – common stock, preferred stock or debt – is proportionally weighted.

W Rating

Similar to a five-star rating system used for hotels, we rate companies 1 through 5 W's, with 5 the most competitive and 1 the least competitive.

Ⓜ Score

A measurement of a company's ability to earn a consistent profit above their cost of capital and their ability to protect that profit through competitive advantages with customers.

Our Panels

Our patented, turn-key system is highly scalable across all geographies and industries. We typically conduct 65,000+ interviews every quarter through our panel websites.

Since 1999, we've primarily recruited panelists offline at points-of-purchase such as airports, hotels, restaurants and retail districts. In the past years, we started accepting panel registrations online.

We pre-qualify respondents as current, former and potential customers of the companies they rate. Respondents complete an online interview in about 2 minutes. Afterward, each receives a description of their buying style and a list of companies that meet their expectations.

Unknown to panelists, we score their answers to vet respondents and prevent bad data from entering our system. Only genuine answers pass, which allows a respondent to be paid an incentive or entered into a drawing. Failed respondents will never pass pre-qualification again.

Our panel respondents are from over 40 countries around the world



Why Our Ratings Work

The Study. Ever since Gary Williams' Macintosh® software company missed the Microsoft Windows® market in the late 1980's, he has been on a quest to discover what truly drives a company's competitive advantage.

The Benchmarks. To see if a company built a sustainable competitive advantage, we started with 2,628 companies and filtered them by market cap and revenue. We then looked for two telltale signs of competitive advantage: 1) High market share and 2) High ROIC. Only 15 companies met the 65th percentile mark or higher for 5 consecutive years.

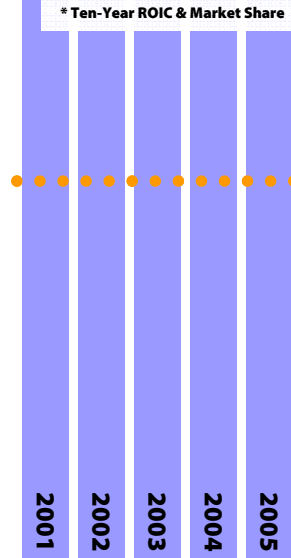
The MoatMakers™. We then wanted to see HOW those top companies built barriers to entry, or moats, to protect their advantages. Using the top 15 companies as a starter set, we analyzed data from 135,000+ consumer interviews to empirically find the nine sources of competitive advantage. We call these companies MoatMakers™.

The Results. Our ratings work because they use a core set of Moat Maker™ algorithms to determine the strength of a company's moat in comparison to others.

THE STUDY & BENCHMARKS

ANHEUSER-BUSCH*
CITIGROUP*
COCA-COLA*
DELL
GLAXOSMITHKLINE
HOME DEPOT
LOREAL
MICROSOFT

MORGAN STANLEY
NOKIA
PEPSICO
TJX COMPANIES
UNITED PARCEL SERVICE
WALGREENS*
YUM BRANDS



- 1 Market Share
- 2 ROIC
- 3 Deliver on Consumer Desires
- 4 Out-Perform Competitors

Rolling 5-year analysis starting in 1999

THE MOAT MAKERS™

SUPPLY CHAIN	Economies of Scale High Volume in Focused Area	
	Economies of Skill Time-Based Core Competencies	
	Cost Containment Comparative Quality at Fair Price	
PRODUCTS	Design Dominance Real Functional Distinctiveness	
	Brand Perception Perceived Trusted Leader	
	Routine Reliance Frequent Usage Based on Habit	
DELIVERY CHAIN	Channel Lock-Out Control Distribution for Choice	
	Switching Lock-In Fear Loss of Time/Money/Status	
	Network Effect Exponential Growth with Each Node	

