



**Kubas Consultants**

# ***The Cross Border***

***Issues for Canadian Retailers Due to the Rise of the Dollar***

presented to

**Retail Council of Canada**

22 November 2007

# ***It's An Emotional Issue***

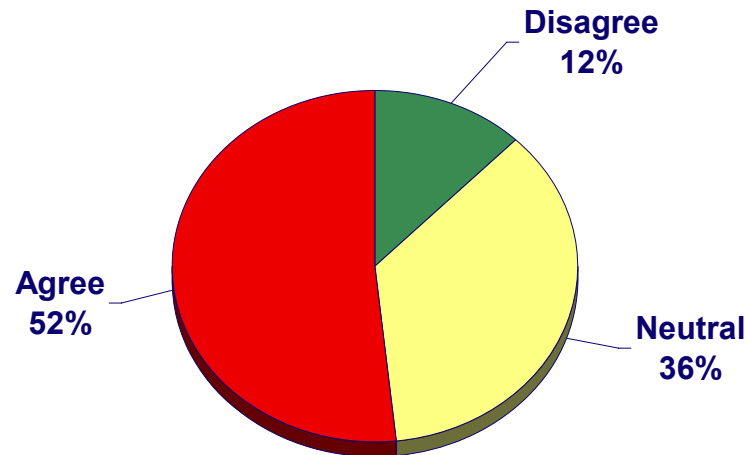
---

- **Reality: Canadian \$ has greatly appreciated**
  - About 50% in 5 years, from mid 2002 to mid 2007
  - But there was no outcry until ...
- **Late 2007 → Parity → All hell breaks loose**
- **It's an emotional issue – and tougher to deal with**

# Retailer Credibility

- **Trust in retailers is not high**
  - So many retailers' PR efforts may face an uphill battle

**"Many retailers are not as fair and honest as they should be"**

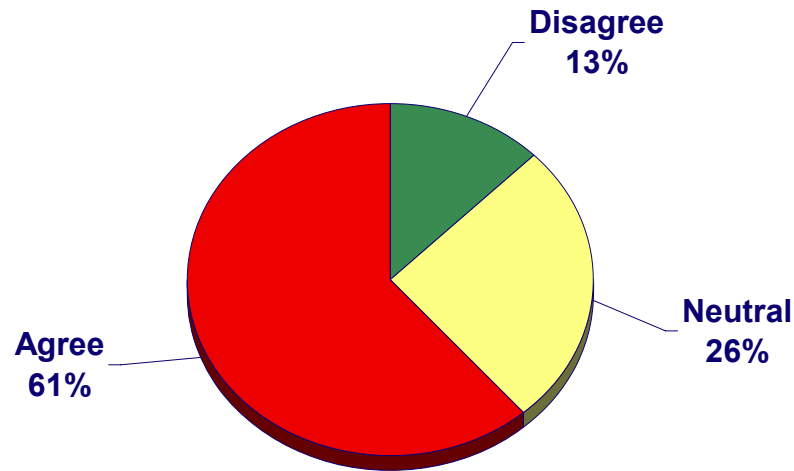


Source: Kubas Consultants. Major Market Retail Report 2007

# Frugal Canadians

- **Canadian shoppers are price conscious**
  - Price is important to the majority

"I usually shop around for the best or lowest prices"

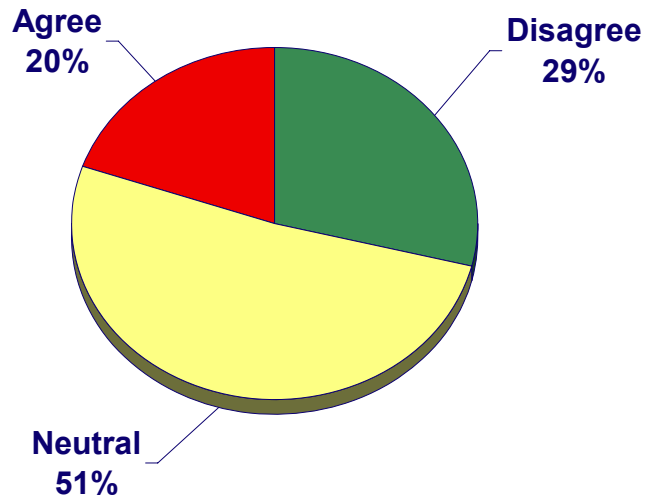


Source: Kubas Consultants. Major Market Retail Report 2007

# Canadian Versus US Retailers

- **Canadian retailers are preferred ... but not by much**
  - When they go shopping, many Canadians don't look at what's on the flag
  - They look at what's in their wallets

