

ENTERING THE CANADIAN RETAIL LANDSCAPE FOR DUMMIES - A WESTERN CANADIAN PERSPECTIVE

A couple of years ago I wrote an article about the changing retail landscape in Canada and how a couple of retail icons went out of business - Eaton's and Zellers. Now Target has left the Canadian market place with a \$6 billion loss and every day I read about another American or global company entering the Canadian market place. It always bears the question:

Do they understand this great country of ours?

- Complexity of the small population base?
- Vast geographic regional differences that effects Supply and Distribution?
- Seasonal weather pattern?
- Major cites' demographic differences?



When I worked for Zellers my title was Regional Merchandise Manager for Western Canada. My job was to ensure the stores had the right product at the right time and correct depth or breadth of assortment based on the above challenges or opportunities, and based on the demographic and regional differences. The job was extremely interesting and rewarding, but it was frustrating also in how much work it was to convince Buyers, Merchants and Supply Change Executives of these differences as they were Canadians living in the “center of the universe” called Toronto. So I cannot even imagine how American and Global Executives start the planning process when they make the decision on entering Canada retail market.

I would like to offer some of my learning and some advice from a Canadian retailer perspective that has worked in a wide variety of roles for over 25 years. These may seem simple enough, but trust me, my experience and observations tell me differently.

Complexity of the Small Population Base

The Canadian population is just under 36 million, which is less than the state of California, and Texas has 75% of our population. Traditionally, American retailers will enter into Canada in the Ontario market where the population base is 13.7 million, and primarily in the (GTA) Greater Toronto Area where the population is 6 million with about 10 million people live within hours. Or, said another way, 28% of the total Canadian population. So, the initial start of the company has a very big American city feel, but as they start to expand into the west and the east, the complexities start compounding exponentially. An example of this would be the population base of major cities in Manitoba and Saskatchewan. Forty percent of the Saskatchewan population lives in Saskatoon and Regina, while about 60% of Manitobans live in Winnipeg, which is similar to Vancouver where 50% of BC residents live. So, you better have a different communication and store density strategy throughout western Canada to be successful.

Vast Geographic Regional Differences that Effects Supply and Distribution

When the company starts its expansion, or is entering by acquisition, the same geographic knowledge is required to maximize the supply chain and distribution infrastructure. The first order of operation seems to be to open a world class distribution facility in the west and east, build a supply chain fulfillment process and then maximize productivity. Seems very logical. However, what happens is that this works for 80% of the products but does not work for the 20% that are sales and profit drivers.

The best example I have been exposed to is the garden center and automobile consumables. Window washing fluid was traditionally cross docked through the Vancouver distribution center, which was the traditional supply chain and shipping protocols. The demand in Alberta during the entire fall and winter season is very different, particularly in Calgary. When seasonal Chinook winds create huge demand, instantly the store sells out and needs replenishment quickly, but the vendor was required to ship multiple semi-trailers from Nisku (right outside of Edmonton) to Vancouver, about 1,184 kilometres, so it can be shipped back to Alberta. The extra lead time added to a missed sales opportunity and it was so easy to fix, just ship direct to stores so the Edmonton store would be in stock the same day and Calgary the next. The extra shipping costs would have been offset by the incremental profit. The same type of problem occurs in soils and garden center products. There needs to be a plan by commodity based on the regional differences, and there is a lot of situations across the second biggest country in the world.

Seasonal Weather Patterns

It is interesting to me that not many retailers over my career have figured out that the seasonal weather patterns affect the retail consumers, and how important this is to creating customer loyalty and brand equity, never mind sales potential and profit growth. Since they tend to build most central operations offices in eastern Canada, and in major American cities they tend to build merchandise, supply chain and distribution strategies around local weather patterns because it is easier, there is no wisdom or knowledge around this critical issue in Canadian retail. I never professed to be a meteorologist, but if you are in Canadian retail I would say it is something that can be planned and capitalized on with some effort.

