

Retail trade: Time to take stock

The retail sector is at the front line for bearing the impact of changes in consumers' moods, and for changing track accordingly. It has no choice but to adjust its strategy for dealing with competition, which has increased tenfold in recent years. Apart from the challenges posed by new methods of communication which are constantly changing, retailers must ask themselves not only how best to attract and retain their customers, but also what steps to take to recruit and hold onto their employees. All this at a time when the population is aging and increasingly flirting with the virtual world, and when brand and store loyalty is looking like an anachronism. It's time for the retail sector to take stock of things. Retailers must keep up with technology.

TAKING STOCK OF ECONOMIC DATA

The number of retail stores has shrunk over time (table 1), while new banners are multiplying in Quebec. Between 2008 and 2013, according to the data of the Annual Retail Trade Survey conducted by Statistics Canada, the total number of stores fell by 5.6%¹.

In fact, of the large business categories listed, only the "health and personal care products" stores showed growth during this period (0.8%). The heaviest losses in terms of percentage were recorded by stores selling sporting goods, hobby supplies, music and books. It is true that competition for these types of products is fierce, both in cyberspace

Table 1 – Quebec: number of stores

<i>Number of businesses in Quebec</i>	<i>2008</i>	<i>2012</i>	<i>% change from 2008 to 2012</i>
Motor vehicles and parts dealers	4,842	4,649	-4.0
Furniture and home furnishings stores	2,305	2,203	-4.4
Electronics and appliance stores	2,707	2,668	-1.4
Building material and garden equipment and supplies dealers	2,582	2,471	-4.3
Food stores	9,036	8,693	-3.8
Health and personal care stores	3,549	3,578	0.8
Gas stations	4,557	3,963	-13.0
Clothing and clothing accessories stores	8,211	7,988	-2.7
Sporting goods, hobby, book and music stores	2,761	2,228	-19.3
General merchandise stores	1,438	1,410	-1.9
Miscellaneous retailers	5,450	4,924	-9.7
Retail trade	47,438	44,775	-5.6

Sources: Statistics Canada and Desjardins, Economic Studies

¹ These data include food stores, automobile dealerships and gas stations which are not always taken into account by organizations that take an interest, to whatever degree, in retail trade.

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and in brick-and-mortar establishments, and that the virtualization of music and books is a reality. The second group that lost the most players is gas stations (-13%).

Nearly all sectors have lost players in recent years. There are many reasons for this: the recession, increased competition (online sales, the arrival of new competitors with innovative concepts and lower prices, etc.), drastic cost-cutting, and the restructuring of certain sectors (e.g. the arrival of big-box stores in the building materials, garden equipment and supplies, furniture and food sectors, in particular).

The data from this survey also show an increase in the value of sales per square foot, from \$339 in 2008 to \$421 in 2012, a gain of 24.2% (table 2). Is this a price effect? By way of comparison, the consumer price index (CPI) climbed 8% in Quebec during that period. The store-bought food index jumped by 14.4%, and that of gasoline by 14.0%, while the clothing and footwear index dipped by 1.0%. These statistics suggest that retailers have reorganized their stores to make the most of every square foot they have.

Meanwhile, a brief analysis of the retail sector's real gross domestic product (GDP) shows that the sector was not idle between 2007 and 2013. During that period, it grew 9.4%, while Quebec's GDP expanded by 7.5%. If we express this growth in annual terms, we note that the average annual growth rates (AAGRs) were 1.5% and 1.2%, respectively. In short, despite the recession, the sector managed to show

more vitality than did the economy as a whole. Did the arrival of new, foreign banners, with the colossal investment they made to set up shop here, and the strength of their networks, stimulate spending to the point of inflating GDP during those years? Or was it the counterattack by local retailers, and the investments they made, that helped to increase GDP? The answer is probably a combination of both, but it is impossible to say exactly how much of the growth is attributable to each of these factors.

There's no mistake about it, there has been plenty of action in the retail sector. GDP growth has been greater than that of the economy as a whole, yet the total number of stores has decreased. Practically all the major categories of businesses have lost players. Meanwhile, the volume of sales per square foot has increased even as retailers were fighting greater competition (foreign banners and online sales).

