

The Canadian Retail Scene

Current State and Forecast

John Williams
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J.C. WILLIAMS GROUP

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Agenda

- Introduction
- Global and Local Trends in Retail
- Canadian Demographics
 - Shifting Consumer Buying Habits
 - Canada's New Shoppers
- Review of 2009
- Forecast for 2010 and 2011
- Stay or Return to Big Spending?
- Spotting Winners and Losers
- Parting Thoughts

Introduction

- Predictions were dire, but Canada made it out of 2009 relatively unscathed
- Country's economy is recovering
- Companies are hiring again, and consumers are poised to spend again
- But,
 - Did the recession permanently change consumer spending?
 - Which retail categories will succeed - which will not?
 - How can retailers remain ahead of their competition?
 - How can landlords benefit from the new landscape?

Global Retail Trends

- Economy is not the only factor affecting consumer spending
 - Technology
 - Demographic factors
 - Consumer behaviour
 - Competitive landscape

How will social media, e-commerce and m-commerce affect retailers?

What will the new Canada look like?

What will drive Canadians to spend?

The Really Big Picture!

Time	Retail	Format	Values	Customer
1900–1950	Department Stores	Main Street	Assortment	Traditional
1950–1990	Specialty Stores	Shopping Centre	Variety	Middle Mass
1990–2000	Big-Box	Power Centre	Value	Suburban
2000–2010	Rise of E-retail	Web	Convenience	Young
2010	Cross-Channel	Store Catalogue Web	Research Simple Low cost	Mass Early Adopters
	Digital	Computer	Instantly	
	Mobile	Cell Phone		

Social Media

- Retailers have ready-made focus groups to obtain customer feedback
- 81% of retailers plan to increase spending on social media over the next year
- Reasons companies are pursuing social media:
 - Drive traffic to the company’s web site, 74%
 - Raise brand recognition, 64%
 - Improve the brand’s reputation, 62%
 - Increase sales, 56%
 - Improve customer retention, 51%
 - Bolster customer satisfaction scores, such as NetPromoter, 52%

Source: E-consultancy

Social Media

- Investment is generally low
 - 32% of companies do not spend anything on their efforts (aside from their employees' time)
 - 48% spend very little
- Difficult to measure ROI
 - 61% of companies are poor at measuring ROI from social media
- Platforms:
 - Facebook: 85% of companies
 - Twitter: 77%
 - LinkedIn: 58%
 - YouTube: 49%

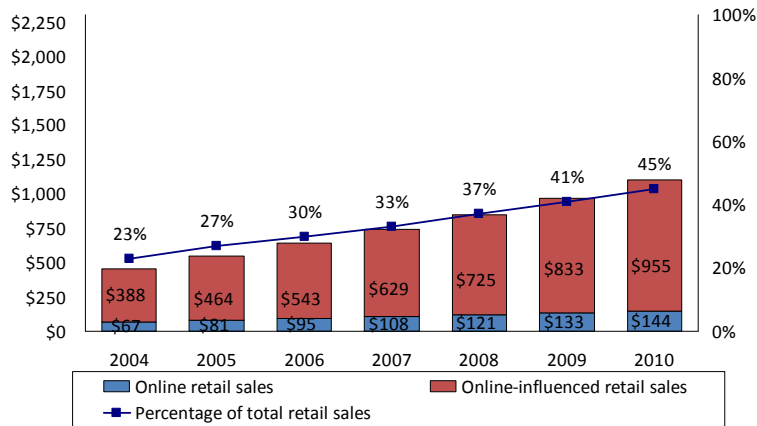
Source: E-consultancy

E-Commerce

- A significant factor in the U.S. market
- Online is the fastest-growing retail channel
- E-commerce retail sales compound annual growth will be:
 - 15% in North America over the period 2008–2013
 - Over \$281-billion in business by year 2013
- Forrester Research predicts that by 2012/2013, nearly one half of the USA and Western Europe's retail sales will be transacted online or influenced by the web

E-Commerce

- Internet to Influence Nearly One-half of Total U.S. Retail Sales in 2010



M-Commerce

- The mobile platform will become the point of convergence for all retail channels!
 - Similar capabilities to Internet allow mobile purchases, product research and social media functionalities through “apps” and mobile sites
 - Mobile nature allows for in-store capabilities (mobile payments, product research through UPC scanning, instant coupons, etc)
- M-commerce is “taking off” as technology and communication platforms have reached critical mass

