Why Sears Canada Inc. Could Be a Good Investment for Your Portfolio

Description

Sears Canada Inc. (TSX:SCC) is a retailer that has struggled over the years with declining revenue and profits as consumer tastes change. This has had the result of the value of the company stock dropping considerably. Investors are running away from a stock that is now priced at just over $4, having dropped over 60% in the past six months alone.

Last year the company had a change in leadership, and incoming executive chairman Brandon Stranzi identified a number of problems within the company that were hindering growth and the ability to keep current with technological trends.

Consumer tastes are changing from the traditional brick and mortar store to a more online-focused shopping experience. Even the large anchor-tenant-style stores that Sears and other major retailers have in shopping malls are no longer drawing the traffic they once did.

Looking back a year or more, the leadership and position of the company was, as per Stranzi, “a mature company with a lot of leadership that had been here for a very, very long period of time…”

In other words, the company leadership was out of touch with emerging trends of consumers, the usage of technology as part of the sales process, as well as younger shoppers.

How is Sears changing?

Stranzi not only changed leadership in the company, but he’s also invested heavily into IT. Sears has set up a new research and development lab that’s tasked with rethinking how the company can improve and integrate the operations, e-commerce, and catalogue divisions of the company.

Historically, Sears had a catalogue business that was ahead of the competition. When companies started to go online, Sears was one of the first to introduce e-commerce thanks in part to that catalogue business. Unfortunately, the company failed to keep current. A new e-commerce platform is currently in the works; the holiday sales period is targeted as a launch window.

In all, the company is replacing two decades of legacy technology on over 250 systems in a little over four month with a cloud-based system.

All of those changes come at a cost but also bring in significant savings. Last year Sears was able to slash $125 million in cost cuts, and the company is targeting up to $127 million in cuts for this year as well. The IT transformation that the company is undergoing is estimated to reduce technology carrying costs alone by 75%.

Whether or not Sears can succeed in this endeavour is something that remains to be seen. But the changes that new leadership have introduced were the right changes to make. Many of the technology-related changes as well as a new revamped store model will come to fruition towards the end of the year. Analysts and investors alike will be looking forward to seeing how the market reacts to the company’s reboot.

In my opinion, investors who have an appetite for risk may want to consider a position in the stock. While the stock has dropped considerably over the past year, the company is undergoing a massive transformation that is set to win back some market share.

Beyond the revamp itself, the company still has an impressive portfolio of assets, including one of the best distribution systems in the country that could spin into a separate and lucrative business model.

CATEGORY

1. Investing

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