

PERSPECTIVE



Retail Trade: Carving Out a Niche, and Holding On to It

Life has become particularly complicated for retailers over the past decade. Increased competition, online shopping, fragmented customer bases and employee recruitment are just a few of the challenges they face on a daily basis. Despite these obstacles, retail sales have increased in Quebec in recent years. However, it is not all roses. The economic environment will not be favourable to local retailers forever. Low demographic growth and the convenience of online shopping, to name just a couple of factors, call for a change in how business is done. If they have not already, business owners will have to build their presence online and tap into the digital economy. They will have to work jointly with other merchants, customers, suppliers and employees if the sector is to remain healthy and prosperous.

A Decade of Rapid Change

In the 2000s, the list of phenomena for retailers to monitor looked somewhat similar to the way it does today, but the order was not quite the same. These included new places to shop, such as lifestyle centres, and the gradual emergence of e-commerce. E-commerce took the top spot on the list of concerns.

There were fears about the growing presence of retail giants on the Canadian and Quebec markets, particularly in furniture, clothing, health products and footwear. U.S. chains with enormous purchasing power were flooding in. This gave them a great deal of bargaining power with their suppliers, which meant they could then make unbeatable offers. At the same time, there was more diversity in commercial activities; for example, more and more stores were selling food products (even hardware stores), while grocery stores began selling clothes and household items. A number of options were considered in response to the offerings of these “invaders”: providing a broader range of products or meeting a very specific need, to name a couple.

The number one concern for retailers now seems to be “being where the consumers are.” Right now, a growing proportion of customers are on the web either browsing or buying. The changes can even be seen in the vocabulary used, with “Black Friday”—a day of massive sales following U.S. Thanksgiving—giving way to “Cyber Friday” and “Cyber Monday.” However, most purchases are still made in stores.

Today

The situation today has as many challenges as it does business opportunities. The number of global retail giants (not just those from the United States) has grown in Quebec. Titans are clashing in not only e-commerce, but also brick-and-mortar stores. These newcomers are changing the way business is done. As a counter measure, mergers and acquisitions have multiplied here in Quebec and Canada in an attempt to create synergies, striking forces able to stand up to these retail mammoths (for example, Metro bought Jean Coutu in 2017).

Although e-commerce is gaining in popularity, most retail market analysts and experts say that businesses with storefronts are not doomed to extinction, but more and more are reducing their physical footprint. However, the need to lead a double life on the street and on the Web is what some are calling “omnichannel.” Some of the major players who originated on the Web have put this strategy into place, which is why we see Amazon opening bookstores in the United States, particularly in California, Oregon and Washington State, and why it purchased Whole Foods in 2017. In Quebec, Frank And Oak (clothing) and BonLook (eyewear) now have very real stores, even though they started out with Internet-based operations.

Employee recruitment is another concern for retailers. Although the jobless rate has reached levels rarely seen over the past 50 years, with every industry snapping up candidates, attracting and retaining employees is becoming a nearly daily task. At

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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a time when retail experts are saying that the role of a store salesperson should be morphing into that of advisor, where the concept of transaction should be transforming into one of relationship-building and where the goal is to connect with the customer, it is becoming increasingly difficult to find those rare gems. Some stores are open 84 hours a week, sometimes longer.

It is all the more difficult to hire people as the sector does not have an enviable reputation. The general perception is that it offers only minimum-wage jobs and has the highest turnover in the economy. According to the *diagnosis* conducted by Détail Québec, a sector-based retail labour committee, the position of sales advisor is most affected by turnover. This perception is coloured by student employment. However, the average time on the job in the retail sector is 13 years, and 7 years with the same employer. As for pay, some employers also offer performance bonuses and sales commissions. There is no denying that the increase in the minimum wage, which is likely to pick up pace in the coming years, may present a stumbling block to some employers.