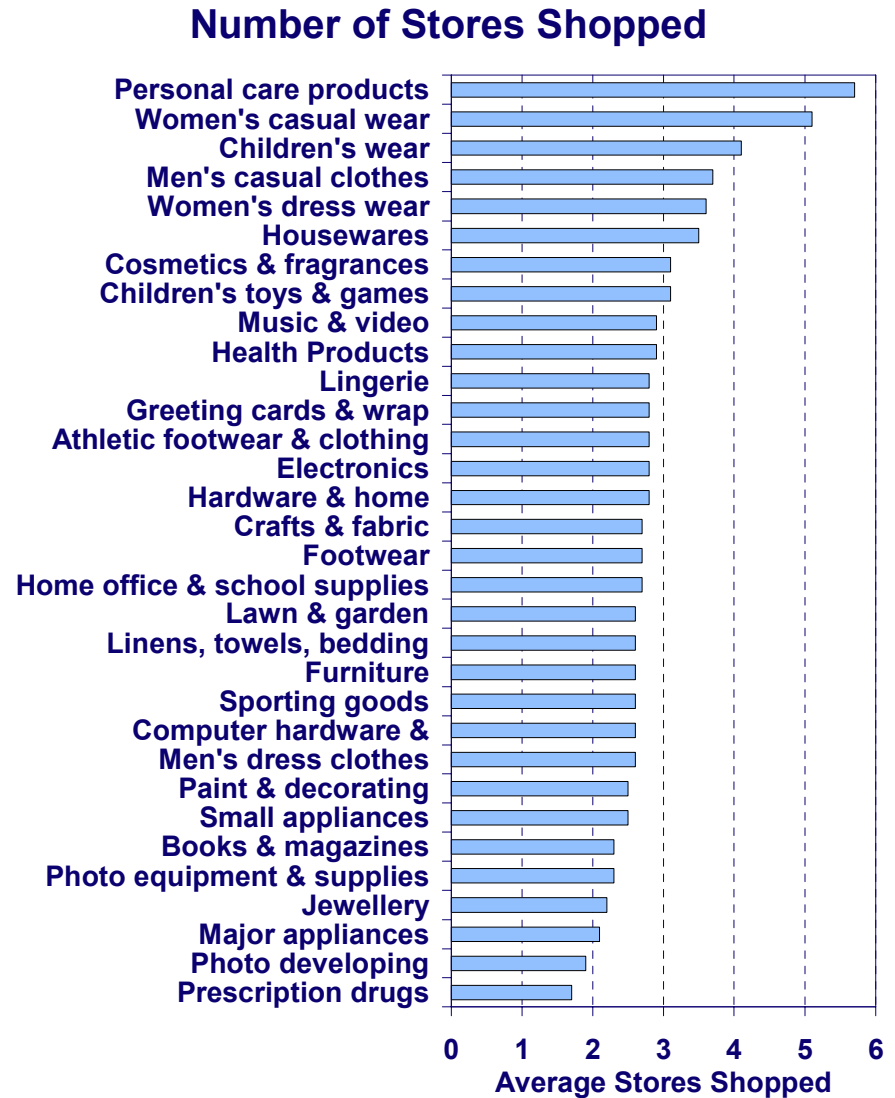
**"American retailers do a better job than Canadian retailers"**



