Perspective

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Globalization in action: the retail trade in Quebec

The feverish activity in Quebec's retail sector is not imaginary. The number of international banners has multiplied of late. Price wars, changes in the supply process, frantic cost-cutting efforts and automation are just some of the effects of their presence. The arrival of these retail giants with their very deep pockets is posing serious challenges for our retailers, and the pressure won't be easing any time soon as more are expected in all segments. The war is on and our retailers will have to work hard to build customer loyalty and set themselves apart in ways other than price. They will have to demonstrate ingenuity and make investments in order to stay in the game.

THE NEW FACE OF THE RETAILING INDUSTRY

Two powerful trends are shaping the retail landscape: an influx of international players and the expansion of e-commerce. Although the focus of this analysis is the first, the second deserves a few words since it is also a gateway for foreign retailers. Data compiled by Statistics Canada, which is available only for Canada at this time (table 1), confirms that e-commerce is booming, with sales growing 22.6% from 2010 to 2011, compared to 3.8% for in-store sales. These are sobering figures indeed. Although it accounts for only 0.9% of in-store sales today, the online sales channel is an exceptional showcase for foreign retailers. It is therefore not surprising to find that Amazon (in all its forms: .com, .ca, .fr, .uk., etc.) was the 23rd largest retailer in the world by sales (in US$).[1] That said, although the presence of international retailers is very real online, it is even more visible in the fierce competition with domestic retailers in shopping centres and power centres (shopping centres anchored by three or more big-box stores (250,000 to 750,000 sq. ft.) with a common parking area shared among the retailers.

1 Deloitte, Global Powers of Retailing, 2013 edition.

Table 1 – Canada: retail sales by method of sale and store type (dollars X 1,000)

Retail store	*2010*	*2011*	*Change 2010-2011*
In-store sales	437,295,104	453,823,494	+3.8%
E-commerce	3,402,474	4,171,251	+22.6%
Mail-order or telephone sales	4,094,444	4,279,255	+4.5%
All other methods*	8,277,661	10,283,082	+24.2%

* Trade shows, special events, in-home sales and card lock.
Sources: Statistics Canada and Desjardins, Economic Studies

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AN OVERVIEW OF THE QUEBEC RETAIL INDUSTRY

Quebec's retail industry can be analyzed from different perspectives, one of which is sales. These have trended upwards in recent years (graph 1), with the exception of 2009, when the recession was in full swing. Although sales were strong before 2009 and in 2010 and 2011, they have been slowing since 2012. Consumer enthusiasm has been dampened for a number of reasons, beginning with a weak labour market and an uncertain economic outlook. Household confidence has also been sapped by two increases in the Quebec sales tax (QST), one in 2011, followed by another in 2012, and growing consumer debt. It's not for a lack of selection (in goods and services and types of stores) that Quebecers have tightened their belts, far from it. Interestingly, this slowdown has done little to curb the enthusiasm of foreign retailers for the Quebec market.

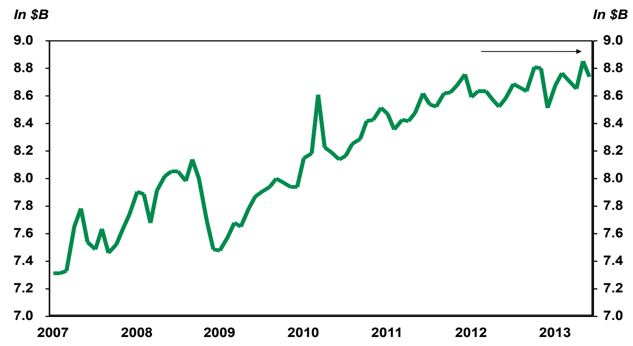
Although long-term data on retail trade and its business establishments is not available, Statistics Canada has compiled some very enlightening figures on how the industry has evolved. As such, for Quebec, we find that between 2008 and 2011 operating revenue grew 4.6% and labour remuneration increased by 5.1% (table 2). Two other statistics stand out: sales per square foot jumped 26.5% but the number of stores decreased by 7.0%.

