

QV UPDATE

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Darren Dansereau, CFA



"Rebel" – David Bowie

Imagine you are the Senior Vice-President of Marketing for the country's largest sport stores. You walk into a meeting and propose the following: Let's pull all of the paper flyers for the next two weeks and use a purely digital advertising strategy. It takes guts and conviction to be a rebel, but when a company knows its business and customers intimately, it can try these types of things.

Sport Chek, a banner owned by Canadian Tire's FGL Sports division, tested this strategy in March. Previous analysis conducted by Sport Chek confirmed only 17% of its customers read its flyer. The main reason was Sport Chek's primary customer demographic of 14–44 year old males. This is quite different from the regular Canadian Tire brand, whose primary demographic is over 45 years old. As can be expected, Sport Chek's target demographic is well versed in digital platforms making them a perfect test group. This strategy could have a meaningful impact on sales, so it helped that the FGL Sports division generates about 14% of its Canadian Tire revenue versus the 50% revenue that is generated by the eponymous stores.

To ensure the test was controlled, Sport Chek spent the same amount on marketing as it did in the same two weeks in 2013. In 2013, the bulk was directed to flyer advertising and only a small amount toward digital. In 2014, most of the money was spent on Facebook, with the remaining being focused on search engines such as Google.

The outcome was fantastic. The digital test resulted in year over year sales growth of 12%. Even more impressive was those items that were specifically targeted in the digital promotions had year over year sales increases of 23%! The other significant benefit learned was the flexibility of a digital marketing program. As the digital spend was about to begin, a major snow storm hit the Maritimes closing schools and government offices. With most people huddled at home, it was decided to reallocate marketing dollars to other parts of the country. As the storm's effects subsided, the marketing program was resumed in the Maritimes.

This test proved to be such a powerful display of digital marketing that Facebook referred to it on its April conference call.

At a recent presentation, Sport Chek indicated after further tests it believes 25–40% of its marketing could be switched to digital by the end of 2015 and as much as 100% by the end of 2016. Canadian Tire, on the other hand, will take longer to transition due to its older demographic base. The consequence could be an annual reduction of 5–10% of Sport Chek's annual marketing budget due to digital's lower cost. A bold move on the part of the Company may result in cost savings and sales improvements.

"Ch-ch-ch-ch-Changes" – David Bowie

The impact looks very positive to Sport Chek, and over time Canadian Tire. At QV, one thing we like to do is review what impact developing trends have on the franchises of existing businesses we own. The greatest impact would be on our printing and advertising company Transcontinental.

Transcontinental has been very aware of this trend and over the last number of years has been ramping up its digital advertising offering. One characteristic we look for in a business is a management team who can answer a famous question posed by Professor Theodore Levitt – "What business are you really in?" The obvious answer for Transcontinental was printed advertising in newspapers and magazines. The Transcontinental team took a step back and correctly realized their expertise is helping clients reach their end customers. They already had the relationships with the marketing decision makers, so they felt it was a natural transition to offer not only printed advertising, but also digital advertising. Acquisitions in the sector allowed Transcontinental to gain the skill set required. It has been a slow process, but so has the move by advertisers exclusively to digital. I think John F. Kennedy's words on change are instructional, "Change is the law of life and those who look only to the past or present are certain to miss the future." We want to ensure our businesses are aware and preparing for the future.