Source: Kubas Consultants. Major Market Retail Report 2007

# Shopping Around

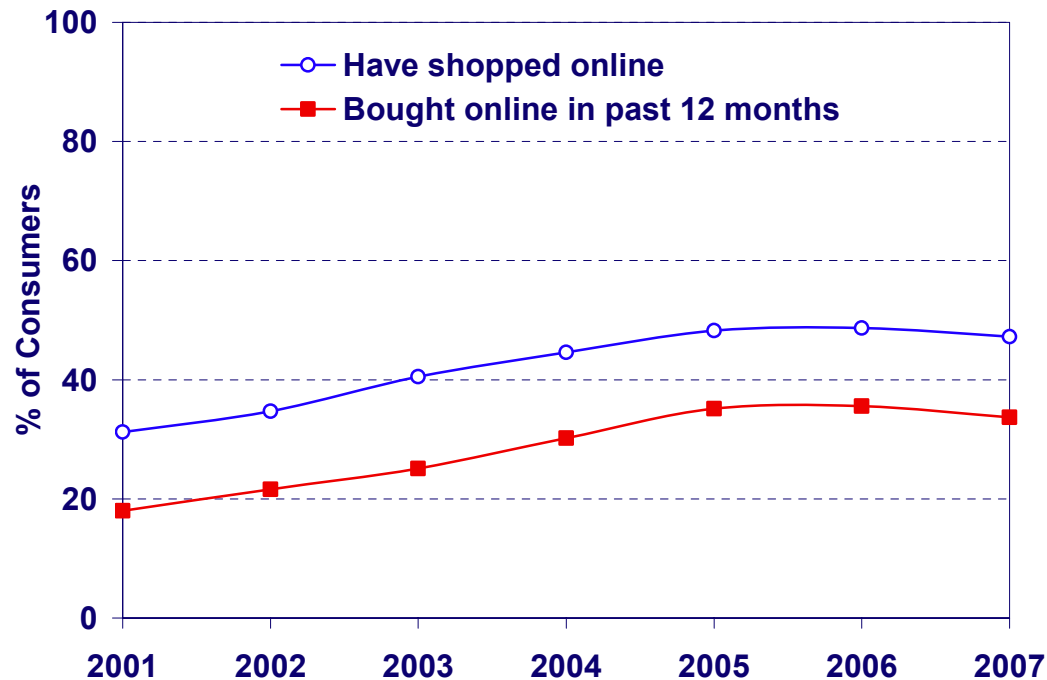
- Consumers do shop around
  - But it varies by product
- Vulnerability varies
  - How a retailer is affected by cross-border shopping depends a lot on what you sell



# The Internet

- You don't have to drive to Buffalo, or Bellingham, or Plattsburg, ...
  - Online shopping and buying activity is stabilizing
  - But now it's an all time high – the number of consumers buying online is up 60% in the last 5 years

