

This Outstanding Canadian Retailer's Moat Will Be Difficult to Penetrate

Description

Sleep Country Canada Holdings Inc. (TSX:ZZZ) is a [thriving retailer](#), which I believe is positioned to continue to surge higher because of the nature of the industry it's in. It operates in the easy-to-understand market of mattresses and accessories. And unlike other brick-and-mortar-focused retailers, Sleep Country is one of the few outliers that have actually fared well and is seemingly insulated from digital disruptors. In other words, it has a pretty wide moat that's been difficult for technological disruptors to penetrate.

Of course, Sleep Country moat isn't completely impenetrable since mattress-in-a-box startup firms have gained traction over the past year. They continue to pick up momentum, as I'm sure you've noticed, with various ads that are difficult to avoid. Casper, Endy, Leesa, Purple, and Tuft & Needle are beginning to make a name for themselves; in spite of this, Sleep Country hasn't really lost much sleep.

Why?

Each direct-to-consumer mattress startup has a huge disadvantage when it comes to dissatisfied customers. They're taking all the risk if their customers are not 100% satisfied with their purchases. Most of the mattress-in-a-box retailers have a very attractive 100-day return window, where the customer will not be on the hook for any sort of restocking fees.

Although enticing to prospective customers, about ~10% of the time, returns happen, and, unfortunately, these mattress-in-a-box retailers have to donate or recycle these returns, since it's not sanitary to resell used mattresses.

As a result, many customers may find that it's inconvenient to keep ordering and returning mattresses should it not fit their unique needs. About ~80% of us have back problems, and if there's no real risk taken on at the consumer's end by making a purchase, there's no stopping return rates from soaring, as return policies become more hassle-free as the competition picks up in the space. If this indeed occurs, it'll become less economical to run a direct-to-consumer, digital-only mattress firm.

All of these new mattress-in-a-box retailers claim to have the magic formula when it comes to comfort and reduction of back pain. In reality, this may only be so for a select few of us out there, since we all have very specific and unique preferences when it comes to mattresses. Moreover, only foam mattresses can be rolled up and shipped, so options are limited should some of us be better suited for innerspring mattresses or any other technologies that aren't shippable in a box.

In the end, I believe mattress-in-a-box retail will remain a very niche market over the long run. The mattress space is one of the very few industries where brick-and-mortar retail will trump e-commerce.

It's just more convenient to try before you buy rather than order mattresses with absolutely no idea how the mattress will end up feeling until it arrives at your door! When it does, you'll need to let it decompress and de-gas for a few days before you can actually try it. And if the moment you lie down,

you're not satisfied, then you'll need to go through the mundane process of contacting the digital retailer, requesting a full refund, and then repeating the process.

Sure, there's little financial risk on the consumer's end, but time would be wasted, and the retailer would be negatively impacted by the return. On the bright side, though, such returns will cause a surge in mattress donations, which is great for the local community!

Bottom line

Sleep Country has a [wider moat](#) than most investors give it credit for. Mattress-in-a-box e-commerce retailers pose a minimal threat for Sleep Country, because of the nature of the industry, which requires physical interaction on the consumers' part before committing to a purchase.

I'm not saying that mattress-in-a-box retail is simply foam that's been stuffed into a box. I think it's more than a fad; however, I don't think "delivery then try" is a business model that'll cause Sleep Country to close shop anytime soon, unless, of course, a firm ends up finding the magical combination of foam layers to provide all of us with pain-relieving comfort!

Add the fact that Sleep Country has a Bloom mattress-in-a-box product of its own, and I think mattress-in-a-box retailers will have limited success, unless they partner with brick-and-mortar firms themselves. Who knows? Sleep Country could be that partner, and if that's the case, shares could soar even further into the atmosphere!

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