Accounting & reporting considerations related to online sales

U.S. retail e-commerce sales are forecasted to approximate $224.2 billion in 2012, increasing to $361.9 billion in 2016.¹ In the 3rd quarter of 2012, e-commerce sales accounted for more than 5% of total retail sales.² According to Shop.org, 2012 online holiday sales are forecasted to grow 12% over the last holiday season to as much as $96 billion. Sales on “Cyber Monday” 2012, the biggest online shopping day of the year, increased again compared to the prior year, according to some statistics by as much as 17% to $2 billion.³ These statistics show the importance of e-commerce sales to many retailers. Retailers continue to develop their strategies to capitalize on the virtual world of consumer buying. As a result, for many of the traditional brick and mortar retailers, e-commerce has become an important sales channel. This trend is further empowered by the increased use of mobile devices by consumers.

As e-commerce sales become more significant, many retailers are evaluating the potential accounting and reporting implications. This article highlights certain of the more significant considerations as it relates to the impact on comparable store sales and segment reporting.

Comparable Store Sales

Comparable store sales (“CSS”) is a productivity measure of revenue used to compare sales of retail stores that have generally been open for a year or more. Historical sales data allows retailers to compare current and prior year sales at the individual store level. The CSS disclosures are provided to help stakeholders differentiate between revenue growth that comes from new or significantly remodeled stores and revenue growth resulting from improved performance at existing stores.

Depending on the underlying data supporting the calculation, CSS may be considered a non-GAAP measure as defined by the Securities and Exchange Commission (“SEC”). There are no governing rules or prescriptive guidelines on the calculation or presentation of CSS. As a consequence, there is diversity in practice in the calculation of CSS. One of the areas of inconsistency relates to the treatment of online sales in the CSS measure. Some companies include online sales in CSS, for example by assigning online sales to existing stores or specific geographic locations, or by treating all online sales as a separate e-commerce “store”. Other companies do not include online sales in the calculation of CSS and either discuss the change in online sales separately or do not address online sales. There is no right or wrong answer as to how online sales should be considered; however, transparent disclosure of the method followed is important to enable stakeholders to make informed decisions. Given the importance of the metric, companies should consider providing detailed disclosure regarding how CSS is calculated.

In addition, SEC staff comment letters frequently focus on Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”), in particular the results of operations discussion. The SEC staff have expressed their view that segment level information and key business

¹ Source: emarketer.com
³ Source: Adobe Digital Marketing Blog
metrics may provide useful information to investors. Historical sales and/or profitability trends in
traditional brick and mortar stores and e-commerce stores may show significantly different trends. In
these circumstances the SEC staff may ask registrants to provide a more robust discussion in MD&A of e-
commerce sales and the impact on gross profit for each period presented, and may also request
registrants to exclude e-commerce from CSS. Sample comments include:

“In order to provide an investor with a better understanding of the drivers of your same
store data, please provide us with, and confirm in future periodic Exchange Act reports
you will disclose, same store sales excluding online sales activity.”

“We note the statement on page x that same-store sales include online sales. In future
filings where you introduce the term same-store sales, please revise to clarify the reasons
for including your direct-to-consumer amounts in the same-store sales computation. In
addition, revise future filings to clarify in Management’s Discussion and Analysis to the
extent online sales performance is significantly different from figures provided for total
same-store sales. Please provide draft disclosure.”

For informational purposes, we have reviewed the CSS definition and related disclosure of the impact
of e-commerce for 35 major retailers (refer to Appendix A). The chart below summarizes how e-commerce
sales have been considered in the CSS calculation for these major retailers.

As previously highlighted, there is diversity in practice around the treatment of e-commerce sales in CSS
reporting. The majority of the retailers reviewed include e-commerce in their primary CSS metric but not
all separately discuss the performance of their e-commerce channel. In addition to CSS, some companies
also disclose metrics such as “Comparable Company Sales” or “Comparable Retail Sales”, measures that
include both CSS related to the brick and mortar stores and the e-commerce store.