Regarding the decrease in the number of stores, table 3 on page 3 shows the greatest drop in gas stations (-18.2%), followed by miscellaneous retailers (-10.7%) and sporting goods and hobby, book and music stores (-10.4%). Health and personal care stores (where few international retailers are active) were the only group to post growth (+1.2%).

FOREIGN COMPETITORS HAVE FORMIDABLE STRENGTHS

The new players, be they U.S. or European, have shaken up the Canadian and Quebec retail landscapes, competing directly with incumbent retailers. In addition to being responsible for the recent explosion in big-box stores, these players have introduced concepts that have inspired our merchants and reshaped the industry. Examples include dollar stores, big-box supermarkets and large discounters, to name just a few. Their presence has also resulted in increased use of EDI (electronic data interchange), which has transformed the retail supply chain.

Graph 1 – Quebec: Retail sales have lost steam since 2012



Sources: Statistics Canada and Desjardins, Economic Studies

Growth in big-box stores was hastened by the incursion of large U.S. retailers more than 20 years ago, when giants like Wal-Mart, Home Depot, Best Buy, Old Navy, Staples and Winners brought in new retailing models such as power centres. Canada and Quebec joined the bandwagon, building superstores such as Canadian Tire, Rona, Jacob and Loblaws.

The newcomers use strategies that force the incumbents to react. They employ innovative concepts and are often the undisputed global leaders in their segments and in operational savvy (innovation, pricing and marketing strategies, minimizing operating costs). Due to their efficiency, they are often able to pay more for a premium retail location and unseat local merchants.

Table 2 – Quebec retail trade: financial statistics by store type

Financial variables	*2008*	*2009*	*2010*	*2011*	*Change 2008 to 2011*
Total operating revenue (dollars x 1,000)	100,742,155	98,222,437	101,820,107	105,373,515	+4.6%
Total labour remuneration (dollars x 1,000)	11,176,159	11,208,363	11,351,294	11,750,298	+5.1%
Number of stores	47,438	46,046	44,883	44,134	-7.0%
Sales per square foot (dollars)	339	354	417	429	+26.5%

Sources: Statistics Canada and Desjardins, Economic Studies

Table 3 – Quebec: number of stores according to the Annual Retail Trade Survey

	2008	2009	2010	2011	Change 2008 to 2011
Retail trade	47,438	46,046	44,883	44,134	-7.0%
Motor vehicles and parts dealers	4,842	4,689	4,703	4,585	-5.3%
Furniture and home furnishings stores	2,305	2,287	2,226	2,155	-6.5%
Electronics and appliance stores	2,707	2,617	2,607	2,644	-2.3%
Building material & garden equipment, and supplies dealers	2582	2,496	2,483	2,474	-4.2%
Food stores	9,036	8,655	8,683	8,381	-7.2%
Health and personal care stores	3,549	3,734	3,473	3,593	1.2%
Gas stations	4,557	4,561	3,932	3,729	-18.2%
Clothing and clothing accessories stores	8,211	7,828	7,807	7,850	-4.4%
Sporting goods, hobby, book and music stores	2,761	2,592	2,474	2,474	-10.4%
General merchandise stores	1,438	1,407	1,407	1,381	-4.0%
Miscellaneous retailers	5,450	5,180	5,088	4,868	-10.7%

Sources: Statistics Canada and Desjardins, Economic Studies

Consequently, foreign competitors pack a powerful punch that makes them a serious threat. A study conducted by Altus Group for the ministère du Développement économique, de l'Innovation et de l'Exploitation in 2011[2] showed the advantages international retailers enjoy, especially U.S. retailers. First, the U.S. market is 10 times the size of Canada's, giving its merchants infinitely greater buying power than their Canadian counterparts, especially where mass distribution is involved. Second, the ownership structure is different in Canada, where "closed capital is typically involved, often with a single owner, which severely limits quick access to venture capital." As well, it is a fact that retailers have a tougher time finding backers than high-tech firms.