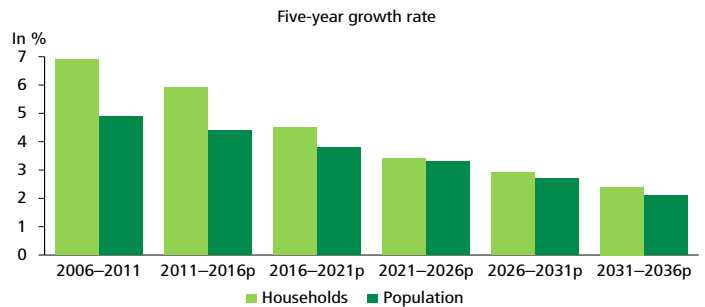
Aside from the aforementioned challenges, there is the linkage between storefront and e-commerce. According to research firm *Deloitte*, in 2016 “56 cents of every dollar spent in a store is influenced by a digital interaction”, up from 36 cents just three years prior. This raises myriad questions: what is the optimal size of a physical store? How much should you invest in IT and a transaction site? How do you get the website to increase in-store customer traffic and vice versa? How do you quickly and adequately meet the needs of store and web customers so that they are not disappointed when staff is sorely lacking? How do you contend with competitors on the web who have immense resources and are not subject to the same tax rules? It is plain to see that it takes more to stay in business.

A Changing Customer Base

The customer base is changing because the population itself is changing—this is nothing new. We are very much aware that the population is ageing. We also know that it is growing more slowly than in the past and will slow down even further in the near future (graph 1). Household growth will see the same pattern, but will nonetheless be stronger than that of the Quebec population. This is yet another reason why businesses should develop websites in order to showcase their wares elsewhere than in just their physical location and thus target customers outside Quebec.

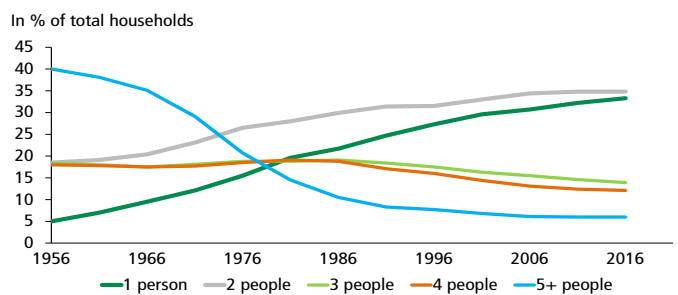
Household composition has also changed a great deal, as is shown in graph 2. The proportion of households with one or two occupants has increased drastically, considerably changing spending habits and forcing merchants to keep up with demand. Multiethnicity also requires tweaks to be made, as the transformation it has effected in the product offering did not happen overnight.

GRAPH 1
Quebec: Population and household growth is expected to decrease



p: Institut de la statistique du Québec projections
Sources: Statistics Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

GRAPH 2
Quebec: The relative size of one- or two-person households continues to grow gradually



Sources: Statistics Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

Other phenomena must also be considered when it comes to consumers. One example is price sensitivity, which appears to have been exacerbated by the 2008–2009 recession, and the fact that customers can compare prices on the web instantaneously. Environmental requirements mean that adjustments have to be made in the choice of products, their packaging, the type of management (green choices in the use of resources) or even the service offering. The time crunch customers experience is another factor to consider, as it poses an additional challenge. Speed is of the essence; same-day delivery wins followers. Even the producer–buyer chain is shortened. It is more and more common for customers to buy what they need directly from the manufacturer’s website.

Technology is becoming increasingly pervasive; it weaves its way into everything. It is behind the transactions we perform, making it possible to pay a bill on a smartphone or watch. It also offers virtual reality experiences where you can see a piece of furniture in your own home or how a garment will look on you, for instance.

This begs the question: what does the future hold for shopping centres? What will happen with all the store closures of the past few years (a list topped most recently by Sears, for example)?

How will this oversupply of retail space be handled? Will rents have to be lowered? According to experts, inventiveness and massive investments are part of the solution. Many believe that shopping centres must become a destination in themselves and that spaces occupied by once-thriving businesses will have to be repurposed. Housing, recreational facilities, office space or higher-end restaurants are just a handful of options.

