2 Retailers in Serious Trouble

Description

The retail sector is often one of the most volatile parts of the economy. Advances in technology over the past decade have cast serious doubt over traditional retail models, leaving well-known retail brands scrambling to evolve tried-and-tested business models of the past.

Here are two companies that were once behemoths of the retail sector that are now a precarious position.

Sears Canada Inc. (TSX:SCC) may have been a staple of Canadian retail for well over 60 years, but the company has repeatedly come under scrutiny over the past decade for failing to evolve with the changing face of retail.

Online shopping is an area that traditional retailers have failed to capitalize on. Sears was in a unique position in this regard; it had much of the groundwork already set up through its extensive catalog service, but it failed to connect that expertise to an online ordering platform. As a result, sales began to dry up.

Sears has been in a steady and painful decline for well over a decade. The company sold off several of its main locations back in 2013, including the flagship store in the Eaton Centre in Toronto. The company has also developed a reputation over the years for constantly changing management; with each change came more ideas, unnecessary expenses, and additional failures.

Sears hit a new low this week. The company has "significant doubt" about its future after failing to secure as much financing as was hoped. That financing was needed to secure enough cash flow over the next 12 months and continue to meet its debt obligations.

Last year, Sears embarked on an ambitious turnaround that finally focused on the mobile shopper and brought many of the remaining stores up to par in terms of modernizing the design and products offered. Ultimately, it may be too little, too late for Sears. Following the latest announcement, the stock dropped below $1.

Hudson's Bay Co. (TSX:HBC) is the oldest retailer in North America, but it's stuck in a similar, but not yet as grave, position. It had a lot of debt, declining sales and store traffic, and a number of failing brands.

Hudson's Bay killed off the failed brands, got out of or sold leases of low-traffic areas, and embarked on a quest to revamp the company.

Hudson's Bay even made some impressive acquisitions, making the company one of the premier, upscale shopping brands on both sides of the Atlantic. Among those acquisitions was an online shopping platform that Hudson's Bay continues to see as a key method to reach out to the growing audience of mobile shoppers.

Unfortunately, Hudson's Bay has been unable to translate those initiatives into growing sales numbers, which led the retailer to announce 2,000 job cuts this week. Those cuts are part of a bigger plan to shed US$350 million a year from operations by the close of next year.

That being said, there's still plenty to love about Hudson's Bay, which is why I don't believe this retailer will have the same fate as Sears Canada.

The Hudson's Bay family of brands includes some of the largest, most well-known names in the industry. While this alone won't save the company, it positions it as a well-diversified retailer that appeals to a broad base of customers in different markets.

More importantly, the company is investing in the future of retail. Whether it's the massive $60 million distribution centre that opened in Toronto this spring, the constant investment into digital infrastructure, and the linking all of the company's brand, Hudson's Bay is evolving instead of standing still.

In my opinion, Hudson's Bay remains an intriguing opportunity for investors, particularly over the long term. The short-term problems that Hudson's Bay has will no doubt pass as the company continues to make progress on the digital front and realize savings from the operational sector.

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