

# ALREADY IN TRANSITION, INDIGO FACES MORE UPHEAVAL

The Globe and Mail (Ontario Edition) · 23 Sep 2020 · B1 · SUSAN KRASHINSKY ROBERTSON RETAILING REPORTER

Retailer sees growth online, but stores still drive revenue



There is a line Heather Reisman likes to repeat, a compliment the CEO of Indigo Books & Music Inc. says she hears from customers: that the store is their “happy place.” “Our business, unlike some others, is very much a business where as many people come in to browse, as to shop,” she said in an interview. “Someone’s got a half hour, and they just want to get lost and feel good.”

That no one is doing much insouciant lingering in public places these days is a problem for Indigo. The company has seen e-commerce sales increase significantly – more than tripling in its first quarter ended June 30, with puzzles, books and children’s toys doing brisk business during lockdowns due to the novel coronavirus pandemic. But bricksand-mortar is still the heart of the business. Stores represented more than 80 per cent of Indigo’s revenue in its most recent fiscal year.

Store closings hit all retailers hard, but for Indigo, the timing was particularly bad. The company lost money in its past two fiscal years, and its stock price has taken a pummelling. Two years ago it traded at around \$14 a share; now it’s about \$2.

Indigo was trying to turn things around, including by cutting costs and changing its approach to product development. Now, a business already in transition is facing more upheaval.

Indigo’s store traffic is gradually coming back – to about 70 per cent of precrisis levels. But the recovery is uneven: Stores in downtown cores across the country are struggling as people continue to work from home. Retailers are preparing for the most important time of the year on uncertain footing.

“The holidays are going to be challenging,” Ms. Reisman said. “No matter what, you’re not going to see stores as busy as they were.”

Indigo has no debt, but given this turbulent climate, the company decided it needed what Ms. Reisman calls “an extra cushion.” Last month, Indigo announced it had secured a \$25-million interest-free credit

line from its controlling shareholder, and Ms. Reisman's husband, Onex Corp. chairman and chief executive Gerald Schwartz.

"We're the majority owners. We wanted to ensure that the business was on very solid footing," she said. Indigo is accelerating its investments in the digital side of the business, including speeding up the rollout of in-store and curbside pickups for online orders, as well as a partnership with Instacart for same-day delivery, starting in the Greater Toronto Area.

But the economics of doing business online are different from in stores, and the competition is mighty. While the need to adapt to e-commerce is nothing new, the pandemic kicked Canadians' adoption of online shopping into overdrive.

"The step change in e-commerce shopping is permanent," Ms. Reisman said. "The pandemic accelerated, by three to five years, the demand on the system. Since it takes a few years to increase logistical fulfillment – warehouses, et cetera – I don't think anybody would say they're ready for it. Nobody."

All of this is forcing retailers to think hard about how many physical stores they need. In May, Indigo decided to close 15 of its smaller-format stores. The chain currently has 182 stores. No more closings are planned, Ms. Reisman says, and the company recently renewed leases on a couple of locations. But management is "deep in thought" about what the role of the store will be in five to seven years.

"There's a style of thinking: If I have market share [in bricks-and-mortar stores], I'm going to make it," management consultant Hugh Latif said. "That recipe worked for some time. But not today."

The advance in e-commerce demand could also put pressure on retailers' agreements with landlords.

"I don't think retail's going away, but every time you take another 15 per cent or 20 per cent out of retail, you can't automatically replace it," Ms. Reisman said. "If just 50 per cent of your business happens in physical retail, it's very hard to justify the same kind of rent. ... The cost of operating the physical store becomes very demanding."

E-commerce presents its own challenges. Books were the first part of the retail sector to feel the wrath of Amazon. Indigo has responded by branching out. For years, it has expanded its product assortment to sell more general merchandise – accessories such as purses and scarves; homewares such as candles, blankets and kitchen items; journals; toys and baby products; electronics; and all manner of tchotchkes. "It allows them to increase their units per transaction, which is the secret sauce for retail, as well as increasing their target audience – people who are not necessarily big readers might not have [otherwise] gone into their stores," said Lisa Hutcheson, managing partner with retail consultancy J.C. Williams Group.

Last year, Ms. Reisman acknowledged the company had "hit a wall" in growth of these products, and vowed to refocus on "newness." The company is building more product lines that are proprietary to Indigo, and focusing on areas of growth such as health and wellness, food and cooking, and home wares. As of March 28, general merchandise made up almost 43 per cent of Indigo's sales, while print products such as books, newspapers and magazines accounted for the rest. Ms. Reisman thinks a healthy ratio would be half and half.

As much as Amazon threw a wrench in the book market, however, there is a glut of competition online in selling lifestyle products such as these. The challenge for Indigo will be to stand out – and in the case of the stores, have the kind of product assortment that makes it worth the visit.

“The pandemic will have changed some habits in a way that will continue. I also equally believe that people are going to want to go out, and retail will absolutely have a place. ... But it will require that there be a reason other than a transaction, for people to interact with the brand,” Ms. Reisman said. “If you’re not discovering something, then you could just pick up your phone and do a click.”