Canada Goose Holdings Inc.'s Growth Is Driven by E-Commerce

Description

Canada Goose Holdings Inc. (TSX:GOOS)(NYSE:GOOS), one of the world's leading makers of luxury outerwear, was established in a small warehouse in Toronto in 1957. The company went public in March and is rapidly growing. Today, more than 2,000 people are working for the company worldwide.

After decades of selling its expensive parkas through wholesalers, Canada Goose is shifting its business strategy to a direct-to-consumer strategy focused on e-commerce as the retail sector is in decline.

Development of e-commerce and geographic expansion

The manufacturer of high-quality parkas became a retailer in 2014 with the launch of its first e-commerce site in Canada, followed by the United States in 2015, and the U.K. and France in 2016.

Canada Goose is planning to open seven new sites in Europe this year — in Germany, Sweden, Netherlands, Ireland, Belgium, Luxembourg, and Austria — with a plan to be online everywhere in the world one day.

A few flagship stores bring added value to Canada Goose's e-commerce offering by satisfying customers who like to see products and try them on.

The first two stores were opened in Toronto and New York last year, and five more stores will open this year in London, Chicago, Boston, Calgary, and Tokyo. The London store will be the retailer's first store to open in Europe and also the largest one. The outerwear company wants to have 15-20 stores opened worldwide by 2020.

Canada Goose would like to expand into China eventually, as this country represents a huge potential market. The company is currently working on a China strategy.

In fiscal 2018 first quarter, total revenue increased to $28.2 million, up 80% from first quarter of 2017. Wholesale revenue was up 38% to $19.9 million. Direct-to-consumer revenue rose by 538% to $8.3

million, accounting for 29% of total revenue.

This rise in direct-to-consumer revenue was driven by strong growth in North American e-commerce sites and by incremental revenue from new retail stores in Toronto and New York City, and from new e-commerce sites in France and the United Kingdom.

Canada Goose's annual report said that a jacket sold directly to a consumer provides two to four times more operating income than one sold through a wholesaler.

CEO Dani Reiss believes that the shift of a greater percentage of Canada Goose's business to direct to consumer will be one of the things that help improve its margins. It looks like he's right, because according to **BMO** analyst John Morris, for every 5% mix shift to direct to consumer, Canada Goose's margin gains 1.2%.

In Q1 2018, the gross margin expanded to 46.9% from 29.7% in the prior year. The net loss was $12.1 million, or $0.11 per share, compared to a net loss of $14 million, or $0.14 per share, in the first quarter of 2017.

Product diversification

Canada Goose is well known for its luxury outerwear made for cold weather, which can cost over a thousand dollars. The company will continue to sell its high-quality parkas, but it recently added a line of sweaters to its products, which are sold from $250 to $650.

Selling knitwear in addition to outerwear seems logical. If you're wearing a warm coat, that's because it's winter, and sweaters are designed to be worn when it's cold too, so it's a great complement.

Furthermore, it will surely increase sales, because while people usually buy one parka and keep the same one for many winters, they can buy many sweaters.

According to market researcher Euromonitor, overall global sweater sales are set to increase almost 24% to $104.8 billion in the next five years.

The company is moving slowly into the new category by beginning to sell sweaters in select stores and online, adhering to its strategy of product scarcity to help create more demand. With winter coming, it will help boost sales.

Dani Reiss is evaluating other options, like boots and bedding, but one thing is sure: the company will never sell bathing suits and flip flops.

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