Is Indigo Books & Music Shooting Itself in the Foot?

Description

I had an interesting experience when I wandered into my local **Indigo Books & Music** (TSX: IDG) store over the weekend. I chose a couple of books on my wish list, did my price research, and went into Chapters to pick up my bounty. I was excited until I realized that what I wanted cost 30% more in-store than online. Bewildered at my predicament, I put the books down, went home, and bought them off of **Amazon.ca** (NASDAQ: AMZN).

There was no difference in price between Amazon.ca and Chapters online, but the fact that Indigo would charge retail customers an average of 30% more to shop in-store concerned me. I had never experienced this at **Walmart** or **Future Shop** or any other retailer.

Indigo has been struggling in the past few years, thanks to Amazon and the growth of e-books, but creating additional ways to impede potential customers isn't helping. The problems facing Indigo hit a new level earlier this year when it cancelled its dividend plan.

The future of physical retail

Now, I could have gone home, ordered my books online, and gone back the next day to pick up the same books I saw on the shelf the day before at 30% off, but I didn't. I wonder how many retail customers Indigo has lost in recent times due to this pricing discrepancy. This retail model reminds me less of what should be available to consumers and more of the old **Sears** catalogue pick-up stores of the 90s.

This is an issue for investors, as modern consumers are more informed than ever before when it comes to prices. Even a 5% difference in price is enough to send possible customers across the street or online. Even for stores like **EB Games**, its refusal to price match makes it nothing more than a starting point for customers looking for a deal.

The rise in electronics, toys, and lifestyle

As a way to mitigate its losses in its book department, Indigo has been using the money it once paid out in dividends to upgrade its retail locations. Each time I've gone into my local Chapters I've seen more and more space allotted to non-book-related goods. This is the path the company had to take in order to survive. The conversion is continuing, and in the near future alternative goods could make up more than a third of shelf space.

Products such as Kobo eReaders, Beats headphones, Apple products, Lego blocks, American Girl Dolls, gift cards, pillows, brewing supplies, and Doctor Who toys are now helping to keep the doors open. This does not even count the income from **Starbucks** locations, which often have more customers than the bookstores, and allow certain stores to stay open longer on weekends.

Sit back and check out a chapter or two of financial results

Indigo has yet to release its Q4 results, but in its Q3 report released in February the company posted $334 million in revenues. The 3% growth in revenue was realized thanks to a double-digit growth in the aforementioned lifestyle, toy, and electronics departments.

The shift from retail to online becomes even more apparent when we look at the numbers: In Q3, same-store sales at Chapters locations only increased by 2.6%, while online sales increased by 19% to $41.5 million, proving that customers would rather have “in-store pick-up” instead of actually shopping in the store.

Net income for the quarter dropped from $22 million ($0.86 per share) last year to $8.5 million ($0.33 per share). This drop was driven mostly by the in-store upgrades, which are accommodating the new types of merchandise.

The stock closed Monday at $9.75, sitting right in the middle of its 52-week range of $7.39 to $11.44. Analysts remain optimistic that the stock still has some room for growth as the average price target is set at $12.30, and carries an “outperform” rating.

CATEGORY

1. Investing

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1. NASDAQ:AMZN (Amazon.com Inc.)
2. TSX:IDG (Indigo Books & Music)

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Date
2025/08/21
Date Created
2014/05/21
Author
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