Shifting Landscape in Retail Formats

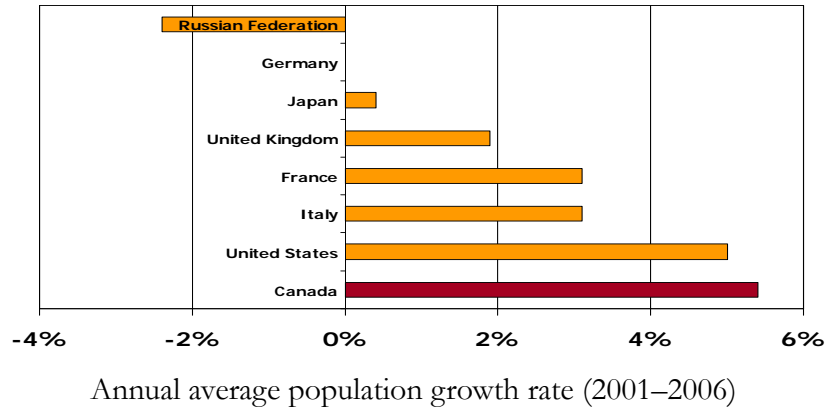
- Big-Box Stores are increasingly viewed as cumbersome and too big (40%–50% of income earners agree)
- Retailers have to cater to a growing market looking for specialization and personalized products
 - Consumers remain value conscious, but value is not necessarily attached to price
 - The discount formats will survive, but their growth might have peaked
 - Retailers might be forced to re-invent value
- Lifestyle centres and mixed-use retail are becoming more popular

Demographic Drivers

- Population Growth
- Immigration
- Age
- Regional Growth
- The Current and Future Consumer
 - Aging, spend less
 - Low/no growth in income
 - Ethnicity growth
 - Woman factor
 - Increased Internet usage
 - Negative attitudes toward consumption

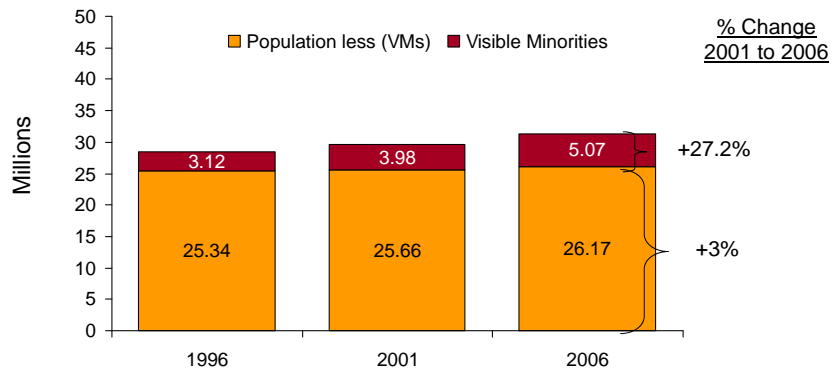
Understanding the New Canada

- Fastest growing population among G8 countries



Population Growth and Visible Minorities

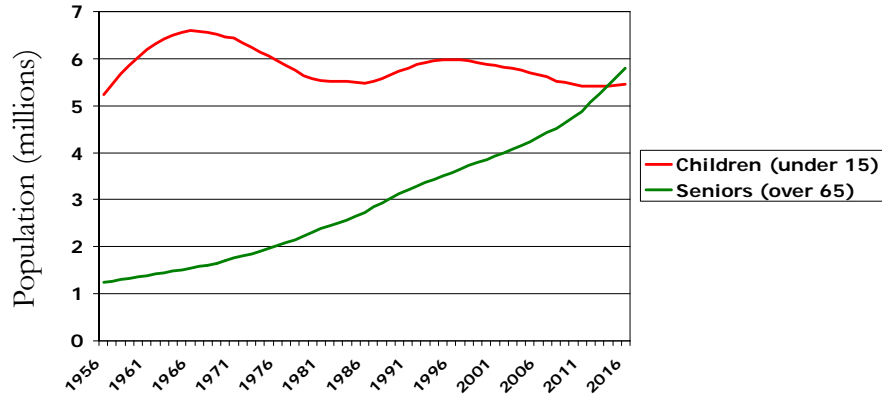
- Population growth primarily due to immigration by visible minorities



