

What's Next for the Retail Sector Post-Sears Canada?

Description

Most investors predicted the downfall of Sears Canada long before the company filed for bankruptcy protection this summer. Despite the numerous calls for innovation behind what was to be the “new” Sears, the company was stuck in a retail model at least a generation or two behind the industry as a whole and was unable to compete.

Sears's downfall is a lesson to others

Just a few years ago, the thought of a well-established retailer with over half a century operating in the sector going under was nearly incomprehensible. Sadly, the measure of success for a retailer was once how big of a showroom it could fill instead of how many sales it could produce.

That's a lesson that the retail sector still hasn't learned. Malls across the country are still left with empty anchor tenant slots from the collapse of Zellers, Eaton's, Target Canada, and now Sears.

It's a sign of a larger shift in retail and consumer shopping preferences. In the pre-digital era of commerce, malls served the need of those that wanted to browse. Today, shoppers can do just as well, if not a better job at browsing, using their smartphones from their couches.

There's also the shift in the middle class to consider, and that's one point that some legacy retailers still refuse to acknowledge. Big-box stores such as **Costco** and **Wal-Mart** can offer consumers value-sized and value-priced products, and the one-stop nature of those stores minimizes the need for shoppers to shop around.

When you take into consideration that legacy retailers have lacked any significant online presence, or, until recently, have even refused to acknowledge mobile commerce as a major shift to retail, there really was no doubt as to future (or lack thereof) of retailers like Sears.

Who are those other retailers?

Hudson's Bay Co. (TSX:HBC) and, to a lesser extent, **Canadian Tire Corporation Limited** ([TSX:CTC.A](#)) are two examples of legacy retailers that have learned to adapt to the new paradigm in retail.

Canadian Tire has emerged in recent years as a massive force in the retail sector, fueled by new and innovative approaches to incorporating technology into the retail process. This ranges from the use of a treadmill to recommend the perfect shoe to the use of a VR headset to see how patio furniture looks in your backyard before purchasing it.

Canadian Tire has also introduced online ordering with same-day in-store pickup, which has not only proven successful but has helped fuel the push towards mobile shopping. Finally, the company also digitized the well-known weekly flyer, exposing additional tips, videos, and information to readers when accessed through a smartphone.

Hudson's Bay went a different route. Hudson's Bay owns several high-end brands such as Lord & Taylor and Saks Fifth Avenue, as well as German department chain Galeria Kaufhof. Hudson's Bay also owns the high-end online marketplace gilt.com, which the company has stated could leverage physical store locations for returns.

Hudson's Bay has also taken steps to leverage the vast real estate that its stores take up, opting to set up micro-shops within its stores that add revenue as well as traffic to the physical locations. More recently, Hudson's Bay announced plans to open an HBC-branded store in Europe, leveraging a gap in the marketplace left by a retailer that folded there.

Neither Canadian Tire or Hudson's Bay seem likely to follow the same steps of Sears Canada, as both have embraced technology and the changing tastes of consumers. In my opinion, they remain intriguing opportunities for investors looking at diversifying into the retail sector, which could benefit from Sears's downfall.

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