



Are We Witnessing the Death of Retail?

Description

The decline in bricks-and-mortar retailing should come as no surprise to seasoned investors. While e-commerce sales are estimated to make up 10% of all retail sales globally, the digital age has transformed how business is conducted across all parts of the retail value chain.

Already, major U.S. retailers are feeling the pinch. Long-suffering **Sears** closed 150 stores earlier this year, while **Macy's** closed 63. Investors have watched the stocks of both companies plummet in recent years.

There are signs that Canadian bricks-and-mortar retailers are under considerable pressure, despite the uptake of e-commerce being relatively lower than other major developed markets such as the U.S.

Now what?

You see, in coming years, Canadian e-commerce sales are expected to explode. Analysts estimate that the value of e-commerce sales in Canada will increase by over 40% between now and 2019 to be worth \$39 billion, representing roughly 10% of all retail sales.

This will gobble up a sizable chunk of sales from existing main street retailers across all segments of the industry.

One of the biggest threats e-commerce poses to traditional retailers is its ability to operate trans-nationally and be far more competitive. There is also no need for costly front-end bricks-and-mortar stores or large numbers of employees to provide customer service.

As a result, e-businesses have far lower costs and access to greater efficiencies, allowing them to operate profitably with far lower margins. This means that consumers can access goods at prices that are typically beyond a traditional retailer's ability to match. This will be a powerful tailwind for e-commerce providers.

These characteristics have also significantly narrowed the economic moat that many bricks-and-mortar retailers traditionally possessed. Companies such as **eBay Inc.** even give vendors the ability to

establish an online presence without setting up a website, causing competition to intensify to the point where it has almost destroyed the standard retail business model.

The impact this is having on bricks-and-mortar retailers can be seen from looking at one of the best-performing discount retailers, **Dollarama Inc.** ([TSX:DOL](#)). For 2016, sales grew by an impressive 12%, but this was still 2% lower than the previous year.

While food has been a particularly difficult market to crack, these pressures are even undermining the defensive characteristics attributed to grocery retailers such as **Empire Company Limited** ([TSX:EMP.A](#)). Over the last two years, Empire's EBITDA margin has declined by almost a full percentage point to now be below 5%.

So what?

It is easy to believe the claims that retail is dead or dying, but what is really occurring is a massive industry-wide transformation, where e-commerce is becoming a major sales channel that can only grow at a rapid rate.

It is here where Canadian businesses are failing.

According to Statistics Canada, when it last conducted a study on internet use, only 13% of Canadian businesses were selling online. This means that unless Canadian businesses significantly boost their e-commerce presence, they will lose a considerable portion of their market share to new online retail players and foreign e-commerce sites.

One business that offers a well-defined solution to this problem is Canada's own **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)). It provides retailers with access to enterprise-level cloudless technology, which gives them the ability to establish, operate, and manage sales across multiple channels, including the web, social media, and physical stores.

The versatility of Shopify's software and related services coupled with the niche that it has been able to fill is evident from its explosive growth. Revenue for 2016 almost doubled compared to 2015, and gross profit soared by 85%, while an additional 177,000 merchants came on board during the year.

Given the massive forecast uptake of e-commerce, this stunning rate of growth can only continue, making Shopify a must-own growth stock.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:EBAY (eBay Inc.)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:DOL (Dollarama Inc.)
4. TSX:EMP.A (Empire Company Limited)
5. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Investing
2. Tech Stocks

Date

2025/08/25

Date Created

2017/04/13

Author

mattdsmith

default watermark

default watermark