Source: Statistics Canada

Canadians are Getting Older

- By 2015, there will be more Canadian seniors than children

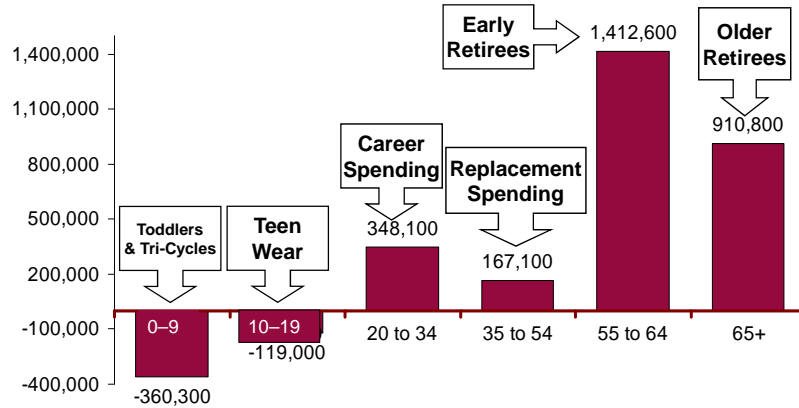


Source: Statistics Canada

Net Changes in the Canadian Population

2001–2011, Spending Implications

- Prime target market growing
- Likely served in a different way

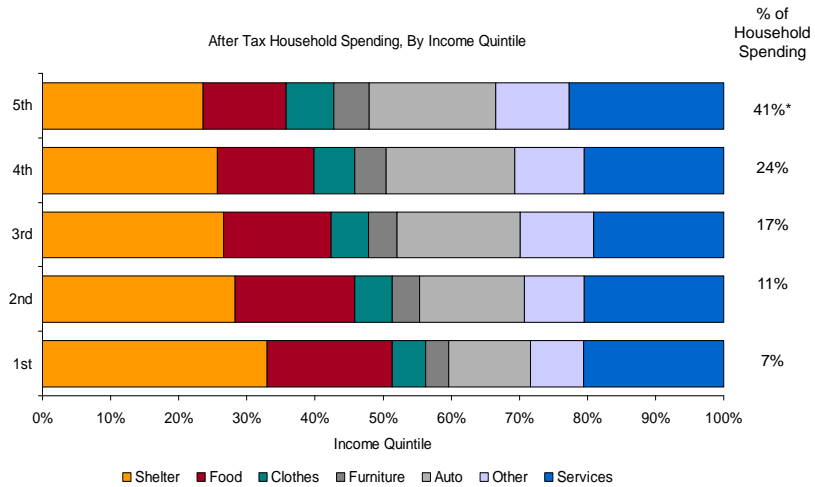


Source: Statistics Canada

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The Changing Consumer

- 5th Quintile accounts for 41% of all household income



Source: Statistics Canada 2006

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Understanding the New Canada

Summary

- Canada's population is growing relatively fast
- The Canadian population is becoming increasingly older and increasingly more diverse
- Boomers will drive the spending in the future
- Little to no growth in income from lower quintiles
- What does this mean for retail?

Shifting Consumer Buying Habits

- Demand drives retail and retail-investment
- Consumers drive the demand
- This past recession created a shift in consumer behaviour
- Much like the generation that survived the depression, today's generation of consumers is more frugal
- Fewer dollars going to retail, but...
- Good news for discounters and big-box stores!
- However, is this shift permanent?
- Which factors will determine its sustainability?