One would think that the size of the Quebec market, which is small compared to the Canadian and U.S. markets, and the French language, would keep U.S. and European retailers at bay. But this has not been the case. Their incursion into the province was especially notable in the early 1980s but the pace has picked up considerably in the last decade and does not appear to be slowing. Those who think the Quebec market is saturated may be surprised to learn that according to studies presented at the conference of the International Council of Shopping Centers held in Montréal last March, there is still room for competition. For instance, Canada has 14 square feet of retail space per capita, compared to 23 in the U.S.

IMPACT THAT GOES WELL BEYOND THE GOODS AND SERVICES OFFER

The arrival of international retailers on the scene has driven down retail prices and increased the variety of goods and services available on the market. However, the prices paid here and across the border are not always the same, and despite parity, price differences persist.[3] At the same time, it appears the industry is becoming more homogeneous and concentrated.

As far as jobs go, there is no difference between those offered by our merchants and international retailers. However, as one might expect, since the latter are foreign owned, their headquarters are outside the country, which, along with distribution centres, are where the best-paying jobs are found. As well, because of their foreign-based headquarters, international retailers may be less inclined to deal with local suppliers and continue doing business with those in their country.

However, local businesses are not at a complete disadvantage. In the clothing industry, the Apparel Human Resources Council estimates that shorter sales cycles, which affect production turnaround, may benefit Canadian and Quebec manufacturers. In other words, some companies may be tempted to repatriate their manufacturing back home due to the faster turnaround offered by local manufacturers. This is especially important for seasonal fashion items.

2 Altus Group, for the ministère du Développement économique, de l'Innovation et de l'Exportation: "La présence des détaillants inernationaux au Canada et au Québec," April 2011, 31 pages.

3 Senate, Report of the Standing Senate Committee on National Finance, The CANADA-USA Price Gap, February 2013, 75 pages.

The arrival of big-box stores has had a major impact on the entire supply chain: manufacturers, distributors, packers and stores alike. Efficiency and cost reduction have become the order of the day. Supply chains have had to become more streamlined, meaning automation is unavoidable, and the use of in-house brands is now widespread. According to a growing number of analysts, large retailers not only drive prices down with their buying power, they dictate the type and format of the products that end up in the store. Ultimately, they affect consumer choices. Moreover, bargain-hunting consumers are forcing local merchants to further reduce their profit margins, leaving them with less money to spend on innovation in order to compete against these foreign giants.

In some respects, this foreign presence has also changed the landscape in certain sectors. For example, few independent local retailers remain in the furniture industry. Conversely, in the food industry, following Wal-Mart's arrival in Quebec some 25 years ago, the number and diversity of food stores has grown.

Today, you can pick up medications and milk at the pharmacy, and oil filters and candy in some hardware stores. You can even purchase canned foods, pasta and cookies, all at $1, from the dollar store, not to mention clothing and school supplies from big-box stores while doing most of your weekly groceries.

Lastly, the big three food giants, Sobeys, Provigo and Metro, still control 70% of the food market in Quebec. However, Wal-Mart, Target and the likes are giving them a run for their money according to retail analysts, who find that the big players are slowly capturing more market share. The uniformity observed in brick-and-mortar stores is also spilling over to online stores. In short, the presence of big foreign players is affecting all areas of retail trade.

INTERNATIONAL RETAILERS AND MARKET SHARE

It is difficult to measure how much consumers buy from foreign retailers. In 2011, Altus Group was asked to compile information from different sources to determine the share of the Canadian market held by foreign retailers in 2010. According to table 4, foreign retailers accounted for roughly 15% of total sales in the country, broken down as follows: 98% by U.S. retailers and 2% by European retailers. However, excluding food, gas, vehicles and pharmacies, areas where foreign retailers are not really active, market share climbs to 41% (of which the U.S. accounted for 96%). Of note, four big retailers (Wal-Mart, Costco, Home Depot and Best Buy) accounted for 60% of these sales.