I recently did some work for a Canadian men's specialty retailer and the first thing I tried to resolve was why they did not have any critical mass of spring outerwear in Victoria. The supply chain team basically gave me a lesson on how outerwear was imported into this country and how it was distributed by the vendor partnership. I felt like standing up and saying "wrong answer team". We need to focus on getting the product that the customer wants to buy because that is our job. The next week when I pointed out it was fundamentally wrong to have spring outerwear in the prairies before Vancouver Island, I got a commitment from senior management that this would change for next season, but those sales would not be realized for another year.

My favourite example of this is how many people in traditional Canadian home office environments have no understanding of the Okanagan Valley and the vast opportunities that is "low hanging fruit", but just do not react to it because of incremental work and how unique it is. When most retail summer strategies are in wind down mode you need to be going full throttle to maximize this opportunity.

Examples are based on some interesting facts:

- There are 65 provincial parks, over 1,100 vehicle/tent campsites.
- There are over 160 private campgrounds with over 9,500 sites.
- Over 300, motels/hotels and resorts, with over 11,500 rooms. Not to mention over 100 more Bed and Breakfast facilities.
- All at or near capacity from mid-May thru mid-September.
- There are over 60 wineries that cater to tourists and local consumers year round.
- There are over 100 golf courses in the region; some are destination resorts.
- The tourism market itself is changing from camping holidays at the lake to "high end" destination stays at resort condos and longer stays at summer residences.

You need to look at store operating standards and replenishment, merchandise and markdown cadence to maximize these product categories if you are going to play in this region of the country.

- Hot weather fashions, swimwear, sandals and aqua socks, all genders.
- Camping, picnic supplies, outdoor games.
- Beach inflatable's, toys, towels.

Major City Demographic Difference

The demographic differences across this vast country are many, but few retailers can impact them because it must pull all the levers to get the core business competencies correct and get caught up ensuring all strategies are scalable with little focus on a clear localization plan. Having one strategy across all business disciplines makes sense from an economy of scale perspective and is 80% accurate, but the 20% that needs to be localized is the difference from being a mediocre to great retailer in Canada.

Things that need to be considered:

- Major cities' population and ethnicity differences. Vancouver and Toronto have small cities within cities.
- The differences of the Asia and East Indian population in each city. For instance, Calgary has the third biggest Chinese population in the country, and culture is important to them too.
- British density in Vancouver.
- Eastern and Western culture and political differences. Albertans think differently than Maritimers.
- There needs to be different size packs by region to be effective. Just walk to any clearance rack and you will get a very good starting point.
- French influence in Maritimes, with New Brunswick being the only official bilingual province.

The list is endless but do not discount the importance to these local communities on their point of view when considering merchandise, pricing and supply chain initiatives.

Some other considerations that need to be realized or overlooked in entering Canada:

- An understanding of the Canadian dollar fluctuations, both positively and negatively.
- Canadian holiday differences. Boxing day does not exist in the US.
- Underestimating the distraction on the entire team by entering Canada.
- Access to a deep bench of executive talent in Canadian retail in all disciplines.
- Recruiting a highly professionalized organization, from top to bottom.
- Integrating company strategies into Canadian culture.
- Location selection while testing will strengthen decisions to expand.
- New shopping districts are not all what they are cracked up to be.
- Understanding markets that have a regional shopper versus transient.
- Pricing strategy needs to be correct from the start.
- Detailed tracking and ROI measurement for all marketing initiatives.
- Optimize marketing spend and effectiveness by testing multiple stores in the same market.
- National brand focus.
- Cross docking bonded warehouse area.
- Duty claw back for goods delivered from US supply base.
- Micro-marketing and regional placement of inventory.

Retail in the past was a fairly simple business; have the right product, at the right price, in the right depth and you would be successful. But, not paying attention to the uniqueness of Canada and Canadians while assuming the challenges in the US are the same is a hurdle to overcome. So I wish all retailers success entering this great country because it is good for the overall growth of Canada. However, if I could offer some final advice, **walk softly and leave the big stick at home** and respect our unique country, or bring the big stick and leave the same way Target did with a multi-billion dollar loss.

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September 6, 2016
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