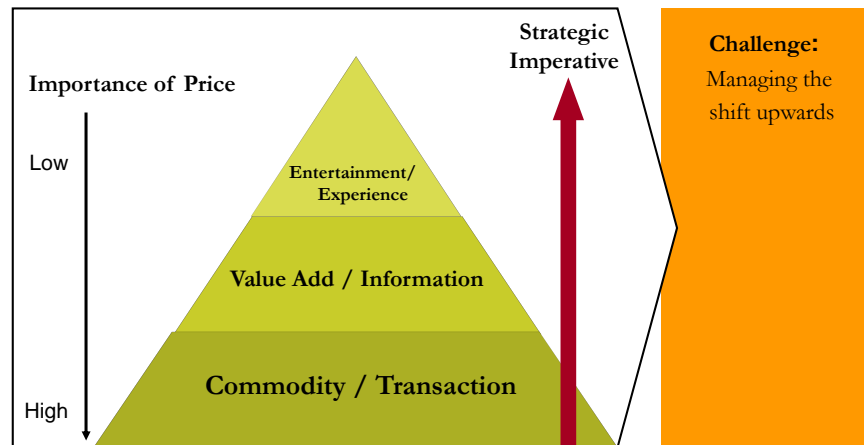
Shifting Consumer Buying Habits

- The recession was a boost to the philosophy behind discounters and big-box stores
- The general trend before the recession was for these formats to peak
- For the new consumers, value does not always equal money
- Consumers searching for value in other dimensions:
 - Service
 - Lifestyle

Shifting Consumer Buying Habits

- Trading up → trading down; redefining luxury
- Mass → individualization
- Item → solution
- Goods → service
- Product → experience
- Focus on value
- Multi-channel
- Net generation

Shopper Expectations



Source: R. Blattberg, Kellogg School of Management

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Shifting Priorities – Consumer Behaviour

- There is still a focus on value
- What the customer gets for what they give
 - MORE: quality, service, trust, convenience
 - LESS: risk, hassle, confusion, uncertainty

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Price Competitive; Superior Experience

- Price is just the beginning; superior total-shopping and end-use experience is the key
- Combination of rational benefits of price, quality, convenience and the emotional driver of “badge value”
- Target: “expect more, pay less”-- cheap chic is the driver
- Delight the customer, whatever the product

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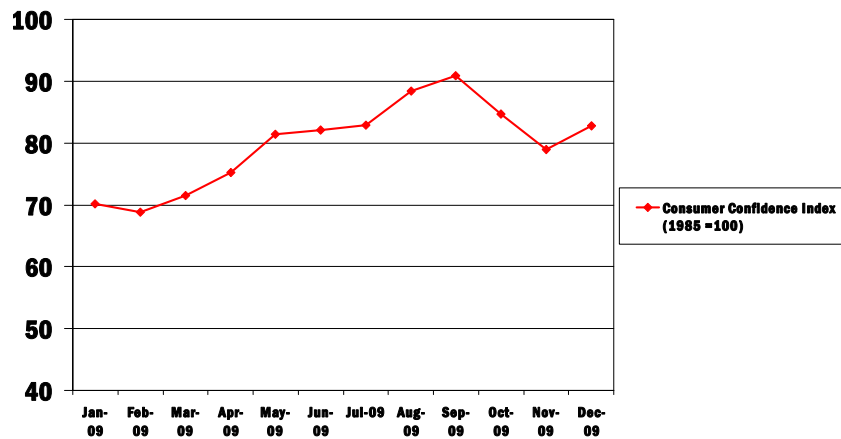
2009 in Review

Retailers

- Canadian retailers had a “good” recession when compared to retailers in the U.S. and other countries
- All Stores Less Automotive managed to grow by 1% in 2009
- The credit crisis led to very low capital spending for 2009, which in turn led to little square-footage growth

2009 in Review

Consumers



Source: Conference Board of Canada

2009 in Review

Consumers

- The consumer confidence index was at its lowest in recent memory in Dec '08 and Feb '09
- Little discretionary spending in 2009 made the recession more acute for certain retail categories
 - Non-discretionary retail winners:
 - Food and Beverage Stores: +3.7%
 - Pharmacies and Personal Care Stores: +3.8%
 - Discretionary retail losers:
 - Furniture and Home Furnishing Stores: -7%
 - Computers, Software, Home Electronics and Appliance Stores: -6.6%

2009 in Review

Lessons Learned

- More conservative Canadian consumers were better prepared to face the recession
- Psychological impact of 2009 may have long-term consequences for retail
 - Consumers will be more likely to save a greater percentage of their income
 - More difficult to obtain consumer credit

