



## **Retail and Wholesale**

### **Introduction**

The retail and wholesale industry is a diverse group, ranging from general food stores and clothing stores to pharmacies. The rate groups included are:

604 food sales

606 grocery and convenience

607 specialty foods

608 beer sales

636 other sales

638 pharmacies

641 clothing stores

668 computer, electronic, and electrical equipment sales

933 equipment rental and repair services

### **Economic Trends**

Retailers posted their highest monthly sales gain in nine years in December, with widespread increases in all eight retail sectors. The year-end flourish, combined with hot sales in Alberta, pushed sales for 2006 as a whole to their strongest annual growth rate since 1997.<sup>1</sup>

Total retail sales jumped 2.3% in December to an estimated \$33.5 billion, the fastest monthly growth rate since December 1997. This gain more than offset losses in September and October and a lacklustre 0.3% increase in November. For 2006 as a whole, retailers sold \$391.4 billion worth of goods and services, up 6.4% from 2005 and the highest rate in nine years.<sup>2</sup>

Wholesalers ended the year on a high note, with the automotive sector providing much of the impetus for the largest monthly gain in over two years. Wholesale sales jumped 2.7% in December to \$42.8 billion, following a 0.3% rise in November. December's increase was the largest since March 2004.<sup>3</sup>

After three years of solid growth, retailers are confident the trend will continue in 2007. Retailers expect that this year, sales and margins will be only slightly softer than last year. Strong results for January 2007 add credence to this outlook, and confirm that customers are shopping more actively in what traditionally has been a quieter month. Retailers point to a number of features that inspire confidence: continued stable interest rates; the prospect of further tax reductions for individuals; a buoyant Western Canada

economy; hope that the worst of the bleeding of manufacturing jobs in Central Canada is over; and an expected recovery in the U.S. There is a consensus that the second half of the year should be stronger than the first half.<sup>4</sup>

In addition to a solid performance on the retail floor, Canada's merchandise exports hit a record annual high in 2006, despite the first decline in exports to the United States in 3 years. Canadian companies exported nearly \$458.2 billion worth of merchandise last year, up 1.1 per cent from 2005, according to Statistics Canada.<sup>5</sup>

Although the retail and wholesale sector preformed well overall, there were specific areas which had particular challenges. For example technology products continue to experience deflation, driven by the rapid pace of innovation. The sale of new higher-priced products such as flat screen TV's, MP3 players, and cell phones had raised the average value of transactions for technology retailers, but they also report prices for these products are declining even faster than prices for older generation of products.<sup>6</sup>

As well, according to Canadian Grocer's 2006 Market Survey 2006 was a challenging year for the country's grocers. Sales at traditional grocery stores, including supermarkets, grocery stores and convenience stores, climbed to \$73.3 billion, up just 1.63% over 2005 and the lowest year over year change since 1996, when there was a .5% decline. The numbers based on Canadian Grocer estimates derived from Statistics Canada Annual.<sup>7</sup>

Finally the late start to winter caused issues for Ontario retailers who were over-stocked with winter merchandise. It is an axiom in the retail trade that if customer have not bought their winter supplies before the middle of January it is very difficult and costly to pay them to take way the overhanging stock.<sup>8</sup> This situation reversed itself once winter hit full force in mid January and retailers were able to sell winter merchandise.

## **Social & Demographic Trends**

The challenge with attracting employees into retail and wholesale roles continues while a new program offers hope with health and safety training for the incoming labour force.

The retail and wholesale trade continues to experience difficulty attracting employees into their entry level positions. In fact, in a recent report from the Retail Council of Canada, one member said that when he joined the trade many years ago, compensation for entry level jobs in stores and offices was roughly similar. Since then, pay for junior office positions have improved considerably relative to starting pay in retail stores. Many years ago there was an abundance of typists producing extra copies of office documents, they have been replaced by copiers and computers. Today there is a small number of more skilled support staff that manages a much greater paper load. In contrast, retailers have struggled to improve store productivity, and it's not clear that there is any capital equipment that will have a similar effect on the productivity of sales associates and store managers.

This poses a serious long-term challenge to the trade. Retailers will find it increasingly difficult to attract and retain store-level staff as labour markets tighten and technology

widens the productivity gap between store personnel and those in other occupations. Retailers have invested heavily in supply chain productivity within 2006. Even if there is no technological “fix” for store productivity, retailers must now invest the same attention and resources in improving the efficiency of their store operations.<sup>9</sup>

Launched in 2004, the Passport to Safety program has been working with School Boards to prepare young people for the workplace. Young people challenge a Passport to Safety “test”, based on learning outcomes developed by health and safety curriculum experts from most provincial and territorial jurisdictions across Canada. Successful participants are awarded a “transcript” that can be attached to resumés to demonstrate their basic awareness of health and safety. This basic level of awareness becomes a foundation on which to build all the other essentials required to be safer and healthier workers.<sup>10</sup> The program will have an impact on the young workers who will be entering the workforce in the coming years.

## **Technology & Industry Trends**

There has been much news in terms of technology and industry trends for retail and wholesale groups including: changes in foreign ownership in Canada, increases in online shopping, Radio Frequency Identification being introduced to as a commercial application, a security breach at a national retailer, biometric technology for staff sign in, customer relationship management systems for a high end clothier, the increasing cost and nuisance returned goods, an example of more sustainable business practices and a little known environmental issue.

