Newsstand chain rewrites its business model for digital age

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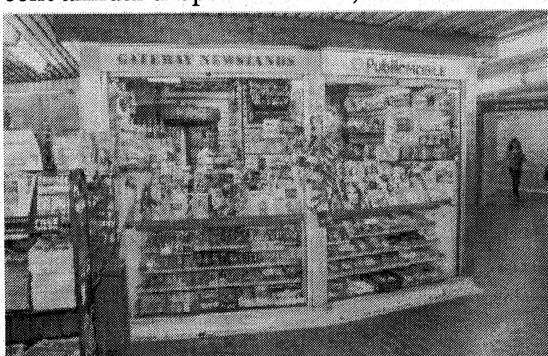
Like other newsstand retailers, International News had a problem. By 2014, sales of International News's core products – print newspapers and magazines – were in steep decline. Despite having stores in prominent locations such as Toronto's Royal Bank Plaza and the Fairmont Chateau Hotel in Whistler, B.C., the retailer was struggling with 30-per-cent to 40-per-cent annual drops in revenue, said Sam Davis, chief executive of parent Dakin News Systems Inc.



Without sweeping changes, he said, the business probably would not survive.

"The indicators were: we were going nowhere," said Mr. Davis, owner of privately held Dakin. "People are just not buying the product. So we had to make a change in our concept."

Over the past five years, International News has been reducing its offering of newspapers and magazines so that it can devote more space to food, beverages and other items, including healthier fare such as seaweed snacks and gluten-free products.

To underscore the reinvention, the retailer changed its name to INS Market.

But the process hasn't been easy. International News experienced significant turnover among its franchisees over the past few years as many weren't ready or able to invest in making over their stores.

The massive reboot underlines the turmoil companies can go through in sectors that are feeling intense digital pressures in their core merchandise categories. In this case, Dakin News and other newsstand retailers have been forced to essentially find a new business model.

"The market is changing," retail consultant Hugh Latif said. "If you are just stuck in the past, then no doubt the competition will eat your lunch."

"Newspapers and consumer magazines are just becoming a less important part of consumers' lives," added Anita McOuat, national leader of technology, media, telecommunications and consumer markets at consultancy PwC. Annual print newspaper and magazine sales in Canada are expected to continue to fall over the next five years – by 5.7 per cent to $446-million and 2.5 per cent to $338-million, respectively – after having dropped in the preceding five years by 5 per cent and 3.4 per cent, respectively, according to PwC.

For newsstand retailers, the shift has been dramatic. The chains, whose tobacco sales have also shrunk, are racing to refurbish their stores to focus more on food and beverages that are touted as healthy, while diversifying into electronics tied to mobile devices, fresh and prepared foods and even pickup depots for ecommerce purchases.

"The business is definitely not what it was in the past," said Mary Kelly, the new CEO of Gateway Newstands Tobmar Inc. of Woodbridge, Ont., which runs kiosks in Toronto Transit Commission subway stations, office buildings, condominiums and malls.

Ms. Kelly, who previously held senior roles at Rexall Pharmacy Group, Shoppers Drug Mart and Target Corp., said she is overseeing an update to Gateway stores, including technology to better track purchasing patterns. She's planning new layouts, digital screens, a white coat of paint to replace the current dark browns or blacks, and pick-up stations for online-purchased theatre and sporting events tickets.

Some Gateway stores already customize their offerings to local clientele's tastes, for example carrying halal food or fresh fare such as apples, she said. Now, she wants to step up sales of fresh foods.

With 340 Canadian and U.S. outlets, privately held Gateway is aiming to beef up overall sales, which are relatively flat, including through acquisitions, she said. "This is still a business that is incredibly viable."

U.S.-based Hudson Ltd., which operates shops in North American travel hubs, also continues to see a decline in its "readables" (newspapers, magazines and books) and tobacco businesses, while stocking its stores with more food and drinks, Adrian Bartella, Hudson's chief financial officer, told a conference in November.

At International News, newspapers and magazines now make up less than 5 per cent of overall sales compared with between 30per-cent and 40-per-cent five years ago, CEO Mr. Davis said. Meanwhile, gross profit margins of its better-for-you snacks and beverages can be twice as high as those of newspapers and magazines, he said.

The company finally is starting to see sales and profit improvements, he said.

Still, International News, which had a peak of almost 200 locations in 2014, has faced high franchisee turnover rates. Since 2016, 77 franchisees didn't renew their agreements, Mr. Davis said. Of those, 26 departed although their leases hadn't run out, agreeing to a settlement, he said. Another 31 franchisees resold their locations to new store owners who had to invest in a renovation, he said.

With 150 stores today, including some in Chicago, International News is aiming for 500 within five years, partly through acquisitions, and is now expanding into Florida, he said.

Meanwhile, the turnover has helped Dakin News generate more corporate revenue. New franchisees have to make initial investments of between $251,500 and $378,500 for everything from inventory to advertising, according to confidential company documents obtained by The Globe and Mail. Some departing franchisees also pay fees, the documents say.

The fees have helped boost Dakin News's financial results. In 2016, its sales jumped almost 45 per cent, turning losses of previous years into a profit, the documents show. They also say the company has been locked in up to seven legal battles tied to franchisee departures over the past few years. Mr. Davis declined to comment on the litigation.

Mr. Davis said the strategy is designed to encourage store owners to invest in the retailer's new initiatives, not to drive away existing franchisees. As well, the company is relocating some stores because rents have gotten too high or traffic too light, no longer providing a captive audience of shoppers, he said. "It's a total reinvention of our business."