TAKING STOCK OF THE LABOUR FORCE

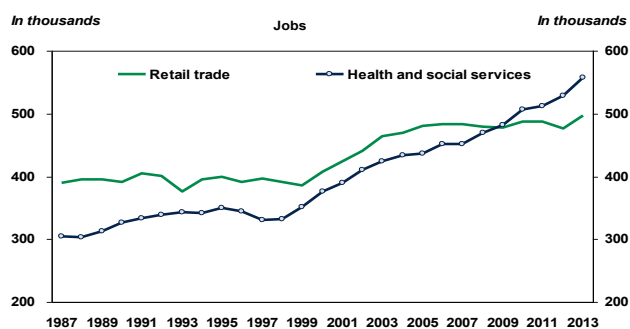
According to the Labour Force Survey (LFS), the number of jobs in the retail sector was relatively stable in Quebec from 1987 to 1999. It started to expand significantly from 2000 to 2006. After that, it stagnated again, before inching up in 2013 to 497,500, i.e. nearly half a million jobs, or 12.3% of all Quebec jobs (graph 1 on page 3). It is fair to assume that the recession, the automation of certain transactions, online shopping, consumers' disinclination to spend given their debt levels, and efforts to improve productivity have all helped to limit hiring.

Table 2 – Quebec: sales per square foot (in \$)

<i>North American Industry Classification System</i>	<i>2008</i>	<i>2012</i>	<i>% change from 2008 to 2012</i>
Furniture and home furnishings stores	236	235	-0.4
Electronics and appliance stores	574	517	-9.9
Building material and garden equipment and supplies dealers	133	254	91.0
Food stores	561	662	18.0
Health and personal care stores	781	895	14.6
Clothing and clothing accessories stores	339	320	-5.6
Sporting goods, hobby, book and music stores	309	322	4.2
General merchandise stores	300	652	17.3
Miscellaneous retailers	207	292	41.1
Retail trade	339	421	24.2

Sources: Statistics Canada, *Annual Retail Trade Survey* and Desjardins, *Economic Studies*

Graph 1 – Quebec: The retail sector has been overtaken by the health and social services sector



Sources: Statistics Canada, Labour Force Survey and Desjardins, Economic Studies

Up until 2009, retail trade was the sector with the largest number of jobs in Quebec. Since then, it has been overtaken by the health and social services sector, which is booming.

Based on the data available, we note that from 1987 to 2013, job growth, while it amounted to 27.8%, was lower than that of total employment and that of the service sector as a whole (table 3). On the other hand, during the period from 2000 to 2013, hiring in the retail sector outstripped that of total employment.

A sign of the times? Part-time work has been expanding over time. In 1987, it accounted for 24.3% of retail employment, whereas it stood at 33.6% in 2013.

In short, GDP growth in the retail trade sector does not necessarily translate into hiring on the same scale. Between 2007 and 2013, the sector’s GDP saw an AAGR of 1.5%, but the job creation AAGR was a mere 0.5%.

Table 3 – Labour Force Survey

Growth	% change		% change	
	from 1987 to 2013	from 2000 to 2013	from 2000 to 2013	from 2009 to 2013
Services	48.0	26.6	6.3	
Retail trade	27.8	22.3	4.2	
Total employment in Quebec	33.4	18.5	4.8	

Sources: Statistics Canada, LFS and Desjardins, Economic Studies

TAKING STOCK OF DEMOGRAPHICS

Demographics are among the changes that retailers are facing, especially those whose operations are limited to Quebec. This coin has two sides, with buyers on one and labour on the other. The aging of the population will affect consumption, both in the choice of products and the methods of purchase. Incidentally, the growing presence of immigrants has already had repercussions on the range of products offered and the sources thereof. Lastly, given that population growth in Quebec will be relatively modest in the years ahead, it is to be expected that retailers will rival each other even more bitterly to win the favour, and the wallets, of consumers.

On the other side of the coin, recruiting and retaining manpower will become even more difficult. For one thing, we will see a decline in the population of working age (from age 20 to 64) starting in 2017, according to the latest scenarios published by the Institut de la statistique du Québec (ISQ) in September 2014². Secondly, the relatively low unemployment rate based on the data of the past 30 years testifies to a tighter labour market, already making it more difficult to recruit qualified employees. Thirdly, the high turnover in the retail sector (around 33% from the beginning of the 2010 decade and onwards³) makes recruitment a frequent exercise, and demands a strategy for retaining workers.

Fourthly, recruitment costs are considerable, and monopolize financial resources that could have been invested elsewhere in the business. Lastly, with the growing use of technology in retail trade, employee training takes more and more time and resources, draining budgets.