Foreign retailers are therefore very active in some segments (table 5 on page 5), accounting for 69.2% of sales in Canada by general merchandise stores, 40.7% of sales by electronics and appliance stores and 30.8% of sales by other types of stores. The proportion is 29.1% for home renovation centres and hardware stores, and 24.2% for clothing stores.

According to Altus Group analysts, in 2010 Quebec was under-represented in terms of the number of foreign retailers, which accounted for 17% of the retail space held in Canada whereas Quebec represented 23% of the Canadian population.

CHALLENGES ABOUND FOR QUEBEC AND CANADIAN RETAILERS

How can Quebec retailers respond to the influx of international players? Building customer loyalty is one of the most frequently mentioned challenges. Personalized service and low employee turnover is the key in the fight to win the hearts and wallets of consumers. Quebec retailers need to quickly adopt new technologies for managing their operations (e.g. suppliers, inventory, operating costs, payment methods) and their relationships with customers, who shop both in physical stores and online. This also means making more use of social media.

Table 4 – Canada: global market share of international retailers in Canada

Sectors	*Total Sales in Canada 2010 (in \$B)*	*Sales and Market Share of U.S. Retailers (in \$B)*	*(%)*	*Sales and Market Share of European Retailers (in \$B)*	*(%)*
All sectors	436.4	62.6	14.3	2.4	0.5
Excluding: food, gas and automobiles	189.6	62.4	32.9	2.4	1.2
Excluding: food, gas, automobiles, pharmacies and personal care products	158.3	62.2	39.3	2.3	1.4

Source: Altus Group, for the Ministère du Développement économique, de l'Innovation et de l'Exportation: "La présence des détaillants internationaux au Canada et au Québec," 2011.

Table 5 – Canada: market share of foreign companies by store type

Store type	Total Sales in Canada 2010 (in $B)	Market Share of International Retailers (%)	Number Companies	Number Stores
General merchandise stores	54.7	69.2	5	1,570
Electronics and appliances	13.7	40.7	2	227
Other stores	10.9	30.8	4	677
Home renovation centres and hardware	28.0	29.1	2	203
Clothing	24.7	24.2	30	2,056
Furniture	9.6	15.9	3	20
Home furnishings	5.3	15.8	4	188
Sporting goods, hobby and music	11.4	15.0	5	608
Pharmacies and personal care	31.2	0.6	5	247
Food	103.5	0.2	1	6

Source: Altus Group, for the Ministère du Développement économique, de l'Innovation et de l'Exportation: "La présence des détaillants internationaux au Canada et au Québec," 2011.

Also, Quebec retailers have everything to gain from worker training. Two strategies they will have to leverage are succession management and employee retention. In addition, they will have to learn how to manage increasingly tight profit margins, especially in niches where pricing is the name of the game.

Some observers say that the biggest enemy of brick-and-mortar stores is lack of time. The fact is that consumers are increasingly shopping online, where international retailers are extremely active. To attract consumers, Quebec merchants need to have transactional websites with appropriate payment methods (computer and mobile services). Table 6 shows that some headway has been made in terms of establishing an online presence and that big retailers are more advanced in this regard than their smaller counterparts. On the World Wide Web, we can expect nothing less than a pitched battle between domestic and international retailers.