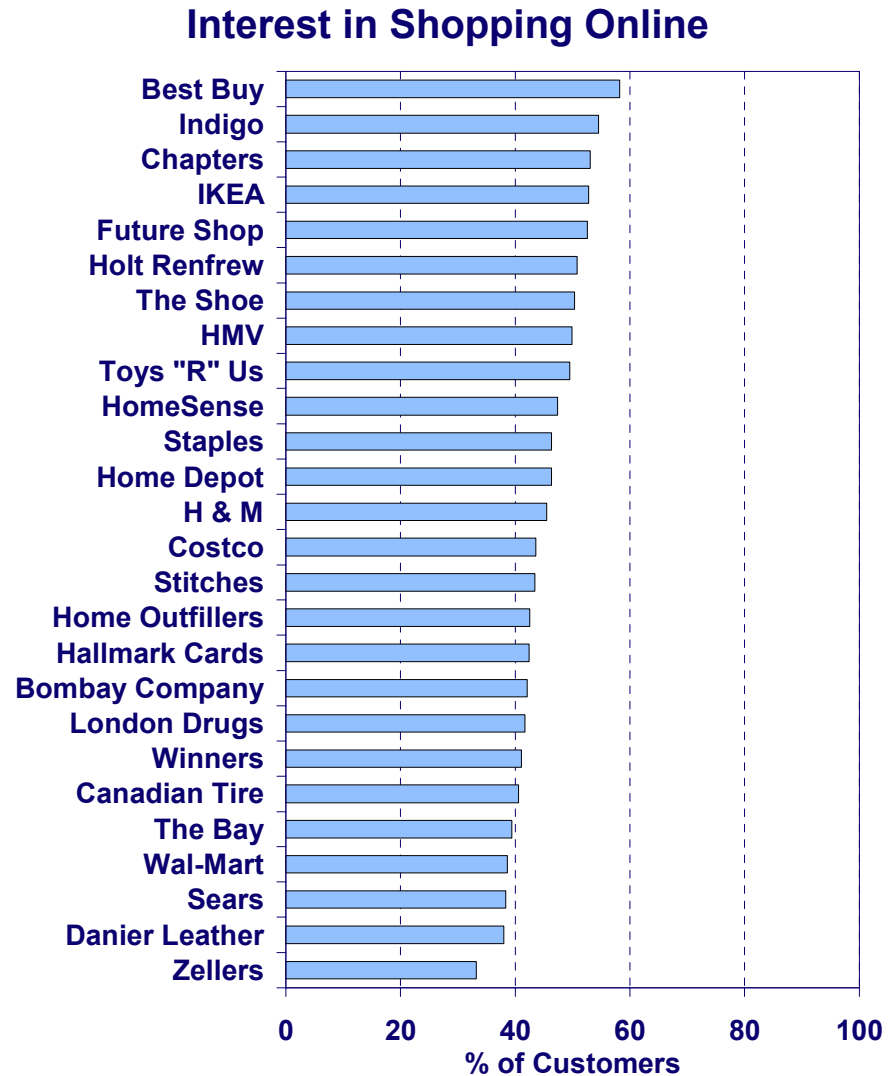
## Online Shopping and Buying



Source: Kubas Consultants. Major Market Retail Report 2007

# Differential Impact

- **The online factor varies by retailer**
  - It's difficult to know what your exposure is
- **Effect depends on:**
  - Who you are
  - What you sell
  - Who you sell it to



Source: Kubas Consultants. Major Market Retail Report 2007



# Borderfree

- **From Canada Post, to ease cross-border online shopping, er, shipping**

- Shopping is a major hurdle to cross-border online shopping
- Anything that eases shipping also eases shopping

- **Borderfree now includes 45 US retailers in 15 product categories**

- See [www.borderfree.ca](http://www.borderfree.ca) for more info

- Bare Necessities
- Bettys Attic
- BoatersWorld.com
- Brookstone
- Campmor
- CardScan
- Casual Living USA
- CloseOutPaper.com
- Cooking.com
- Crate and Barrel
- Doheny's Water Warehouse
- Domestications
- Duluth Pack
- eBags
- eCost.com
- FLOR
- FootSmart.com
- Full Of Life
- Geographics.com
- Guess?
- Halloween Only
- KegWorks.com
- Lane Bryant
- Lids
- Lids Create Your Own
- Lighter Side
- Linen Source
- Marciano
- Naturalizer
- New Routine
- Oriental Trading Company
- Puma.com
- RitzCamera.com
- RitzElectronics.com
- Sephora.com
- ShopIrish.com
- Smarhome
- Sonburn.com
- Stacks and Stacks
- The Company Store
- The Royal Store
- Things You Never Knew Existed
- Total Home Store
- Tretorn
- WolfCamera.com

Source: Canada Post, [www.borderfree.ca](http://www.borderfree.ca)

# Hungrier US Retailers

- **US retailers are now more likely to target Canadian consumers**
  - The retail market is relatively soft in the US
  - Meanwhile, US retailers are noticing more Canadian traffic both at their stores and online
- **“Canada is our fastest growing market” – L.L. Bean**

<b>Projected Annual Growth</b>		
<b><u>Location-Based Retail</u></b>	<b><u>Q4 2007</u></b>	<b><u>2008</u></b>
<b>Canada</b>	<b>5.6%</b>	<b>5.1%</b>
<b>US</b>	<b>3.4%</b>	<b>3.9%</b>

Source: Kubas Consultants. Retail Sales Outlook, Q4 2007

# Key Issues

---

- **Demands for lower prices will only partially blow over**
  - The “hysteria” may die down, but the reality will remain
- **Bad timing**
  - Just at the start of Christmas shopping
  - And when US retailers are scrounging harder for sales
- **Retailers should be careful with PR**
  - Higher tariffs, economies of scale, hauling distances, metric sizing, bilingual packaging, etc., are all good objective and rational explanations for Canadian retail prices
  - But objective and rational explanations may not be an effective response to an emotional issue
- **Some retailers will feel the heat more than others**
  - Canadian dollar appreciation and pricing fallout is very complicated
  - It’s difficult for any one retailer to know how much is at stake
- **Respond constructively**
  - But prices can take a long time to rework
  - One quick move retailers can make is to start lower GST on December 1
  - It’s important for retailers to show that “we’re trying”

Ed Strapagiel  
Executive Vice President  
Kubas Consultants  
[www.kubas.com](http://www.kubas.com)

