Kmart in Canada

Like its Kresge parent stores, Kmart Canada developed its own following and competed with Zellers, Canadian Tire and, of course, Wal-Mart. Wal-Mart entered the Canadian market by buying the bankrupt Woolco stores. Wal-mart, Zellers and Kmart competed head to head in the Canadian market for years. By 1997, Wal-Mart Canada was selling almost as much as Zellers and Kmart Canada combined. Wal-Mart Canada was growing at a rate of 29 percent, which Zellers growth was only 1.4 percent, and Kmart was losing 6 percent. In March 1997, Wal-Mart Canada passed Zellers to rank as Canada's largest department store. Wal-Mart's share of the discount department store group was 56 percent in 1999.

In 1997, Kmart sold Kmart Canada to an investor group which included York Management Services Inc., Capital D'Amerique CDPQ Inc. (a wholly-owned subsidiary of Caisse de depot et placement du Quebec), and Cherokee Ventures Canada Inc. George Heller, former president of Bata Industries North America and Europe, was appointed president and CEO by the new owners. For the sale, Kmart Corporation received about $185 million and kept a 12.5 percent equity interest in Kmart Canada.

At the time of the purchase, Kmart Canada secured a new $135 million revolving line of credit from Congress Financial Corporation. "We are committed to rebuilding Kmart Canada into a strong, national retail business," said Heller, who brought to Kmart Canada more than 25 years of experience in retail management. "Our goal is to create a profitable business through customer service, the support of our associates, strengthened information and technology systems and investment in Kmart Canada's presence and vitality," Heller said at the time.

Soon after the takeover by the investor group, Hudson's Bay offered to buy Kmart Canada for $265 million, a 300-percent return for the investor group. The Kmart acquisition made Hudson's Bay, an old-line Canadian firm, the largest owner of discount stores in Canada. It leapt from the middle of the pack to being even bigger than Wal-Mart! Hudson's Bay merged Kmart Canada with its 112 stores into their 298 Zellers stores, hoping to make Zellers a strong competitor against Wal-Mart. By the time Kmart merged with Zellers, there were 112 Kmart Canada stores with annual sales of over $1.2 billion and more that 12,600 full- and part-time employees. Hudson's Bay estimated that the merger would close 40 Kmart Canada stores, relocate the others or move Zellers into them, and attempt to offset the loss of most of the 4000 to 6000 employees from the merged Zellers/Kmart Canada by finding them new jobs in their other specialty format stores. As a result of these changes, Zellers now operates in 17 new markets.

Heller is now president of Zellers. Today, Zellers has 350 stores across Canada. Heller is now President and CEO of the entire Hudson's Bay Company, which includes not only Zellers but also Home Outfitters and hbc.com, their electronic-commerce unit. Today, Zellers is facing the same kind of competition that Kmart Canada did from Wal-Mart. The Bay has worked hard to achieve synergy from their various companies by combining credit cards from Zellers and Home Outfitters with the Bay card and by merging their loyalty card memberships and points. Using a Bay credit card and HBC loyalty card, shoppers can charge purchases at any of the three types of stores and receive loyalty points, a significant improvement over the past when one customer could have three credit cards for these stores and three loyalty accounts with insufficient points in any one account.

Added together, customers now perceive they receive more value by being able to combine points from purchases at all three stores.

But is that enough to stave off the Wal-Mart competition? Can Zellers become the shoppers' discount department store of choice?

Sources:

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