For a significant number of retailers, future sales will likely continue to shift away from brick and mortar
stores to the e-commerce sales channel. However, some companies believe customers do not
differentiate between these two sales channels and as such, providing a combined CSS figure may be
viewed as more relevant to investors. Each company should review its individual facts and circumstances
to determine how to present CSS. A consistent and transparent approach is key to a user’s understanding
of CSS. If management changes the way they calculate CSS to reflect a change in the business, they
should consider explaining the change and the impact on all periods in their public disclosures. It is also
important for companies to carefully assess the reliability of the underlying data, and ensure appropriate
internal controls are in place.
**Segment considerations**

Depending on company specific facts and circumstances, retailers may need to consider how the e-commerce channel is viewed from a segment perspective. Not only is this important for transparency in financial reporting and to help stakeholders understand the company’s operating results, it is also important because of the potential impact on how reporting units are defined in the goodwill impairment test.

Segment reporting is based on the guidance in ASC 280, Segment Reporting, and is determined by a company’s individual facts and circumstances which often change over time. Retailers should evaluate how e-commerce sales are presented in the information provided to the Chief Operating Decision Maker ("CODM") and information included in public disclosures. Some companies may allocate e-commerce sales to certain stores, regions, or brands. Others may view e-commerce sales as distinct from stores and may characterize them as a separate operating segment. If the e-commerce channel and the brick and mortar stores are considered separate operating segments but aggregated into one reportable segment, companies should carefully assess if the aggregation criteria under ASC 280 are met. The SEC staff continues to focus on segment reporting in its comment letters. An example of such a comment is as follows:

“We note you have aggregated your retail stores and e-commerce store into one operating segment, thus resulting in one reporting segment. Tell us how you considered (i) the different methods used to distribute your product in each segment, (ii) the apparent different gross margins for each segment (i.e. cost of sales includes store occupancy costs for your retail stores), (iii) e-commerce sales represent approximately xx% of your net sales and (iv) the growth rate of your e-commerce store versus your retail stores in your conclusion that these two segments should be aggregated into one reporting segment. Refer to FASB ASC 280-10-50-11 and 55-7A to 55-7C.”

For informational purposes, we have reviewed the identified reportable segments of the 35 retailers listed in Appendix A. Of these companies, 37% presented a single reportable segment, 26% presented two reportable segments and 37% presented three or more. The majority of the companies, namely 83%, did not present e-commerce as a separate reporting segment. This data is summarized in the charts below:

![Chart 1: Separate e-commerce segment?](image1.png)

![Chart 2: Segment categories](image2.png)

**Other considerations**

There are various other accounting and reporting considerations stemming from the growth and increased importance of e-commerce sales. For example, e-commerce sales may impact a company’s cyber security risks, accounting policies (e.g., revenue recognition, return reserves) and impairment testing. Retailers should consider these and other potential implications and ensure the information included in SEC filings properly reflect the areas impacted by e-commerce sales. The accounting and reporting considerations depend on a company’s facts and circumstances and retailers should ensure all impacts are considered.

For questions on the content in this article, please contact any of the PwC professionals listed on the next page.
Appendix A – Companies reviewed in article

1. Abercrombie & Fitch Co.
2. Aéropostale, Inc.
3. American Eagle Outfitters, Inc.
5. Best Buy Co., Inc.
6. Chico’s FAS, Inc.
7. The Children’s Place Retail Stores, Inc.
8. Coach, Inc.
9. Costco Wholesale Corporation
10. Express, Inc.
11. Foot Locker, Inc.
12. Genesco Inc.
13. GNC Holdings, Inc.
14. The Gymboree Corporation
15. J.Crew Group, Inc.
16. Macy’s Inc.
17. The Men’s Wearhouse, Inc.
19. Pacific Sunwear of California, Inc.
20. RadioShack Corporation
21. Safeway Inc.
22. Staples, Inc.
23. Starbucks Corporation
24. Target Corporation
25. The Gap, Inc.
27. The Kroger Co.
28. The TJX Companies, Inc.
29. Tiffany & Co.
30. Toys "R" Us, Inc.
31. Walgreen Co.
32. Wal-Mart Stores, Inc.
33. Whole Foods Market, Inc.
34. Zumiez, Inc.
35. Sears Holdings Corporation