The History of Shoe Carnival, Inc.

Shoe Carnival Inc. ("Shoe Carnival" or the "Company") was founded by David Russell in 1978 when he opened his first store in Evansville Indiana, which at the time was called Shoe Biz. Shoe Carnival features a broad assortment of value-priced footwear for the entire family that includes both name brands and private label products. The Company also features accessories such as socks, handbags and shoe care items. Shoe Carnival quickly became popular due to its creative and innovative sales approach. Russell's vision was to create a sales environment that could be closely associated with the word "fun."

By 1984 Shoe Carnival had expanded to three stores and was generating $8 million in annual sales. Each of the stores remained true to the "fun" atmosphere by featuring up-beat music from jukeboxes, constant in-store sales promotions via intercom, and an open self-service sales floor. The initial and lasting success of Shoe Carnival was also due to its marketing and promotional brilliance. Promotions would lure customers into the store where they were met by an enticing atmosphere that would influence them into a buying mood. Examples of such promotions include a $25,000 cash giveaway, a cow giveaway and a roulette wheel for customers to spin and earn free prizes and savings. Neon Signs, colored lights, large mirrors and colorful displays all added the aesthetics that made Shoe Carnival an engaging place to shop.

In 1986 Russell sold a controlling interest in Shoe Carnival to Fisher-Camuto Corporation, although he remained as chief executive in charge of the Company's operation. Fisher-Camuto took note of the success of Shoe Carnival and had the financial assets to expand the Company outside of Evansville. Fisher-Camuto financed the construction of three Shoe Carnivals in Indianapolis. These stores met the same success that the initial three had in Evansville. This led to the opening of 15 additional Shoe Carnivals by 1988 that were spread out over the Midwest.

In 1989 J. Wayne Weaver took interest in the Shoe Carnival concept and with Russell's help, bought Shoe Carnival back from Fisher-Camuto for a price of $17 million. Weaver became the chairman of Shoe Carnival and Russell again remained the chief executive. By 1990, Shoe Carnival expanded to a total of 30 stores spread out over nine states, most of which were in the Midwest. After the 30th store was operational, the Company employed 1,500 part-time and full-time workers.

In 1993, Shoe Carnival went public on the NASDAQ exchange under the ticker symbol SCVL. Despite a strong total revenue figure of $127 million in 1992, the move to go public was to create the capital needed to expand the Company at an enhanced rate. At the end of 1993, Shoe Carnival consisted of 57 stores and had total revenue of $157 million, with a net income of $6 million.

In 1996 David Russell was forced to resign due to declining health. Mark L. Lemond took over as president and CEO in September. Between the emergence of other discount shoe retailers and the fact that several of the new stores that opened in the mid-90s were struggling, Mark Lemond decided to take several risks in effort to jump start the Company once again. Lemond closed eight unprofitable stores, cut 10% of the administration staff and began to remodel existing Shoe Carnivals. Lemond also decided to revamp in-store sales displays to give a new, fresh look. With Lemond's leadership and implemented vision, by 2002 Shoe Carnival's revenue rose to $519.7 million with a net income of $15.6 million. By the end of 2003 the number of Shoe Carnival stores in operation increased to 237.

By 2010, Shoe Carnival expanded to 314 stores spanning across thirty states. Shoe Carnival's sales revenue reached $739.2 million, which was an 8.2% increase from 2009. Both the 2010 total revenue and the increase in revenue from 2009 were Company records. Shoe Carnival also had a record net income of $26.8 million in 2010. After having its best fiscal year in 2010, Shoe Carnival looks to keep momentum through 2011 by opening 20 new stores as well as build upon and strengthen their e-commerce platform to capture sales and attract customers not located near a store.

The Business Model of Shoe Carnival, Inc.

Shoe Carnival, Inc. was founded in 1978 as a discount retailer of name brand and private label footwear. The Company has set up stores and targeted families mainly in the Midwest, south, and southeast regions of the United States. Shoe Carnival distinguishes itself from its competition through several sustainable competitive advantages: (i) distinctive shopping experience; (ii) broad merchandise assortment; (iii) value to customers; (iv) efficient store level cost structure; and (v) heavy reliance on information technology.

Distinctive Shopping Experience
Shoe Carnival's stores combine competitive pricing with a highly promotional, in-store marketing effort. This encourages customer participation and creates a fun and exciting shopping experience. Stores are decorated with exciting graphics and bold colors and feature a stage as the focal point store. The Company believes that this highly promotional atmosphere results in various competitive advantages, including increased multiple unit sales; the building of a loyal, repeat customer base; the creation of word-of-mouth advertising; and enhanced sell-through of in-season goods.

Broad Merchandise Assortment
Shoe Carnival seeks to be the store-of-choice for a wide range of consumers seeking moderately priced, current season, name brand, private label footwear. The Company's product assortment includes dress and casual shoes, sandals, boots, and a wide assortment of athletic shoes for the entire family. The average store carries approximately 28,000 pairs of shoes as well as selected accessory items complementary to the sale of footwear. The Company strives to emphasize name brand merchandise to customers through the use of creative signage and by prominently displaying selected brands throughout the store. These techniques make it easier for customers to shop and focus attention on key name brands. By offering a wide selection of both athletic and non-athletic footwear, the Company is able to reduce its exposure to shifts in fashion preferences between those categories.

Value to Customers
The Company's marketing effort targets moderate income, value conscious consumers seeking name brand footwear for all age groups. By offering a wide selection of popular styles and brands, Shoe Carnival generates broad customer appeal and by offering quick, one stop shopping for the entire family, the Company gains the appreciation of the time-conscious customers.

Efficient Store Level Cost Structure
Shoe Carnival's cost efficient store operations and real estate strategy enable the Company to price products competitively. Low labor costs are achieved by housing merchandise directly on the selling floor in an open stock format. This enables customers to serve themselves if they so choose and reduces the staffing required to assist customers and the store level labor costs as a percentage of sales. Company management prefers to locate stores predominantly in strip shopping centers in order to take advantage of lower occupancy costs and maximize exposure to value oriented shoppers.

Heavy reliance on Information Technology
Management has invested significant resources in information technology over the years since the Company's founding. The proprietary inventory management and state-of-the-art ("POS") systems provide Management, buyers, and store managers with the timely information necessary to monitor and control all phases of operations. POS also provides full price management, promotion tracking capabilities, real-time sales and gross margin analysis, and customer tracking. Shoe Carnival's network connects its corporate offices with its distribution center and retail stores, providing up-to-date sales and inventory information and timely access to key business data, which has enabled the Company to drive annual comparable store sales increases, manage its markdown activity, and improve inventory turnover.

Sources

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