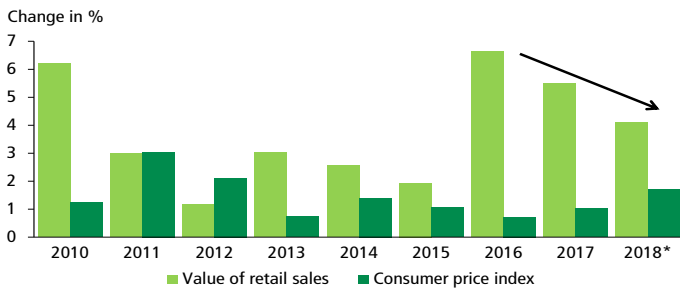
Where Are Retail Sales Heading?

According to Statistics Canada, retail sales reached approximately \$126B in Quebec in 2017 (graph 3). They have been on the rise since 2010 overall, but some sectors have experienced ups and downs over the past ten years. Examples include furniture and home furnishings (declines in 2011 and 2012), electronics (declines in 2011 to 2015, inclusive), building materials (declines in 2010 to 2013, inclusive) and service stations (declines in 2014 to 2016, inclusive).

The survey revealed that 27% of every dollar spent by adults in 2017 went to Quebec-based sites. U.S. sites, however, pulled in 48%.

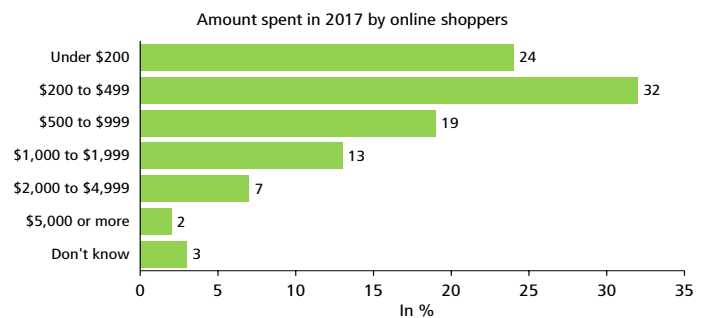
Cefrio estimates that \$9.1B worth of purchases were made in 2017, a 13.0% increase from 2015. More than 50% of the amounts spent were under \$500 last year (24% were under \$200 and 32% were between \$200 and \$499) (graph 4). In 2017, online shoppers accounted for 39% on a month-to-month basis. This is 7 percentage points more than in 2015. However, not all regions are represented equally in the monthly proportion of online shoppers. Graph 5 shows that Capitale-Nationale heads the pack with 44%, followed closely by Montréal (42%) and Montérégie (41%). Three regions are at the bottom of the list, namely Côte-Nord, Bas-Saint-Laurent and Mauricie (with 27%, 31% and 31%, respectively).

GRAPH 3
Quebec: Retail sales growth slows as inflation rises



* Average for the first six months of 2018 compared to the same period in 2017.
Sources: Statistics Canada and Desjardins, Economic Studies

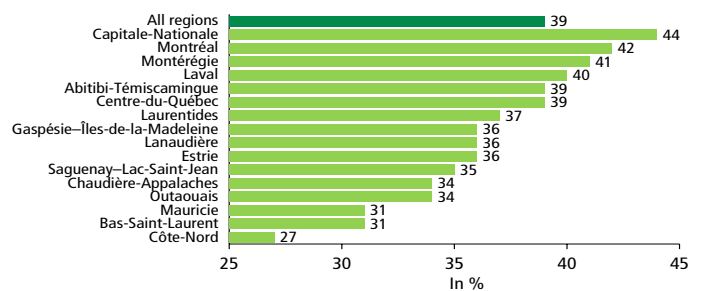
GRAPH 4
Quebec: More than 50% of amounts spent online were below \$500 in 2017



Sources: Cefrio and Desjardins, Economic Studies

As for e-commerce sales, Statistics Canada reports data for Canada. E-commerce accounted for roughly 4.5% to 5% of retail sales. According to the estimates of some researchers in the field, if concert and movie tickets as well as travel are included, this percentage could be closer to 8%.

