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# SEARS

## Company Synopsis: Sears Canada

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## **HISTORY**

Sears Canada Inc. started in 1952 as a Canadian catalogue order and retail company, Simpsons-Sears (MarketLine, 2012). It was formed as the Joint Venture of Sears Roebuck, Co., Chicago, and Robert Simpson company of Toronto, each company contributing \$CA 20,000,000 and having equal representations on the JV's Board of Directors (Sears, n.d.). Starting with its first retail store in Ontario in 1953, Simpsons-Sears expanded rapidly, and opened 36 retail outlets across Canada by 1958 (MarketLine, 2012).

In 1978, Hudson's Bay acquired Simpsons. To prevent the loss of control to the outsider, Sears Roebuck, Co. acquired 17 million shares of Simpsons-Sears from Hudson's Bay in 1983, owning 75% of the voting shares of the company (MarketLine, 2012). In 1984, the JV's corporate name formally changed from Simpsons-Sears to Sears Canada, Inc. after the voting of shareholders (Sears, n.d.).

Starting in 1991, Sears has expanded its business into different industries mainly through acquisitions. Few of the acquired businesses are T Eaton, Esso Home comfort service and Cantrex Group (MarketLine, 2012). While acquiring these businesses, Sears has also continued opening more departmental and dealer stores.

## **CURRENT SITUATION**

Sears Canada Inc. offers products and services that range from apparel and home fashions to appliances. In fact, the total number of the categories of products and services it offers is 26 (MarketLine, 2012). Sears currently holds 118 department stores across the country, 48 freestanding Sears Home stores, 11 Outlet stores, 4 Floor Covering Centers, 4 Appliances and Mattresses stores, 269 locally-owned Hometown Dealer Stores in smaller communities, and many more stores and offices (Sears, n.d.). Though its operations are all over Canada, most

corporate functions are centralized at Sears Canada Inc.'s headquarters in Toronto (Sears, n.d.). During the fiscal year 2012, as ended February 2, 2013, the company made the revenue of \$CA 4,300.7 million, which is 5.6% decrease in sales from the previous year (Sears Canada Inc., 2013). To achieve a sustainable growth and address the problem of declining revenue, the company has been going through a three-year transformation under Calvin McDonald, the President and Chief Executive Officer of Sears Canada Inc., since the summer of 2011 (Sears Canada Inc., 2011). This enterprise-wide transformation is still ongoing, and in 2011, the transformation expenses amounted to \$CA 60.0 million (Sears Canada Inc., 2011).

## **EXTERNAL ANALYSIS**

### **General Environment**

#### Demographic

Due to the trend of international immigration, Canada's population increased from 34,880,444 to 35,002,400 in the third quarter of 2012 (Clinkard, 2013), which enlarges the Canadian market for the retail industry. Because the population consists of various ethnic groups, the cultural diversity is expected to be high.

#### Political

Canada has a comprehensive law system, which includes Labor Law, Competition Act, and the Canadian Tax Law. All these documents and government regulations protect the rights of both workers and employers and facilitate efficient operation of businesses in Canada. However, abiding to these systems require higher costs for the businesses compared to other businesses in the foreign market.

### Economic

Canadian economy has been in recession since the global financial crisis in 2008. The economic downturn has also impacted the unemployment rate, purchasing power of consumers and quality of outstanding credit (Freeman, 2012). Therefore, the consumers have become more careful with their spending which resulted in Sears Canada's unsatisfactory financial performance and decrease in revenue from \$4613.9 million in 2011 to \$4300.7 million in 2012 (Sears Canada Inc., 2013).

### Sociocultural

A study found that Canadians have the characteristic of being more risk averse than people in other countries, especially reflected on their attitudes towards financial and environmental concerns (Barber, 2010). Canada has a relatively stable economic environment despite the global economy downturn. However, Canadians showed their concern about the cost of living and the safety of assets in the study. Similarly, Canadians have environmental concerns such as climate changes, environmental degradation, cancer etc., even though they face fewer threats than people in other countries (Barber, 2010). According to a study of consumption habits, Canadian consumers are more thoughtful buyers, who increasingly seek for ethical and environmental-friendly products (Abma, 2011). The study also showed that most Canadian buyers considered themselves cost-conscious and quality driven (Abma, 2011).

### Global

Globalization has a huge influence on the Canadian economy. It has created opportunities for Canadian companies to compete in the global market (O'Riordan, 2011). However, globalization has brought many challenges since the Canadian market attracts lots of foreign companies (O'Riordan, 2011). With the growing population and a large retail spending of \$450 billion, U.S. retailers are

looking for opportunities in Canada (Gentry, 2012). For instance, Nordstrom, an upscale American fashion department store, is planning to enter the Canadian market by 2015 (Strauss, 2012).

