

Insights from San Francisco

Here at SEAMARK our portfolio managers and analysts strive to stay on top of new technologies and potential disruptions in industries we follow by not only following outside research, but by also doing our own detective work.

Joel, who covers the technology sector, recently had the privilege to make a pilgrimage to the technology mecca, Silicon Valley, to attend a technology investment conference to learn and meet with management teams operating within his coverage.

“I went to San Francisco in the hunt to uncover new companies to add to our clients’ portfolios, and although I did come back with dozens of new ideas, I came away with something I consider to be far more important; and that is the potential threat that technology is going to have on all industries.”

Technology and the internet have been putting pressure on traditional business models for some time now. One such model is the traditional build it and they will come model. The big-box retailing model is a volume based model where retailers build large stores in locations outside of core density areas within a typical urban centre. With significant buying power, these retailers are able to source the goods they supply in store at a lower cost per item, allowing savings to be passed onto customers in the form of lower prices. The model only holds if volumes are significant enough to maintain this buying power and lower prices.

Along comes Amazon...which decided to instead build huge warehouses and ship items found in many big box stores directly to each customer, bypassing the big-box altogether. The ubiquitous use of the internet and increased shipping efficiency has caused a seismic shift of purchases to be completed online, which many big-box retailers have yet to adjust to. Even shipping is being pressured now with Amazon hoping to deliver packages with drones. While that possibility might be years away before mass adoption (if ever...), this illustrates the disruptive nature and ensuing ripple effects technological change brings.

We need to look no further than how Sears, RadioShack, Linen & Things and other traditional big –box retailers have been essentially put out of business by online merchants such as Amazon. We can also think about what Netflix did to Blockbuster. ShopperTrak reported that during the 2013 holiday season, retailers received about half the holiday foot traffic of 2010.

SEAMARK takes the long view towards the durability of company’s competitive advantage and prefers to be early, rather than late, as avoiding the losers is just as, if not more, important as holding onto your winners.



Joel Muise, CFA