GRAPH 5
Quebec: The month-to-month proportion of online shoppers was 39% in 2017



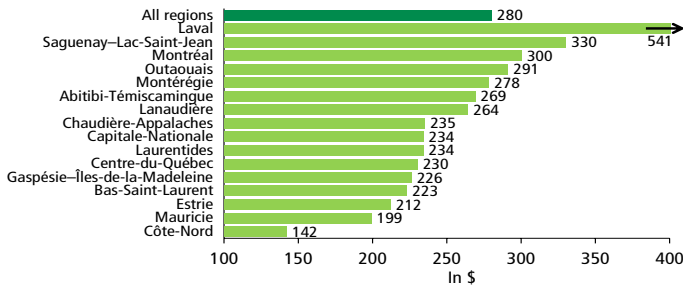
Sources: Cefrio and Desjardins, Economic Studies

Meanwhile, Cefrio¹ has a very close read on the e-commerce phenomenon in Quebec. According to the most recent survey published in NETendances2017, 58% of Quebec’s adults made at least one online purchase last year. Those who do not buy are believed to go online to obtain information, which backs Deloitte’s previously issued findings. Quebecers’ favourite goods and services are tied mainly to fashion and electronics. According to buyers, their decision to make purchases on the web is driven by lower prices online, the fact that they do not have to leave the comfort of their home and the convenience of shopping at any time of day on any day of the week.

According to the Cefrio survey, the average value of the monthly shopping cart was \$280 (graph 6 on page 4). At the top is Laval (\$541 per month) with a clear lead over Saguenay (\$330), Montreal (\$300), Outaouais (\$291) and Montérégie (\$278). Côte-Nord had the lowest shopping cart value (\$142).

¹ Centre facilitant la recherche et l’innovation dans les organisations.

GRAPH 6
Quebec: The average value of the monthly shopping cart was \$280 in 2017

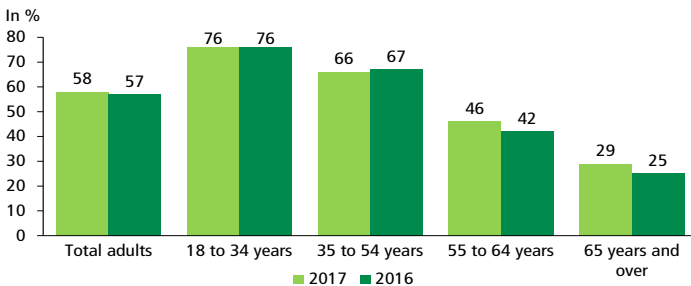


Sources: Cefrio and Desjardins, Economic Studies

As suspected, young people appear to be more inclined to buy online, an observation confirmed by the Cefrio survey. The proportion of online shoppers is higher among those aged 18 to 34 and was 76% in 2016 and 2017 (graph 7). The second group consists of those aged 35 to 54, with 66% last year, followed by those aged 55 to 64 (46% in 2017) and those 65 and over (29% in 2017).

GRAPH 7
Quebec: The proportion of online shoppers is higher among those aged 18 to 34

Base: Quebec adults (number = 1,002 in 2017 and 1,000 in 2016)



Sources: Cefrio and Desjardins, Economic Studies

And Now . . .

