

Sears pop-up shop to showcase 'reinvention'

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It's the year of reinvention for struggling department-store retailers.

Sears Canada Inc. is showcasing its business reinvention – shifting to discount off-price and private-label fashions and other cheap-chic lines – in a new pop-up shop on trendy Queen Street West in Toronto. The move underscores the retailer's attempt in its traditional stores to revive its sagging fortunes.

"The amount of change we're going through is a complete and wholesale reinvention," Brandon Stranzl, executive chairman of Sears Canada, said in an interview.

Executives at arch-rival Hudson's Bay Co. are using the same type of language in referring to their efforts to breathe new life into their business, including their ailing Saks Off 5th off-price chain.

"We're looking [at] major reinvention and change in the business so that we have the correct business model for the future and the lowest cost that works for our businesses," HBC CEO Jerry Storch told analysts this week.

These are tough times for department-store retailers that are grappling with fast-shifting consumer trends and low-cost e-commerce rivals that are snatching away customers and forcing traditional retailers to find new meaning.

The urgency is evident in the disappointing results at Sears over the past decade and at HBC over the past couple of years after the latter saw signs of a revival in the wake of its 2008 takeover by a group headed by U.S. real estate tycoon Richard Baker.

Today, Mr. Baker's prospects don't look as bright as when HBC returned to the public market in



The Sears remake is modelled after the affordable fashion lines of Joe Fresh and Uniqlo. SEARS

late 2012, although its big setbacks are outside Canada in its U.S. and European divisions. "Despite the challenges we are seeing in the retail apparel environment, we remain focused on executing our long-term strategy for profitable growth and are taking steps to ensure that HBC is in a position to capitalize on the many opportunities we have," Mr. Baker said on Wednesday.

In its fourth-quarter holiday season, HBC posted a \$152-million loss after a \$116-million write-down of its off-price business compared with a \$370-million profit a year earlier, helped by one-time gains.

Sears Canada is expected to report its fourth-quarter results this month; in its third quarter, its loss more than doubled to \$120-million. Two weeks ago, U.S. parent Sears Holdings Corp. warned in a filing that "substantial doubt exists related to the company's ability to continue as a going concern." Chief financial officer Jason Hollar said it made the comment only because of an accounting requirement and it "can meet its

financial and other obligations for the foreseeable future."

Still, the outlook is cloudy for department stores generally. "This is a very, very challenging market," said Rick Pennycook, president of retail real estate consultancy the Lakeshore Group. "It's the same for all retailers but particularly for department stores because they've got such big space to fill."

He said Sears Canada's latest makeover may not be enough to overcome fundamental problems. "It's too little too late," he said.

Mr. Stranzl is determined to pull off the unthinkable. Sears Canada started last fall to test off-price designer lines in four prototype Sears stores and is now expanding them to its other outlets (calling it the Cut @ Sears) with a new private-label line under its own name as well as cheap-chic "fast fashion" shipped weekly to stores – all on display at the Toronto pop-up store. (The shop is called #weveCHANGED and will open on Saturday.)

Mr. Stranzl said Sears is doing

away with all 64 of its fashion and home goods private labels this year (12 of them in regular use) – including once-prominent brands such as Jessica apparel – and replacing them with the Sears label. (It will continue to carry its Kenmore appliances.)

Its private labels make up roughly 30 per cent of its offerings today and will reach 50 per cent by the end of the year, he said; Sears will significantly scale back on its national brand offerings.

Mr. Stranzl used as a model for the Sears remake the affordable fashion lines of Joe Fresh, which is owned by grocer Loblaw Cos. Ltd., and Uniqlo, the Japanese-owned global retailer that launched its first stores in Canada last fall. Indeed, Sears's \$49.97 ultra-light down jacket looks a lot like Uniqlo's signature down jackets (\$49.90 to \$89.90). "When I say Uniqlo, you know exactly what you're going to get," Mr. Stranzl said. "If I say Joe Fresh, you know what you're going to get."

He got a lesson in pricing when Sears found it sold almost none of its fur-lined winter parkas at its regular \$229 price and, when it marked them down to \$175, sold 3,000 a week. But when the retailer reduced the price to \$99 in the past season, it sold 20,000 of them a week, he said.

He said the retailer will make up for thinner profit margins from lower-priced goods by selling higher volumes of the cheaper merchandise.

Sears's goal is to double or even triple sales to between \$400 and \$600 a square foot, he said. The prototype store at Promenade Mall in Toronto is generating the same sales as previously in half the space, he said, although he would not provide specific figures.

Sears Canada (SCC)
Close: \$1.70, down 4¢