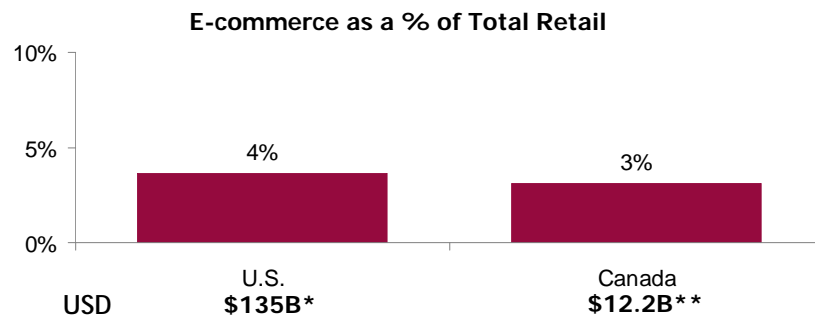
Retailers

- Retailers emerged from the recession in relatively good financial shape
- With moderate growth, the focus will be on the bottom line and cost control
- Retail square footage will increase moderately as credit for capital spending becomes available
 - Walmart opening 35 to 40 new Supercentres
- To increase store productivity, retailers will experiment with store formats in 2010–2011
 - Smaller formats to penetrate more urban markets and attract a new customer base
- There is a shortage of retail space in Canada
 - With only a handful of large developers, more retailers are competing for space and landlords have the upper hand

Competition and Innovation

E-commerce

- Cautious Canadian consumers have yet to completely embrace e-commerce
- Expected to catch-up to American counterparts



Source: U.S. Department of Commerce/Statistics Canada

** 2009 Results*

*** 2007 Results include Travel*

Competition and Innovation

E-commerce

- E-commerce is increasing the strength of retailers as net sales have improved and cannibalization has not materialized
- Threat to landlords as consumer dollars are not being spent on their premises
 - Difficult to forecast the net effect of e-commerce on brick and mortar retail space
 - Landlords must carefully monitor the growth of this channel

Competition and Innovation

M-commerce

- Technology platforms converging on mobile
 - Retailers, consumers and developers must take advantage of the new possibilities
- M-commerce (much like E-commerce) can pose a threat to landlords
- Functionalities of the new technology offers landlords opportunity to gain market share from competitors by:
 - Developing applications to improve customer experience
 - Offering mobile updates and promotions
 - Engaging in social media (on both internet and mobile platforms) to improve consumer relations and gain brand loyalty

Looking Further Ahead...

Stay or Return to Big Spending?

Polarization

- Many have learned that trading-down is “just fine”
 - Lower prices, private brands, thrift stores
 - “Badge value” of a good buy
- Some have discovered conservative luxury
 - Quality value with no “flash”
- Many will find it impossible to be without their status brands and logos

Spotting Winners and Losers

Ability to Engage Consumers

- Getting in touch with consumers is changing rapidly
- Television has taken a second place to internet and mobile
- Social Media – Consumers expect their input and opinions to be heard
- The winners?
 - Retailers who embrace the new platforms

Spotting Winners and Losers

Adaptability to Canada's Shifting Demographics

- The boomers are retiring as the richest generation in history
- Healthier and more active than any previous generation
- The spending power of these new retirees will drive retail for the next 30 years
- Boomers have grown to demand service and high quality products
- Winners?
 - Retailers who engage in lifestyle centres, hobbies/outdoor activities, and high-end travel will benefit from Canada's new retirees

Spotting Winners and Losers

Adaptability to Canada's Shifting Demographics

- By 2030, all population growth in Canada will come from immigration
- Visible minorities are the driver of Canadian population growth
- Well-educated, second-generation immigrants are coming out of Canadian Universities
- Winners?
 - Retailers who understand this market

Spotting Winners and Losers

Consumer Behaviour

- Consumers are searching for value in new places
- The “price = value” trend that drove big-box and discount stores has peaked
- Consumers are willing to spend and trade-off for service and high-end articles
- This will polarize the retail landscape, as the trade-off for the “Louis Vuitton indulgence” will be store brands
- Winners?
 - Retailers who are able to discern where their target consumers find value

Parting Thoughts

- The recession is over, and most retailers are in relatively good financial shape
- Growth will be moderate in foreseeable future
- In the medium and long term, the Canadian landscape will change drastically
 - Demographically
 - Technologically
 - Competitively
- Successful retailers will adapt!

J.C. WILLIAMS GROUP

Thank you and keep in touch.



J.C. WILLIAMS GROUP

The Retail Shop.

Chicago • Toronto

www.jcwg.com

(416) 921-4181

John Williams

jwilliams@jcwg.com