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Prices will come down - eventually

Despite some complaints that even the discounted prices were too high, Canadians flocked to Target stores on Thursday to take advantage of the liquidation sale.

"They're lined up inside and outside the doors and they're complaining (about prices) - so what does that tell you? They're complainers," said David Ordon, of DSL Commercial, a family-owned company that has done more than 5,000 liquidations.

"They're expecting to walk in the door and find 60 to 70 per cent off and it just doesn't work that way."

DSL is not processing the Target liquidation - that's being done by a consortium of U.S.-based companies with Canadian affiliates. But Ordon says liquidators try to get the most money possible during the first half of a sale because during the second half, products are sold for less than cost.

The problem with waiting to get 60 per cent off is that the best, most popular products are sold out by then.

"There is a segment of the population that wants choice and a segment that wants price," said Ordon.

Liquidators are not allowed to mark merchandise up in order to mark it down to make it look like it's a bigger bargain than it is. But there is nothing to stop a store owner - even a large retailer - from ending a store sale and returning products back to full price before handing everything over to liquidators.

The discounts offered during liquidation are also a function of the markup on the product being sold, said David Planques, president of PricewaterhouseCoopers Inc.'s corporate advisory and restructuring group.

"If you have products ... where the selling price was double the cost, you might drop it by more than 30 per cent. If you have products with not as much markup, you would start with a lower reduction. "My guess is that Target wouldn't start with a huge margin."

Planques said three months is a typical liquidation period. Poorly performing stores are closed first and the merchandise is fed to busier stores, to save on wages and other costs associated with maintaining a store.

Gilles Benchaya, partner and trustee in bankruptcy at Richter Consulting, said every case is different, and timing can affect how people perceive a sale.

"If you're just post-Christmas, 30 per cent off is not going to excite anybody, and here, in the case of Target, you're dealing with a retailer that is value-priced. That type of retailer offers everyday low pricing so they don't typically have deep sales."

Clothing tends to have higher profit margins and vertically integrated retailers, like the Gap and Banana Republic can offer more of a discount than a retailer like Target, said Benchaya.

"Some people want the maximum variety so they shop early. Others will wait it out a bit. A lot of the customers will come in to check things out and they come back a week or two later to see if the discounts have moved up and if it's still available. But they are obviously taking a risk," he said.

Typically, liquidators are allowed to add extra merchandise into the mix. But in this case, landlords reached an agreement with Target to prevent that, said David Bish, a Torys LLP lawyer acting for Cadillac Fairview Corp.

Benchaya said landlords are reluctant to let the sales go on longer than absolutely necessary because a long sale can change traffic patterns in a mall and even undermine a mall's image.

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