Your Competitive X-Ray™

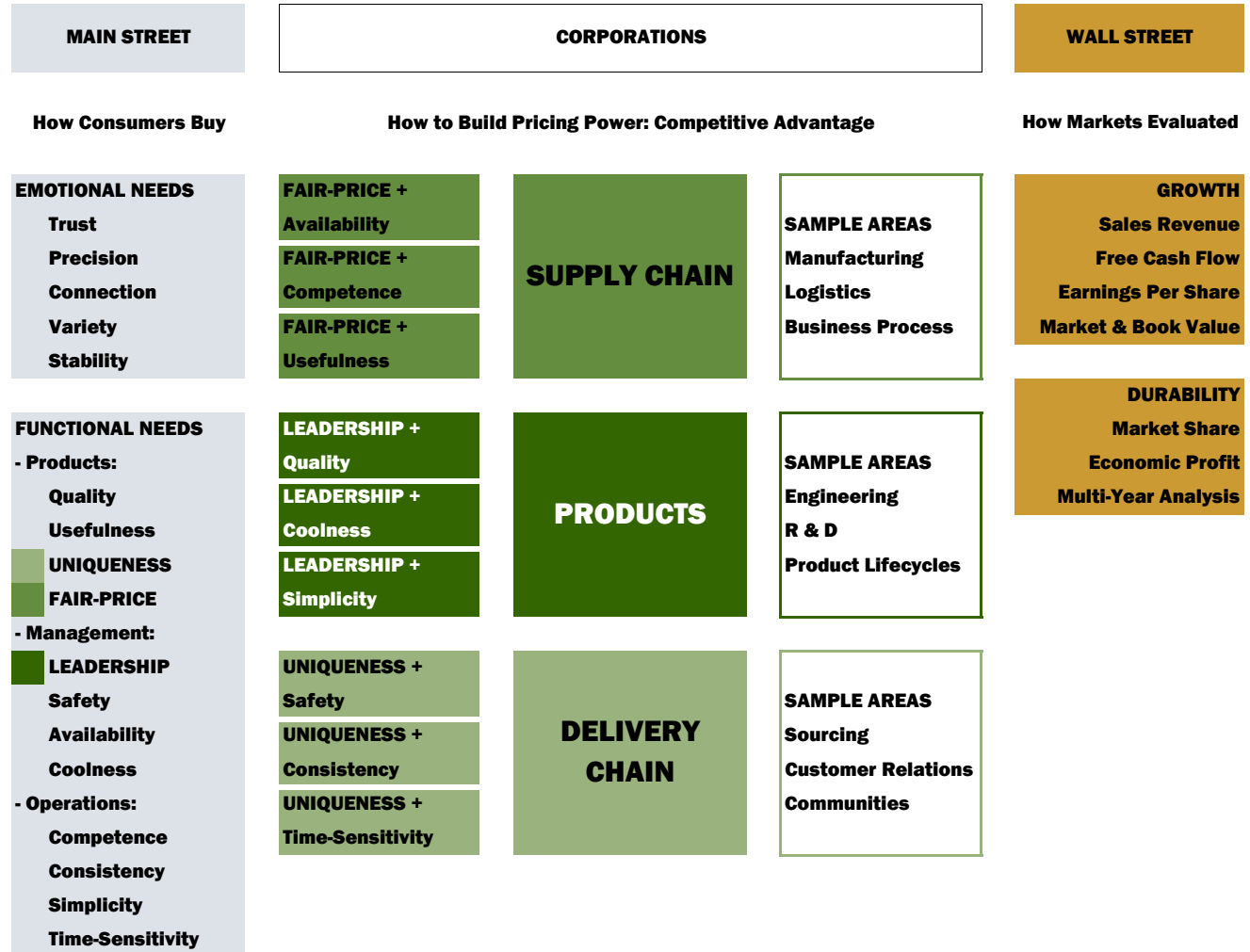
FROM MAIN STREET TO WALL STREET

Most companies today equate “demand” with “lead” generation so they focus on internal activities such as advertising, PR and marketing materials.

But in order to understand how demand is generated, we must start by examining how customers buy. Most researchers believe that decisions follow a logical process, where customers weigh the utility of an offering against their budget to buy (or not buy).

Decisions are far more complex, and require a series of trade-offs between emotional, functional and economic needs. These trade-offs are where companies must create unique sets of advantages that cannot be duplicated by competitors, what Warren Buffett refers to as “moats.” Nine moats exist within three business areas (Supply Chain, Products and Delivery Chain).

The wRatings' Competitive X-Ray™ provides a full 9-moat analysis to help companies prioritize spending needs based on their ability to build and sustain competitive advantages.