TAKING STOCK OF THE COMPETITION

When it comes to taking stock of the competition, we are dealing with a confrontation that is both brutal and widespread. Brutal, because the arrival of U.S. (e.g. Wal-Mart, Target, Best Buy, Home Depot, etc.) and European (e.g. Zara, H & M, Mango, etc.) banners in particular, comes at the cost of gigantic investments, including setting up outlets in quick succession, and colossal advertising expenses. Widespread, because competition is also waged via the Internet and infiltrates consumers’ cozy comfort

² Institut de la statistique du Québec, *Perspectives démographiques du Québec et des régions* 2011–2016, Édition 2014, 124 pages. <http://www.stat.gouv.qc.ca/statistiques/population-demographie/perspectives/perspectives-2011-2016.pdf>

³ Institut de la statistique du Québec, *Enquête sur le recrutement et l’emploi au Québec* (EREQ), volume 12, 38 pages. http://emploi.quebec.gouv.qc.ca/publications/pdf/00_imt_EREQ-2011_rapport-analytique.pdf

zone, on the platform of their choice (computer, mobile phone, tablet computer, etc.) and at a time convenient to them. The product offering is multiplied tenfold, transaction and delivery methods are improving every day. What could be better? The question is: Will there be enough room for everyone? Hostilities are engaged between the brick-and-mortar businesses and those that operate in cyberspace.

Is there still any doubt that the Canadian market, although small compared with the rest of the world, is highly coveted by merchants from around the globe? The success that major foreign banners have had in Canada in recent years speaks for itself (see Perspective, October 2013, tables 4 and 5 on page 4 and 5).

In e-commerce, the fight encompasses several battlegrounds: product selection, prices, payment facilities, cost and delivery times, to mention just a few. These are the aspects that are visible to consumers. There are other aspects that are invisible to consumers, but indispensable to retailers, enabling them to increase their effectiveness and visibility. Information technology is useful, not only as a shop window. It is a powerful tool that retailers can no longer do without.

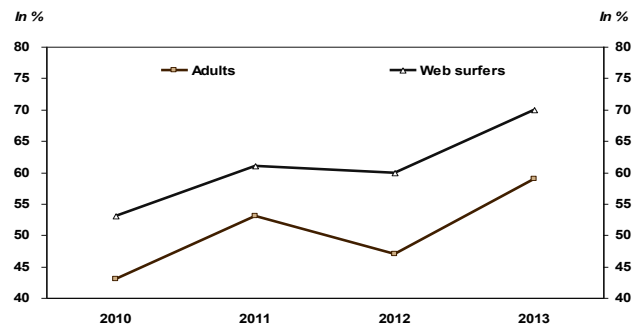
Ways to save time and reduce costs include supply management, purchases from suppliers of products and services, the automation of inventory and customer information operations, and promotions. The possibilities are legion; the service providers who can set up these systems are experienced and can present a variety of options to appropriately address the needs of every retailer.

It is necessary to eke out the slightest advantage, because competition is increasing and no one will be spared. Some might think that this analysis is too severe, or alarmist. They might not yet have been affected by the advance of foreign banners and e-commerce; but, if we can believe what is happening in other parts of the continent, their time will come.

TAKING STOCK OF E-COMMERCE

Is there still any doubt about the enthusiasm for online shopping? According to surveys conducted by the Centre facilitant la recherche et l'innovation dans les organisations à l'aide des technologies de l'information et des communications (CEFRIO), shopping via the Internet is increasingly popular among Quebecers (graph 2). The proportion of adults who made a purchase via the Internet in the 12 months preceding the survey rose from 43% to 59% between 2010 and 2013. For information purposes, the average amount spent by online shoppers during the month preceding the survey rose from \$270 in 2009 to \$335 in 2013

Graph 2 – Proportion of Quebecers who made a purchase via the Internet in the 12 months preceding the survey

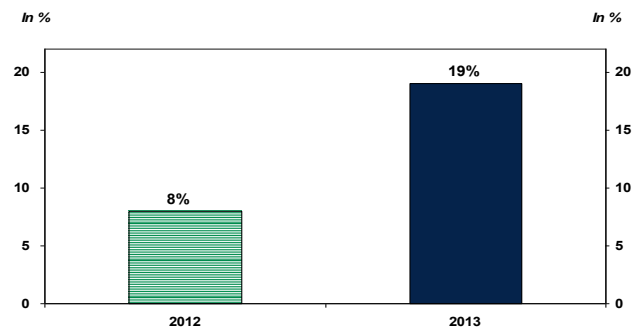


Sources: CEFRIO and Desjardins, Economic Studies

(that amount has been stable since 2011). People between the ages of 18 and 44 are the most inclined to shop online (between 72% and 74% of adults in that age category).

Moreover, creating a virtual shop window by posting a web page and offering transaction capability is no longer enough. We also perceive a growing enthusiasm for mobile applications. The proportion of Quebecers having made a purchase using a mobile device doubled between 2012 and 2013 (graph 3), again according to CEFRIO. It jumped from 8% to 19%, and is expected to grow further.