### Technological

Online shopping has become increasingly popular in many countries around the world (Hartley, 2012). Many retailers are working hard on their online stores to offer better online shopping experiences for customers. While having the most active online social networks, Canada's online spending was below the average spending of other developed countries (Hartley, 2012). This indicates that the Canadian online market has a great potential for the future growth, giving Sears the incentive to further develop its online retail market.

## **Industry Environment**

### Bargaining Power of Suppliers

The level of bargaining power of suppliers of Sears Canada is quite high. After the acquisition of Kmart in 2005, Sears gained access to Kmart's suppliers who had strong reputation in supplying diverse high-quality products (Muller, 2002).

Solid, mutually beneficial relationships with suppliers have always been integrated into Sears Canada's history. However, over the past couple of years there has been ongoing debate and increased tension between Sears Canada and its suppliers. Sears claimed that it would retroactively take thousands of dollars from each of its suppliers to cover the money that the retailer calculates the vendors made as the result of the stronger Canadian dollar (Strauss, 2010). Some of the major Sears's suppliers have refused to continue shipping their products as long as the retailer keeps making adjustments to the their payments. As a consequence, there is a

pending threat of product shortages showing up on store shelves that can potentially alienate customers and force Sears to spend more effort in trying to find other suppliers, who will be able to fill in the gaps in the retailer's suggested product assortment.

### Bargaining Power of Buyers

The bargaining power of Sears's buyers is also high due to the competitive nature of the retail industry. As the customers have a variety of retailers to choose from, they tend to switch service providers to find the one that suits their needs in terms of price and quality the best. Therefore, it is strategically important for Sears to commit to its original quality standards without increasing prices significantly. The company is also threatened by the dynamic change of customers' preferences. Although Sears still has a great number of loyal customers who have been shopping at Sears for years, the retailer continues to lose younger generation clients because of its "old-fashioned" brand image.

### Threat of New Entrants

There are many barriers that new entrants have to overcome in order to compete in the retail industry. Firstly, a new entrant will need an extensive initial capital to establish its operations (hiring workers, developing distribution channels, finding suppliers, and so on) and attract customers. Then, there are some trade restrictions and government regulations that the entrant has to comply with. Finally, the products and service the entrant intends to provide must have either better price or quality compared to other retailers to make the customers willing to switch. Therefore, due to all of these barriers the new entrants might face, the threat imposed by them is small.

### Threat of Substitutes

The threat of substitutes for Sears Canada is extremely high. The retailer has a high number of

competitors who are serving the same market segment and offer alternative products to the buyers. Being exposed to a great variety of products, the customers can easily substitute the products they purchase from Sears Canada.

### Rivalry among Competitors

Sears Canada is competing with a wide variety of department stores such as Wal-Mart, Lowe's, Best Buy, and Hudson's Bay, as well as with the online retailers such as Kohl's, JC Penney, and Macy's. Among its competitors in the home appliance business are some strong international retailers like IKEA, Home Depot, and Lowe's. The overall degree of rivalry circulating between the mentioned retailers is significantly high because most of the competitors compete head to head by offering similar products and services. Therefore, Sears Canada's success in this competitive marketplace is dependent on such factors as price, quality, product variety, product delivery, customer rewards system, warranty installation services, and convenience of the store location.

## **INTERNAL ANALYSIS**

### **SWOT**

#### Strength

##### Strong private brand portfolios

Sears Canada has been consistently trying to improve the company's private and exclusive brand portfolios. Sears offer private brands such as Jessica, Nevada, Attitude, distinction, Boulevard club, Protocol, Sears-O-Pedic, Craftsman and many others (MarketLine, 2012). These brands enjoy greater visibility in the retail market, enhancing the overall brand image for Sears Canada. Furthermore, with more brands under Sears Canada's belt, the company is able to accommodate

further brand extensions and line extensions. Enhancing the company's private label portfolio allows the Sears to attract younger minded and contemporary customers. Private labels not only provide additional savings to consumers, but also offer higher operating margins than National brands, improving the company's profitability. Ultimately, offering more private labels has allowed Sears Canada to penetrate a larger niche customer base improving the overall margins of the company.

#### Multiple channels with specialty services

Sears Canada operates through corporately or independently mall-based and off-mall formats stores. These stores provide plenty of merchandises in a wide array of formats through multi-channels. These format stores include full-line, Sears Home, appliances, mattresses and outlet stores. Besides offering merchandise throughout retail and its direct channels, Sears Canada offers more specialty services than any other retailer in Canada. The company offers 2,100 technicians and contractors with over one million parts (MarketLine, 2012). For example, Sears Home Provides a broad range of home services that includes installation, maintenance, repair of heating, cooling equipment, roofing, flooring and much more (MarketLine, 2012). Sears Canada also provides travel and government tax rebate programs services. At the beginning of 2012, Sears Canada operated 122 full-line department stores, 378 specialty stores, 17 floor covering stores, 1,734 catalogue merchandise pick up locations and 108 travel offices (MarketLine, 2012). Furthermore, Sears Canada also operates through online channels that provide convenience and low prices to customers, allowing the company to reach out to a larger audience. Thus, having a wide variety of channels and services allows Sears Canada to differentiate from its competitors.