Our Universe of Coverage

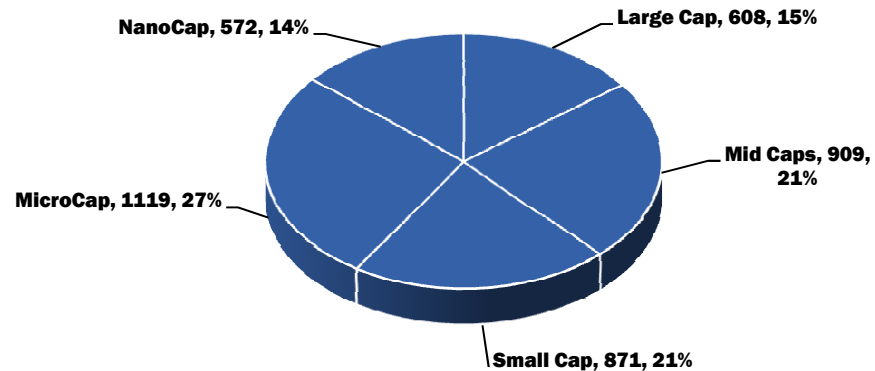
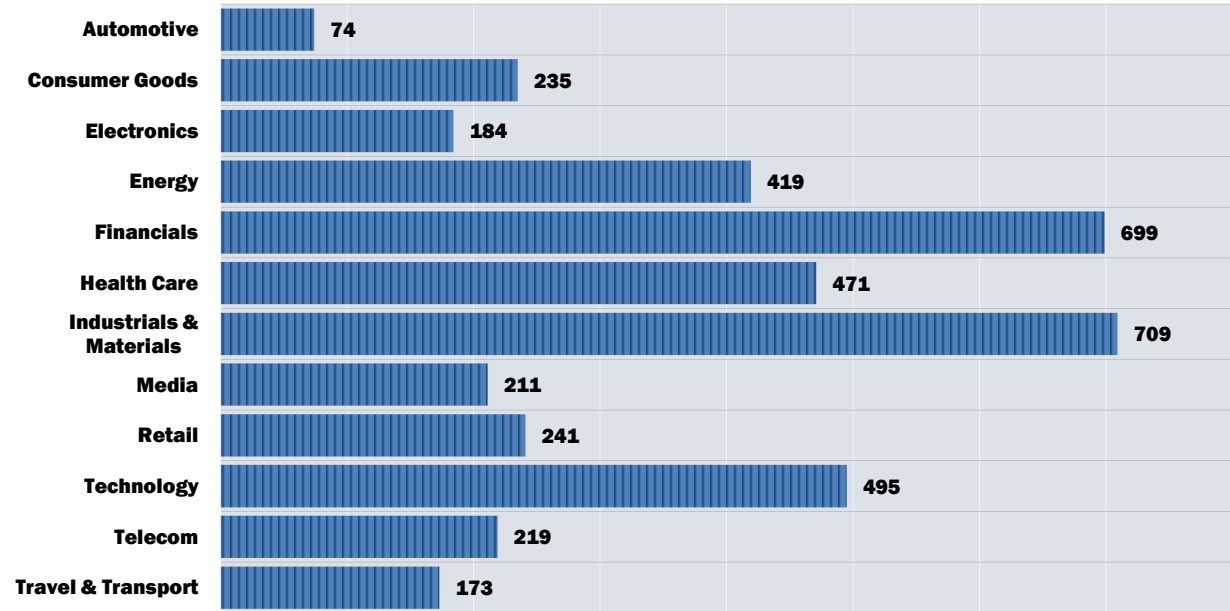
4,130 Companies Covered as of 2010-Q3

We cover companies that represent all sectors of the economy. To make company selection easy for customers to rate them, we structure companies with a more consumer-friendly nomenclature.

Our research team operates in 13-week increments on a rolling week basis. During the course of 13 weeks, we pre-qualify a panel, conduct interviews with them and analyze the data on each company in our database. From time to time, our analyst team writes and publishes individual reports on certain companies.

For an up-to-date listing of the wRatings coverage, go to www.wratings.com.

- KEY**
 Large Caps: \$5 Billion or more
 Mid Caps: \$1 Billion to \$5 Billion
 Small Caps: \$300 Million to \$1 Billion
 Micro Caps: \$50 Million to \$300 Million
 Nano Caps: \$50 Million or less



For More Information

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