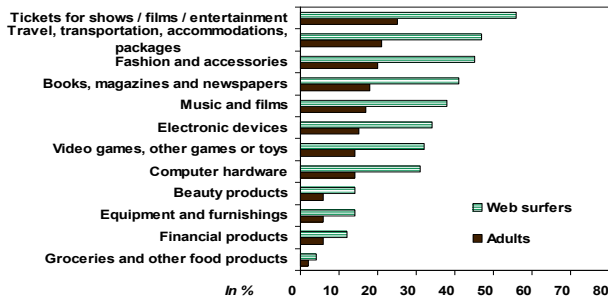
Graph 3 – Proportion of Quebecers who made a purchase using a mobile device, 2012–2013



Sources: CEFRIO and Desjardins, Economic Studies

We note that show tickets and travel arrangements (including transportation and accommodations) top the list of products and services bought by online shoppers. However, goods that can be purchased in retail stores are not far behind (graph 4). Fashion items and accessories were purchased online by 45% of Quebec online shoppers (20% of adults). These were followed by books, magazines and newspapers (41% of online shoppers), music and films (38%), electronic equipment (34%), video games, conventional games or toys (32%) and computer hardware (31%) to name just a few.

Graph 4 – Products and services purchased by adult Quebecers in 2013



Sources: CEFRIO and Desjardins, Economic Studies

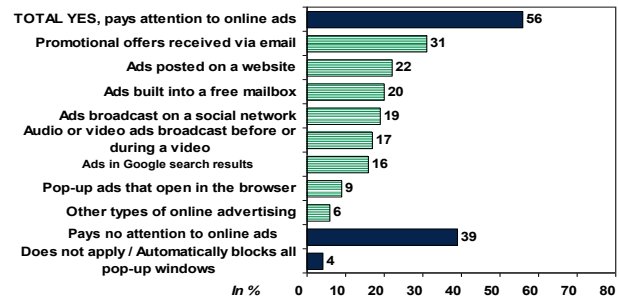
Furthermore, visibility on the Web also means self-promotion. The research done by CEFRIO shows that web surfers are not insensitive to it. For example, 56% of surfers pay attention to online advertising (graph 5). The ads that most capture their attention are promotional offers received via email (31% of web surfers pay attention to online ads), followed by ads posted on a website (22%). These are followed by ads built into a free electronic mailbox (20%) and those posted on a social network (19%). In short, one must take every opportunity to remind consumers of one's existence.

LOOKING AHEAD

If we can believe those who peer into the future and attempt to predict coming trends in the retail sector, the e-commerce wave is far from over. According to the RetailNet Group (RNG), e-commerce will capture 10% of all retail trade in Canada by 2020. Meanwhile, the size of brick-and-mortar stores will shrink by from 5% to 15% after expanding with the arrival of retail giants such as Wal-Mart, Home Depot, etc. in the 2000s. Even online purchases of items such as food will expand, given the technologies that are developing and the facilities that are being deployed.

Personal data collected during previous purchases (type of product, preferences, frequency of purchases, socio-economic characteristics, etc.) will be increasingly used to send out targeted messages (e.g. discounts on products purchased in the past) and to build loyalty programs. This is not science fiction; it is a reality for a number of players who are already active in e-commerce.

Graph 5 – Web surfers pay attention to online advertising (multiple answers possible)



Sources: CEFRIO and Desjardins, Economic Studies

WE MUST NOT LET OUR GUARD DOWN

Does having a presence in cyberspace mean that one can ease off “in the field”? No, because the majority of transactions still take place in the real world. A number of specialists have examined the issue and propose some solutions⁴. One solution is for retailers to identify their particular strengths, where they can make a difference. Adopting technologies that can help them better manage their supply chain (e.g. rationalizing, limiting the number of middlemen, etc.) and forging alliances with other retailers whose operations are complementary, allowing them to occupy space in their store, are also among the solutions. Implementing a plan to train employees, hone their skills and retain them is recommended. Better knowledge of the customers they serve is an asset, enabling them to show customers how they can benefit from maintaining their relationship with the retailers with which they currently do business, in these days when loyalty is a concept that is gathering dust. Adopting local or national brands that are likely to appeal to new and existing customers is also advocated. Lastly, we cannot overstate the importance of having a presence on the Internet, to acquire visibility, adopt transaction methods, engage in social networking and keep in touch with consumers who, after all, are the raison d'être of retail trade.

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⁴ Desjardins, Economic Studies, *Globalization in action: the retail trade in Quebec*, volume 23, October 2013, 6 pages. https://www.desjardins.com/en/propres/etudes_economiques/previsions/en_perspective/per1013a.pdf