3 Takeaways From the Downfall of Toys “R” Us

Description

On March 15, 2018, the retail chain Toys “R” Us announced that it was in the process of liquidating its worldwide business, which includes over 1,600 locations. The shutdown comes only months after the collapse of Sears Canada. The liquidation of Toys “R” Us will see over 30,000 employees lose their jobs.

What lessons can we glean from the collapse of another one of the old guards in retail?

The “retail apocalypse” claims another victim

In 2018, 101,000 U.S. employees have lost jobs due to the closure of retail outlets. In 2017, 65% of malls in the U.S. saw a decrease in retailers. Many of these closures have not been made public. According to the property-research firm Green Street Advisors LLC., retailers will often neglect to renew leases rather than take a more aggressive route.

Claire Stores Inc., a U.S. fashion retailer, is expected to file for bankruptcy in the coming weeks. In early March, **Walking Co. Holdings Inc.,** which sells Birkenstocks, also filed for bankruptcy. In response, analysts have pointed the finger largely at shifting consumer trends and the rise of online retailers. In fact, the latter may yet swoop in to save select outlets.

Amazon’s opportunity to bolster business

Recent reports indicate that **Amazon.com, Inc.** (NASDAQ:AMZN) may be interested in acquiring Toys “R” Us locations in order to boost its brick-and-mortar footprint. This comes less than a year following Amazon’s acquisition of grocery retailer Whole Foods. Amazon reportedly has no interest in retaining the Toys “R” Us brand.

Amazon has held talks that would have potentially led to a larger brick-and-mortar footprint. If it does not pull the trigger, other buyers could step in. Toys “R” Us is reportedly holding off on selling its final best-performing stores until the issue is resolved.

Investors should be choosy when investing in traditional retail

Hudson's Bay Co. (TSX:HBC) is a Toronto-based retailer whose stock has been battered in 2018 thus far. Shares are down 21.2% as of close on March 21. The company has reported successive earnings disappointments, and management has been in an internal battle with shareholders over the company's direction. Most recently, CEO Jerry Storch, a retail veteran, departed the company after warning against the short-term strategy of closing stores.

North American grocery retailers are also facing major challenges exacerbated by Amazon's acquisition of Whole Foods. Amazon also opened its first Amazon Go store in Seattle this year, a cashier-less option that the company believes could be the future of brick-and-mortar stores.

Loblaw Companies Ltd. (TSX:L) stock has dropped 3.3% in 2018 thus far and is down 6.7% year over year. In addition to the challenge from Amazon, grocery retailers are also wrestling with rising labour costs in Ontario and elsewhere. Loblaw and others are making a push toward automation and are exploring direct-to-consumer services in anticipation that this will be the future of grocery shopping.

Investors need to be aware of how rapidly the retail landscape is changing and should therefore choose companies that will be in a position to benefit from current trends.

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