Should Investors Take Canadian Tire's Changes to the Till?

Description

As Canadian retailers continue to feel the pinch from American competitors and falling margins, one retailer has been able to stay ahead of the crowd. This increasingly diversified Canadian staple hasn't been sitting back on its laurels over the past few years, hoping its competitors problems would skip past it. Rather the company has been quite active from the store aisle to the boardroom. Let's take a closer look at **Canadian Tire** (TSX: CTC.A).

Generally specialized

While other companies such as **Loblaw** (TSX: L) and **Target** (NYSE: TGT) have been marketing themselves as one-stop shops or general stores on steroids, Canadian Tire has come into its second phase of being a "specialist" in each of its varied departments. This may sound counter-intuitive at first, but it is an initiative that Canadian Tire has taken to heart and has been rolling out one department at a time. The goal is to have a variety of "specialties" housed under one roof.

Over the past year it has been refreshing the automotive department, its oldest and most iconic department. This department had fallen in disarray against competitors. Now thanks to this newly applied philosophy the automotive department saw its best sales figures in seven years (not including its Part Source division) in 2013. This is a huge bump for the company as the automotive department has the highest margins.

The next two departments to receive the same overhaul appears to be its fixing/home repair and sporting goods departments. This should take place over the next year or two.

Sporting goods benefiting from acquisitions

The biggest change in its sporting goods department came back in 2011 when the company bought Forzani Group Ltd, a.k.a. FGL Sports. This was a key acquisition for Canadian Tire as FGL Sports brought with it Sport Chek, Hockey Experts, Sports Experts, National Sports, Intersport, Pro Hockey Life, and Atmosphere.

The knowledge gained from these companies should help Canadian Tire beef up its offerings to customers. Supplies at Canadian Tire branded stores have been rather light in the past years — especially if you've tried to find decent goalie gear like me.

If the sporting goods department can see the same turnaround as automotive it could be another very good year for Canadian Tire.

Automotive maintenance struggles

One thorn that continues to remain in Canadian Tire's side is its auto-service department, which has seen 40% turnover recently, and has gotten new head of division. It seems that progress in the shelves has failed to make it to the repair bays. Some of the complaints I've heard from auto-service managers is the under-trained service techs and the insufficient pay to keep those who are experienced.

Foolish bottom line

The company's stock has been on a tear as of late, hitting a 52-week high yesterday of $104.84. These gains in the stock have been driven by a record-setting 2013 that saw revenues of $11.7 billion (vs. $11.4 billion in 2012) and net income of $564 million ($489 million in 2012).

Also Canadian Tire has just been named one of Canada's 100 Best Managed Companies by Deloitte, coming in at number six. Canadian Tire remains a positive anomaly in the Canadian retail sector rising above the turbulence afflicting its Canadian counterparts. For investors, Canadian Tire's unusual philosophy could turn into returns you won't return.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TGT (Target Corporation)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)
3. TSX:L (Loblaw Companies Limited)

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