#### Weaknesses

##### Lease operations

At the end of 2012, out of 185 stores of Sears Canada, only 16 stores were company owned



while the rest of the stores were under long-term leases (MarketLine, 2012). At the company-owned stores, Sears Canada enjoyed flexibility to relocate stores and maintain the company's competitiveness. However, for the stores under long-term leases, Sears Canada could not relocate without breaching its contracts and incurring lease related expense for the remaining portion of the lease term. Therefore, these long-term leases reduce the company's ability and flexibility to respond to changes in demographic or retail environment at any location in a timely manner (MarketLine, 2012).

### Operating covenants

Sears Canada has operating covenants with landlords for approximately 100 of its corporate stores (MarketLine, 2012). At the beginning of 2012, Sears Canada has an average of 7 years remaining on its large range of operating covenants (MarketLine, 2012). These Covenants restrict the company's ability to run the operations independently from landlords and any breach could to costly legal proceedings against the company.

### Opportunities

#### Expansion of Retail E-commerce

Online retail spending is continuously increasing in Canada. According to government sources, in 2010, retail E-commerce was \$15.3 Billion, double the figures of 2005 (MarketLine, 2012). In addition, the average value of Internet orders per person was \$1,362. According to industry sources, online spending is expected to double to \$30.9 billion in 2015 (MarketLine, 2012). Sears Canada's website is one of the most advanced retail websites in Canada because it provides navigation, search and checkout tools in a reliable and timely manner. Furthermore, Sears.ca has enabled customers to ask questions and receive answers on the website or through Sears Canada's

YouTube channel. Therefore, further enhancement on the company's retail website would offer customers more convenience and improve the company's margin by cutting down operating costs.

#### Expanding new business lines

Expanding new business lines and portfolio of products and services offer potential revenue growth. In June 2012, Sears Canada has launched a new baby department at 55 stores across Canada (MarketLine, 2012). The baby department is comprised of five categories including nursery, travel, activity, feeding and gifting. In the travel category, Sears offer "take-with" inventory that includes cribs, strollers and car seats. In sum, launching more products and services allows Sears Canada to expand its markets leading to higher revenues.

#### Threats

##### Labor costs

Since the Canadian government has directed increases in minimum wages and a higher proportion of full-time employees, labor costs have dramatically increased in Canada. For instance, since 2011, the minimum wage in British Columbia has risen from \$8 to \$10.25 and in Ontario the minimum wage has also increased from \$9.50 to \$10.25 (MarketLine, 2012).

Therefore, these increases have led to higher costs for retailers like Sears Canada.

##### Extreme competition

The Canadian retail market is highly competitive, Sears Canada is challenged both internationally and domestically by competition that includes full-line department stores, discount department stores, wholesale clubs, "big box" retailers, internet retailers and specialty stores (MarketLine, 2012).

For instance, Wal-Mart and Home Depot are Sear's Canada's biggest competitors. Therefore, in

order to compete effectively, Sears Canada needs to generate effective competitive strategies that differentiate the company from its competitors in order to grasp more market share.

## **MAIN STRATEGIC CHALLENGES**

Over the past 6 years Sears Canada Inc. has gone through a series of financial losses and fluctuations in its market shares. The retailer's shares fell by 2% to \$9.70 on the Toronto Stock Exchange (Shaw, 2013). Sears continues to struggle with sales declines by offering big discounts during holiday seasons and national holidays. However, last year the company's earnings during the Christmas holiday season did not reach the forecasted amount.

Being in a very vulnerable financial position, Sears Canada is anticipating its rival Target Canada to begin opening its stores in early summer 2013. With Target's entry into the Canadian market, Sears will certainly experience even higher degree of competition than the one it's facing at the moment.

On top of continuous decrease in revenues, Sears also suffers from great customer attrition rate. Young people are not willing to shop at Sears anymore because the retailer does not keep up with the latest trends and does not really fit into rapidly changing customers' preferences. After winning over the hearts of baby boomers, Sears has continued to serve this particular target market forgetting about other customer segments that were bringing in significant revenues to the company.

Furthermore, Sears Canada has some serious legal issues with its suppliers. The retailer intends to seek currency claw back from its suppliers. The suppliers, in turn, refuse to reimburse Sears for the benefit from the higher dollar, as the retailer is trying to change the terms of already-signed contracts. Negative publicity resulting from this dispute hurts Sears' reputation and undermines its relationships with the suppliers.

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