



Ikea's Expansion Plans Could Put a Dent in Sales of These 2 Companies

Description

Ikea opened its 13th Canadian location September 27 in Dartmouth, Nova Scotia, to huge crowds. The first store in the company's Canadian expansion that will see it open another 11 locations by 2025, Ikea Canada is looking to take market share in both mattresses and appliances.

"We see that [appliances] as being a huge growth area," said Ikea Canada president Marsha Smith. "Customers see how seamlessly the appliances integrate with our kitchens, and we have a strong focus on energy-efficient appliances. I think that is something you will see more and more of."

According to Smith, Ikea sells 17 kitchens a day, each of them needing appliances. So, look out, **Leon's Furniture Ltd.** ([TSX:LNF](#)): you're in danger of losing some ground to the Swedish retailer.

As for mattresses, Ikea currently has 6% market share and plans on growing that number in part by taking business once held by Sears Canada, which will be permanently closed as of the end of January.

On this front, both **Sleep Country Canada Holdings Inc.** ([TSX:ZZZ](#)) and Leon's face increased competition from Ikea, whose \$2.2 billion in annual revenue equates to a 9.6% market share in the home furnishings market.

Which of the two stands to be hurt the most?

Sleep Country only has to worry about the mattress market, while Leon's participates in both mattresses and appliances, so it faces a threat on two fronts, which war historians know is a much harder to defend against.

Sleep Country had \$554 million in 2016 revenue from 244 stores across the country, generating \$91 million in operating EBITDA and capturing approximately 25% market share in the process — about four times Ikea's.

So, it's possible that Sleep Country could actually win business from Sears rather than lose business to Ikea. As the biggest pure-play mattress retailer in the country, they're likely better positioned than Leon's to handle any threat from Ikea.

As for Leon's, the latest market share data for mattress retailers in Canada (2014) shows it in second place, holding 16% of the market with Sears Canada a close third at 15%. Leon's does have 24 Brick Mattress Stores that attack this market exclusively. With Sears Canada going down, it's possible it will open more of these pure-play locations in underserved Canadian markets.

In appliances, 2015 data shows Sears Canada held the lead with 23% market share followed by Leon's/Brick at 14% and **Home Depot Inc.** at 13%. Here's where Leon's management really have to focus its energy.

That's a huge chunk of business that Sears Canada's leaving on the table — at one time, Sears had as much as 40% of this market — and if Leon's doesn't get its pricing just right, Ikea's appliances, manufactured by **Whirlpool Corporation**, could end up becoming a player in this market.

Bottom line on Sears's demise

Anything Ikea puts its mind too usually is successful. If they go after the mattress and appliance markets with a full-court press over the next few years, this could put a serious crimp in both companies' revenues.

That said, I like both [Leon's](#) and [Sleep Country](#) as long-term investments. Whatever market pressures Ikea might bring, the Sears Canada demise is just as much an opportunity for them as it is Ikea.

If you own either stock, I'd continue to hold them.

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