Long-Term Investors Can Depend on This Canadian Retail Favourite

Description

The shifting of the retail landscape from brick and mortar to online has been among the biggest trends for businesses the last decade. Companies that have been able to adapt to this change have been rewarded, while the laggards have had their troubles. **Canadian Tire** (TSX:CTC.A) has implemented its own unique strategy for combatting the changing landscape.

Addition of product brands

In order to retain market share, Canadian Tire has been acquiring well-known brand names over the past several years, rather than other retailers. The days of companies like Canadian tire expanding by buying other stores such as FGL (Sportchek) are over. Today, its strategy is to buy the brands and offer them exclusively in its stores so as to retain the customers who have loyalty to those brands.

Helly Hansen is a perfect example. Known for its great selection of winter garments and footwear, any consumer that wants to buy Helly Hansen now can only buy its products at Canadian Tire or a retail store in its stable, such as Sportchek, or directly from Helly Hansen.

Expanded web presence

The introduction of triangle rewards program coupled with an expanded online web presence has also helped Canadian Tire to retain market share. Additionally, digital tools in store and new updated shipping policies have helped to improve the in-store experience, driving customer foot traffic. Moreover, many items that are typically sold in Canadian Tire and its portfolio of stores are harder to buy online due to the expensive shipping costs or need to select in store.

Canadian online market

Another factor helping Canadian Tire at the moment is the slower shift to online retail in Canada versus in the United states. The geographic diversification of people in Canada makes shipping logistics more of a hassle for companies and creates a difficult environment to scale fast and affordable shipping. Nonetheless, this will not go on forever, so Canadian Tire has to continue to execute its strategy to position itself for the inevitable future.

Canadian Tire Financial

Canadian Tire’s financial arm has helped grow business over the last few years due in part to low interest rates and Canadian consumers piling on debt. By the end of 2018, Canadian Tire had over 10 million loyalty members and over two million active credit card accounts. The credit card portion’s growth has done well over the past few years; however, a bulk of the credit that Canadian tire holds on its balance sheet is from sub-prime borrowers.

The large amount of subprime credit card holders could create a headwind for the company should the Canadian economic environment soften. In the last three years, Canadian Tire’s financial services have grown average accounts receivable by almost 9% compounded annually. While these numbers are impressive from a growth point of view, they also pose a heavy risk to Canadian Tire’s financial position. Investors should keep an eye on how the company is planning to address this situation and what percentage of the credit card portfolio is delinquent.

Short-term headwinds

The entire retail segment in Canada is at risk of a slowdown over the next couple of years for a couple of reasons. Consumer debt in Canada is at all-time highs. This will eventually lead to consumers slowing down their spending to reduce their debt levels. The reduction in consumer spending will inevitably affect retailers that sell discretionary products. Although this will not be a death blow to the company by any stretch of the imagination, it will certainly hinder growth over the short term.

The bottom line

Although Canadian Tire may struggle over the short term due to the economic environment in Canada, the strategy it has committed to is poised to pay off in the long run. With one of the best and most successful loyalty plans in Canada, and a Canadian geographic layout making online shopping harder to scale, Canadian Tire is positioned to be one of the few large retailers that can survive the major shift in the retail landscape. Investors should watch for a pullback in the stock and then buy for the long term, as this Canadian staple is not going away any time soon.

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