



Is Canadian Tire Corporation Limited About to Get Crushed?

Description

Decathlon, the world's largest sporting goods retailer, is opening its first Canadian location April 21 in Brossard, Quebec. With plans for a second location in Quebec City in 2019, should **Canadian Tire Corporation Limited** ([TSX:CTC.A](#)) be worried about the French retailer's push into Canada?

You'd better believe it.

The best thing the company ever did was buy Forzani Group for \$770 million in 2011. The [acquisition](#) essentially gave it the lion's share of the Canadian sporting goods market. Without any real competition, Sport Chek and its other sporting goods concepts flourished.

In the fourth quarter ended December 30, 2017, Forzani, now known as FGL Sports, had same-store sales of 5.8%, which is 70 basis points higher than the same quarter a year earlier.

Sure, the Canadian economy was reasonably healthy in 2017, but if you look at FGL Sports' annual same-store sales over the past five fiscal years, they've averaged 5.4%, which doesn't indicate an ailing retailer.

What does Decathlon bring to the table?

Decathlon brings an operation of over 1,100 stores in 30 countries employing 78,000 people and generating approximately \$15 billion in annual revenue. Its annual sales selling sporting goods are higher than what Canadian Tire generates from all six of its operating banners.

So, yes, this should be a little concerning. Of course, Canadian Tire had some warning. The news of Decathlon's arrival first hit the newswires last August, when the *Daily Hive* mentioned the retailer had put up a Canadian website and would be launching its first store at the Champlain Mall in the spring of 2018.

Driven by innovation, Decathlon is said to design and manufacture more than 2,800 new products annually for its 20 in-house brands, and while Sport Chek has several of its own private-label brands that generate approximately 7% of its overall revenue, the French retailer takes it to an entirely

different level.

Its Brossard store will be 45,000 square feet, which is smaller than some of Sport Chek's flagship stores like its Sherway Gardens location at 75,000 square feet, but you can be sure that Decathlon's prices will be lower than those found at Sport Chek.

Retail industry experts are buzzing about Decathlon's entry into Canada, and not in a good way if you're a Canadian Tire shareholder.

"It's been a long time that I've heard so much buzz about a retailer entering Canada. I daresay since Target, but in very different circumstances," said Carl Boutet, Montreal-based retail strategy consultant. "Decathlon is recognized as a formidable, vertically integrated retailer that will force other sporting good retailers to up their game."

Let the games begin

I've always found Sport Chek stores to be poorly managed, so I expect Montreal-area consumers are going to be in for a treat when Decathlon opens in a couple of weeks.

Sport Chek might have a significant advantage over Decathlon at this stage of the game, but it had better not sit on its laurels, or its near-monopoly position will be snatched from under it.

And that would be very bad for Canadian Tire stock.

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