Q&A with Retail Expert Antony Karabus on the Future of Retail in Canada

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headshot of anthony karabus

By Mario Toneguzzi

Antony Karabus, CEO of HRC Retail Advisory, based in

Toronto, has been consulting with retailers for 30 years since 1990.

He recently spoke to Retail Insider about the current state of the Canadian retail industry and its future.

Here's an edited version of that discussion:

Retail Insider: Tell us a little bit about your retail background.

Karabus: "I've been in the retail consulting business for 30 years. Before that I started as a CPA in Cape Town, South Africa in 1982 at Arthur Andersen & Co.. Many of our major audit clients in Cape Town were retailers and by auditing numerous retailers, I discovered I had a passion for it. I moved to Canada in 1987 and joined Arthur Andersen in Toronto and worked there doing retail-related consulting for a couple of years before starting my own firm in 1990."

Retail Insider: Can you talk about the digital transformation that has taken place in the industry?

Karabus: "Before the whole digital transformation started 10 or 12 years ago, retail's ups and downs were mostly correlated to economic cycles. In 1994 when Walmart came to Canada, the disruption began. Their increasing domination of the discount/value sector and the inability of some of the domestic retailers to " step up their game to compete" resulted in numerous retailers going out of business including one of the biggest players, namely Zellers as well as others such as Sears Canada, Eaton's, Biway Stores, SAAN stores, Bargain Shoppes, White Rose Nurseries, and many more. Many of us remember Zellers' jingle "the lowest price is the law", which became irrelevant when Walmart and then Costco expanded across Canada. While the strongest retailers survived and some thrived, the weaker retailers, including many "mom and pops" disappeared.

"In about 2005, the digital transformation really started. Some sectors were going faster than others, with US luxury being ahead of the curve including Neiman Marcus and Nordstrom. In Canada, luxury retail was slower to adopt digital retail. In 2008/9, the rate of digital growth started to accelerate through to 2016 or 2017 when digital as a channel started to reach maturity with most consumers being comfortable to shop online. Digital continued to grow at 10-15% annually while store sales for many retailers began to decline at a mid-single digit annual rate

Retail Insider: What did that do to brick and mortar stores?

Karabus: What retailers slowly began to realize was that most Digital sales were simply a shift from store sales. Digital was in effect cannibalizing store sales. That was a massive awakening around 2014-2015. Retailers realized that they had made massive investments to enable their digital capability . . . but as much as 95% of digital sales were really shifts from their brick and mortar stores. What that meant was the net sales growth of the total business was minimal because most of the ecommerce sales were simply shifts from store sales and most of the total market increases were going to online-only retailers such as Amazon."

Retail Insider: So, where do we go from here?

Karabus: "Very few retailers re-invented their business model fast enough to keep up with the cannibalization of store sales by digital and the massive investments required to enable digital, omni-channel and to fresh up their store fleet. For numerous retailers, their store fleets were gradually becoming less profitable and less productive. In many cases, the simple act of closing stores didn't help as most stores were still contributing to earnings but at a lower rate and this is without the extreme pressure being placed on numerous retailers by the behemoth, Amazon—which is still growing and taking massive market share from traditional retailers as total retail sales is only growing at early single digits. What that means is most of Amazon's sales are market share shifts from traditional retail to Amazon, which is adding yet another massive stressor to brick and mortar retailers. About 10-20 medium to large chains have filed for creditor protection in the US and Canada annually for the past few years."

Retail Insider: What about the COVID-19 pandemic?

Karabus: "Most retailers that have filed for Chapter 11 or CCAA since COVID-19 were in fact incurring significant losses before COVID-19. In addition, the essential retailers have significantly increased market share during since March 2020, even for their non-essential categories, but just at a lower rate. Amazon is continuing to increase market share. For non-essential retailers, they were limited during the store closure period to selling through digital channels. Now that most stores are open, stores have signs everywhere telling shoppers to "walk in this direction, follow the arrows, watch the plexiglass between you and the staff working in the store etc". In a sense, a consumer will want to enter a store to get what they want and get out. In store shopping will be different and serve different needs in the short to medium term. The closure of their retail fleets for 3 months resulted in many retailers losing 50% or more of their total sales. Experiential retail which was a big buzz word in the last five years is going to be much less relevant for at least 2020-2022 as customers will go into stores with a specific intent rather than a browsing outing. I am confident that it will change once we have a vaccine or consumers feel more confident in being in stores. We advise retailers to de-emphasize experiential investments for 1-2 years as liquidity for numerous retailers is tight and capital needs to be directed towards enabling digital, omni-channel, and curbside pickup as well as improving supply chains and inventory management."

Retail Insider: What will retailers have to do?

Karabus: "They have to create a more agile business model that is centred around a stronger and larger digital channel, with the added ability to serve customers using omni-channel capabilities such as BOPIS and curbside pickup. Retailers will need to have the ability to position inventory in the right spot so when the customers want it in a particular location and time the higher the likelihood is that it will be there. The importance of inventory management has gone through the roof because you've got to make sure the product is in the right place. There will be a lot of rent renegotiation and restructuring." Already in 2020, store closures have been announced by Reitmans, Henry's, SAIL, JC Penney, Nordstrom, Pier 1, Tuesday morning, Victoria's Secret and the Chapter 11/CCAA processes will likely see more store closures from Aldo, J.Crew, and Neiman Marcus. Children's Place has just announced they will close about 300 stores across North America within the next 18 months and I am sure there will be many, many more to close stores even among the healthy retailers. The pressure on retail real estate companies is likely to be significant during this period

Retail Insider: What do you see as consumer spending habits going forward?

Karabus: "Almost forty million Americans and over two million Canadians are now unemployed. In addition, many of those that are still employed are insecure about how long they will still be employed. The government has been funding a lot of unemployed consumers' day to day essential living costs through the CERB and other support programs. For these consumers, there isn't much left for discretionary purchases. For consumers that have more money, they are spending less but also are spending money on their homes. There is some pent-up consumer demand now for some categories. While we expect unemployment to gradually decline over the next 2 years as the economy re-opens, we expect unemployment to remain high for at least two years, which is not good for retail sales, I see three categories of success in the future. Firstly, the essential retailers (such as the grocers, drugstores, convenience stores, home improvement chains and auto and marine service) who are getting increasingly stronger and winning market share. Secondly the online giants such as Amazon that have now amassed significant share and data about customer shopping and buying habits and thirdly, the retailers who are the "authority" in their categories.

Retail Insider: What are the steps retailers need to take for the future?

Karabus: "First and foremost, retailers need to develop a new business model to profitably compete over the next few years in this new retail environment. This business model will involve making key decisions around issues such as:

“Is your inventory placed in the right spot? Forecasting is going to be important in terms of how much is going to be online, how much demand is going to be in what stores?

“Do you have the liquidity/cash flow to sustain your business over the next few years as you transition to a more effective business model.

“What should your new store fleet size be and what decisions need to be made to maintain profitability at a time of lower store sales and higher costs to keep consumers feeling secure to shop in stores”

“Last but not least, is your supply chain properly configured for this new world?”

Antony Karabus, CEO, HRC Advisory, can be reached at akarabus@hrcadvisory.com. Visit HRC Advisory at www.hrcadvisory.com. The HRC Advisory team has been advising retailers on improving profitability and transforming their businesses since 1990 at every stage of the economic cycle

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