Table 6 – Canada: percentage of companies with a website by company size

	Company Size	2012 (in %)
Private sector	Total, all companies	45.5
	Small companies	41.1
	Mid-sized companies	83.2
	Large companies	91.8
Retail industry	Total, all companies	53.8
	Small companies	49.9
	Mid-sized companies	78.6
	Large companies	79.7

Sources: Statistics Canada and Desjardins, Economic Studies

There are a number of things Canadian and Quebec retailers can do to hold their own against these giant international rivals. One of the many ways suggested by experts and merchants themselves is to trim operating costs. Apart from establishing an online presence, one of the most frequently mentioned strategies is to efficiently manage every aspect of the supply chain (from the supplier relationship to warehouse management) (table 7 on page 6). Others include forging alliances with landlords and other merchants. Understanding one's clientele (for instance, why clients shop in one store over another, what their needs are) is a must. Creating loyalty programs for consumers and top employees are also ways to keep customers coming back. Other tried and true methods include non-traditional marketing strategies and adopting or creating new local brands.

COMPETITION IS HERE TO STAY

The number of new foreign banners is growing and will continue to do so. This is not only happening in Canada and Quebec but in South America (e.g. Brazil and Chile) as well. The big retailers are of course eyeing China, along with other expanding economies such as the former Soviet Republics, the United Arab Emirates, Uruguay, Mexico and Turkey, just to name a few.

Table 8 on page 6 provides an overview of some retailers that set up shop in Quebec between July 2011 and October 2013. The first eight already had operations in Canada before that, and Quebec merchants knew that it was just a matter of time before they headed their way. The last two on the list were not in the other provinces very long before setting out for Quebec. It's taking less time for retailers to make the leap and the arrival of new competitors, mainly from the

Table 7 – How to successfully compete against foreign entrants A Few Strategies

- Identify your strengths (what sets you apart)
- Implement technologies to improve supply chain management (streamline, limit middlemen)
- Install self-service check-out (with optical readers)
- Forge alliances with landlords to secure the best location
- Team up with merchants offering complementary goods or services and offer them a space in your store
- Implement an employee training, development and retention plan
- Adopt a merit-based compensation system and pay-to-stay bonuses
- Know your customers
  - Who buys in your store?
  - Why do they buy? (Why do they choose your store over another?)
  - Can you serve them better?
- Implement a loyalty program (discount cards, priority access to events, etc.)
- Adopt local or national brands apt to attract new customers and appeal to existing customers
- Manage your warehouses more efficiently (computerization)
- Increase cross-selling opportunities and incentives
- Add product lines that complement your offer
- Establish an online presence:
  - Launch a website
  - Build a social media presence
  - Implement transactional tools (through computers, smart phones, tablets)

Sources: Deloitte, Advantage2Retail, Informatica, Celcius Solutions, La Presse and Desjardins, Economic Studies

U.S., can be expected. In this regard, Whole Foods (food) and Nordstrom (clothing and accessories) have already stated their intentions. Other U.S. retail giants known for their effective selling techniques will probably join the fray, for instance, Dollar Tree (department store) and J. Crew (apparel). All to say that the influx of international competitors is far from over.

Assessing the extent of this influx is the first step. The battle has been underway for some time now and many Quebec retailers know full well that they will have to stay attuned to consumer needs if they are to remain in the game. In the fight for the lowest price, they will have to find other ways to distinguish themselves. It's what some call a "meaningful shopping experience" that connects the consumer to the merchant. This experience starts with unparalleled service from start (greeting the customer) to finish (accepting payment and delivering the product). Consumers are more demanding and in order to compete, retailers will have to innovate and invest. For some, adding mobile applications (smart phones, tablets) equipped with shopping tools may be the way to go. However, this strategy is expensive and requires an effective deployment strategy. There's no doubt about it, our retailers are facing an uphill battle.

Table 8 – Retailers that came to Québec in the last two years

Banner	Type of Retailer
Bass Pro Shop	Sports and outdoor
Victoria's Secret	Lingerie
William-Sonoma	Kitchen
Pottery Barn	Furniture and furnishings
Michaels	Artwork and antiques
Marshalls	Clothing
Aeropostale	Clothing
Crate&Barrel	Furniture and furnishings
Express	Clothing
Target	Department store
Vans	Activewear

Sources: Statistics Canada and Desjardins, Economic Studies

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