



Why Retailers Are the Next Big Long

Description

I received a gift card for the holidays, so I was quick to visit **Sears Canada Inc.** (TSX:SCC) to purchase something I could use. It seemed no one told my grandparents' generation the obvious: Sears Canada is going bankrupt!

For quite some time now, every single investor has been losing money on traditional bricks and mortar retailers — many of which have gone out of business. In the case of Sears Canada, the question is not if, but when. The problem this leads to for other companies (and shareholders) is the requirement to compete with this desperation. Taking **Hudson's Bay Co.** (TSX:HBC) as an example; shareholders have lost a lot of money in the past year, but the game is far from over.

The reality is, as well managed as the company is, the head-on competition with desperate competitors has left the company much worse off. In time, Sears Canada will falter, Hudson's Bay will be left standing, and the competitive environment will change once again.

The move from bricks and mortar to online was obviously not an easy one as consumers saw a number of very large, well-known retailers close their doors. In 2017 and beyond, things should improve for investors in the retailers left standing.

Although more things are being bought online, consumers will always need to go to a physical store to shop for certain things. There are currently only so many department stores available in Canada, and the reality is, the quality of products sold at Hudson's Bay is much higher than what can be found at **Wal-Mart Stores, Inc.** or **Canadian Tire Corporation Limited.**

Why does Michael Porter matter?

For those of you not familiar with Michael Porter, he is a Harvard professor who published framework about the long-term profitability of a company or an industry. Basically, he identified five forces that could allow a company to generate excess profits over a long period of time; companies that did not meet the criteria would not produce any excess profits over any meaningful period of time.

In the case of retail, there is just too much competition in the industry. Intra-industry rivalry is one of the

most important things to evaluate. In the current marketplace in Canada, there are too many retailers, and as these companies close their doors, the competitors left will have more power in relation to their consumers. In today's market, if a consumer does not like the price at one retailer, there are still a number of other retailers to choose from. Once Sears Canada capsizes, the consumer will have one less bricks and mortar option.

The worst in the retail sector may be behind us. What has been one of the worst businesses for investors for several years may be turning the corner.

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