

**RETAIL**

Discounters toss their old business plans in the bargain bin

MARINA STRAUSS - Retailing Reporter

The Globe and Mail

Published Friday, Nov. 02 2012, 5:00 AM EDT

Last updated Thursday, Nov. 01 2012, 8:18 PM EDT

In a fast-growing sector that caters to bargain hunters, some discount retailers are being transformed by fierce new competition that is forcing them to improve or face extinction.

As a bevy of smaller Canadian discounters are being pushed out or shrinking – including Quebec-based Hart Stores and Hudson's Bay Co.'s Fields chain – the survivors are trying to reinvigorate their operations, before they get crushed between large U.S. players and dollar stores.

One of the smaller players, Bargain Shop – an heir to the Woolworth's five-and-dime – will unveil a dramatic makeover on Friday aimed at battling the emerging forces. It will change its name to mymark in cities and Red Apple in rural towns. In urban areas, where it is being squeezed by bigger players, it will ditch low-margin food and household consumables, such as paper towels, and bet heavily on higher-margin clothing and home goods.

"Let everybody else fight over food and consumables," said Eric Claus, executive chairman of Bargain Shop's parent, TBS Acquireco Inc. "We said, 'We don't need to be in that low-margin game.' ... It broadens our customer base and gives us the ability to compete."

The discount shakeout is pitting giants such as Wal-Mart Canada Corp. and Dollarama Inc. against the likes of Bargain Shop and Giant Tiger. Next spring, the stakes will rise again as U.S. discounter Target Corp. opens its first stores in Canada, taking over from former Zellers outlets.

The surviving smaller chains feel the need to take bold steps. But there's also a risk they will lose customers by shifting too fast or by dropping offerings such as food, which may earn little profit but keep shoppers returning.

"Food and consumables, generally speaking, keep the customers coming back on a regular basis because we have to eat regularly," said Rick Pennycooke, president of retail real estate adviser Lakeshore Group. "But I can see them feeling the pressure to do something because they will just get run over."

Bargain Shop and the larger Giant Tiger both are counting on a similar competitive advantage – being a convenient, local discount destination – and are placing a bet on private-label fashions.

Giant Tiger, with roughly \$1.5-billion of annual sales, is also moving more to brand-name food and toys, along with its clothing and household products, partly to create a "treasure hunt" experience. Andy Gross, its chief executive officer, said his company foresaw the shifting tides from Wal-Mart, Target and

dollar stores about two years ago and has started to sharpen its offerings. “Everyone is a moving target.”

Giant Tiger is almost doubling its spending on store remodelings in the next 12 months, responding to its customer research that found that shoppers want more predictable and less cluttered aisles. The chain is aiming eventually to raise sales by about one-third to \$2-billion from 250 stores, up from today’s 206.

Bargain Shop, which is controlled by Genuity Capital, is moving to entirely new banners to flag the changes in its offerings. Mymark, whose first six stores under that name will include locations in Toronto and Welland, Ont., will focus on clothing produced mostly by Quebec-based apparel specialist Effigi – which is also owned by Genuity and run by Mr. Claus.

Clothing can generate gross profit margins of 40 per cent or more for discount retailers, compared with between 20 and 30 per cent in consumables, industry observers estimated.

The revamping won’t be as pronounced at the company’s Red Apple stores in rural markets, where competition isn’t as stiff, Mr. Claus said. Thirty-one Red Apple stores have already launched. They carry basic packaged foods, although not nearly as much as Giant Tiger, which also stocks fresh produce.

With about 230 stores today, including 10 former Fields stores purchased recently from HBC, Bargain Shop is aiming for 290, one-third of them to be mymark and the rest Red Apple. (Most of the 169 Fields stores were closed this year by parent HBC, which sold 57 of them in small towns in Western Canada to new business partners.)

But mymark isn’t abandoning food completely. It and Red Apple are rolling out a colourful “candyworks” section to help keep shoppers in the buying mood – an idea that Mr. Claus borrowed from some European retailers.