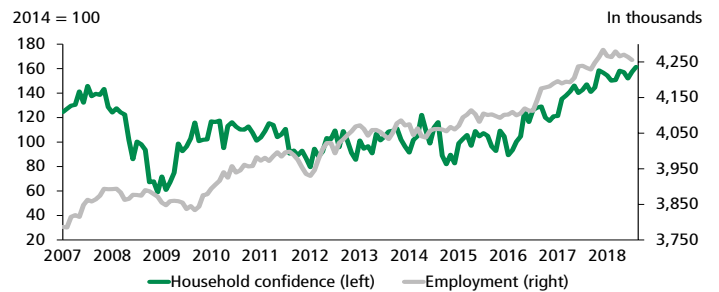
How are the next few years looking? Few are willing to hazard a prediction. However, it may be worthwhile to have a look at the conditions that could boost sales, make sales more uncertain or hurt sales.

The “green light” conditions are the following. The overall trend of the Quebec economy over the past few years has fostered impressive job growth (approximately 43,500 jobs annually in the past five years), despite obvious recruitment issues. The participation rate is particularly high (64.9% among those aged 15 and over in 2017). These factors sustain consumption. However, the current growth cycle is exceptionally long and will not continue on this path indefinitely. What we need to keep in

mind is that what can drive brick-and-mortar commerce may also boost e-commerce.

The especially tight job market situation is conducive to the wage acceleration observed notably since 2017, which also benefits consumption. However, new job creation is expected to be less robust in the coming years given the ageing workforce and the need to fill positions left vacant by retiring employees. Another factor sustaining consumption is high household confidence (graph 8). Lastly, low interest rates relative to historical data and the buy-local trend both support the retail trade.

GRAPH 8
Quebec: A better employment situation and higher consumer confidence are encouraging for retail



Sources: Statistics Canada, Conference Board of Canada and Desjardins, Economic Studies

Conditions in the uncertain category, or “yellow lights” to continue with the traffic light analogy, include ageing of the population. This requires retailers to adapt to not only customers, but also the recruitment of workers. Quebecers also have very high debt loads, and although the situation was more precarious before, it is still delicate. Increased competition from (physical and online) foreign giants may result in local retailers and their customers building closer ties. However, it can also be a clincher in the decision to shutter a store permanently. The time pressure felt by consumers can play against local businesses or can increase foot traffic because of their proximity, as long as they meet consumers’ needs.

Lastly, “red lights” can jeopardize the profitability and vitality of retail trade here. Ignoring the web, the digitization of operations and all the opportunities they offer is not to anyone’s benefit. The battle is not fought just on store shelves. Knowledge about customers and their needs has become crucial. The difference in tax treatment, particularly on the web, is another thorn in retailers’ sides. Until recently, Canada collected taxes and customs duties on cross-border purchases worth \$20 or more, whereas the threshold for the United States was US\$800. The new trade agreement replacing NAFTA will increase Canada’s threshold, which will be a disadvantage for Canadian retailers.

On the Offensive

Retail experts and merchant associations keep saying that stores must be visible, both physically and virtually, to stay top of mind for consumers. Many also recommend offering niche products and meticulous service to stand out. Stores that operate on shopping streets and in shopping centres have a purpose because customers are humans who need interaction and who seek out experiences they find satisfying. Businesses can be this “social glue” and can serve as places of discovery to which people want to return. Having an online presence and using tools to get to know customers better in order to offer what they are expecting are now essential. Customizing offerings also means providing different products (local products, different presentation, offers packaged with other products, synergies with neighbouring businesses, etc.) and attentive service.

Teamwork can also make a difference, even in this every-man-for-himself environment (if we exclude franchises). Partnerships can be struck between merchants from the same sector to maximize the effects of proximity (joint offers, group purchases for services or commodities, special activities, shared delivery, etc.). They can also be struck with customers (loyalty programs, incentives for shopping in person, tastings and try-outs, notifications of new arrivals, a hold service for a few hours or days, capitalizing on consumers’ time crunch and offering them solutions accordingly, etc.) in order to create a bond, a relationship that goes beyond buying and selling strictly speaking. Special agreements can be reached with local suppliers to ensure a certain degree of exclusivity. Lastly, such partnerships will only be possible if employees are also involved and have the tools to implement the strategies developed. Information, recognition of the effort invested and training are necessary to keep retail trade healthy and prosperous.

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