Since 1996, after U.S. giant Wal-Mart Stores Inc. entered the Canadian market, foreign ownership of Canada’s retail industry has jumped to 50 per cent from 20 per cent: but it is not just American retailers that see Canada as a friendly “first stop” on an international expansion program. In recent years, several European multinational players, including H&M, Sephora, Mango and Zara have come to Canada partly for a window on the larger North American market. Canada now has 140 U.S. owned retailers and 115 other international players.<sup>11</sup>

After numerous failures in the late 1990’s, online shopping business appears to have caught on with cautious consumers, the business hit \$7.9 billion, spent on 50 million orders in Canada in 2005, more than tripling 2002’s performance when consumer’s spent \$2.4 billion on 16.6 million orders, according to Statistics Canada. Growth for the 2006 season is being seen at 5-6%. Retailers are finding they benefit as much from online sales as they do from in-store sales that result from customers who research purchases online. A Global Market Insight survey noted 98% of Canadians online have used a search engine to help research or buy a product or service.<sup>12</sup>

Radio Frequency Identification (RFID) also known as transponders, has been around for a long time, one of its original uses being the identification of aircraft during the Second World War. Until recently it was viewed as being too expensive and too limited in functionality for many commercial applications. Advances in technology have both reduced the cost of individual system components and provided increased capabilities, to

the point where numerous organizations are either using or considering using RFID technology. In fact, some organizations, notably Wal-Mart and the US Defense Department, have mandated the use of RFID by their business partners<sup>13</sup>. Wal-Mart has pushed its suppliers to use innovative radio-activated tags to chop labour and inventory costs. However, tests using the tags aren't showing any savings, and suppliers forced to invest in the relatively expensive technology are not impressed. RFID was to replace the 25 year old bar-code technology printed on labels of products from toothpaste to diamond rings. The bar codes help track inventory and can match a product to a price, but they lack the electronic tags ability to store more detailed information. The current generation of RFID tags costs about 15 cents a piece while bar codes cost a fraction of a cent. Beyond the tags, suppliers have had to bear the cost of buying hardware readers, transponders and antennas and computer software to track and analyze the data.<sup>14</sup>

Consumers say they're frustrated and angry about major computer security breach at a leading retailer because they can't get the information they need to protect themselves from fraud or identity theft. The U.S. parent company of Winners and HomeSense said it has passed on the credit and debit card numbers that might have been exposed when hackers got into its computer system to the credit card companies or the banks that issue the cards.<sup>15</sup>

Employees at Holt Renfrew stores have got it easy when they sign in for the day. All they have to do is place their finger on a POS terminal and they're ready to go. Holt Renfrew is one of the only retailers in Canada using biometrics to track employee activities. The employees love it, because it's tied into the store's time and attendance system. That means everyone gets paid for the hours they work. No more pay discrepancies and no more overtime hours for payroll.<sup>16</sup>

This spring, Harry Rosen Inc. decided it was time to put the power of customer service technology in the hands of its store associates. In April the company began equipping staff with brand new HP PDA's that serve as an advanced "mini Customer Relationship Management" system. The customised application lets sales personnel look up client records, including their purchase history, sizes colour preferences, personal interests and any other piece of information on the Harry Rosen database. They can even check inventory availability of all store locations on the spot, keep a "to do" list and receive notifications when clothes are ready from the tailor. Steve Jackson, CIO reports that by January 2007 all 450 sales associates will be wired for service. "We believe it's the most advanced CRM system in retail today."<sup>17</sup>

Returned goods, add up to a \$10 billion-a-year headache for Canadian merchants, and the problem is only getting worse. As much as a third of a retailer's sales ends up as returns a new study has found. According to a new research from Boston Consulting Group's Toronto office, an array of retail categories are hit hard, with anywhere from 5 to 30 per cent of sales eaten up by returns. Catalogue and Internet retailers feel the pain the most, particularly those selling consumer electronics and clothing, however, almost no product category is immune.<sup>18</sup>

Increasingly, environmentalists and educated consumers are pushing for retail companies to use more sustainable business practices. Last December, prodded by and working with the environmental group Forrest Ethics, Limited Brands (the \$10 billion U.S. fashion company that operates, among other brands the Victoria's Secret lingerie business) said it would stop using paper from a B.C. company that logs in Alberta. It pledged that by the end of the year, the 350 million Victoria's Secret catalogues sent out annual would contain at least 10 per cent recycled paper or paper from forest operation certified by an international group, the Forest Stewardship Council.

In a similar vein the global textile industry must become eco-conscious, a report concludes from researchers at Cambridge University titled "Well Dressed?". It explores how to develop a more "sustainable clothing" industry, a seeming oxymoron in a world where fashions change every few months. Clothes and fast clothes in particular are a large and worsening source of the carbon emissions that contribute to global warming, because of how they are both produced and cared for.<sup>19</sup>

### **Legislation & Policy Trends**

Changes in legislation have been positive for retailers in avoiding an impending tax. A class action lawsuit has been filed by grocery workers, and the problem facing retailers that's becoming the world's fastest growing crime wave.

Retailers applauded the government's decision last summer not to move forward with additional surtaxes on the import of bicycles and barbeques. Given the precedent-setting nature of this decision on safeguards, this move was strongly supported by the industry. The Canadian International Trade Tribunal (CITT) had recommended last fall (2005) that the Government of Canada impose surtaxes on imports of bicycles and barbeques as a way to counter the effects of increased imports of these products.<sup>20</sup>

A class action lawsuit has been filed by grocery workers who have allegedly lost more than \$1 billion because of negligence by trustees and some of the country's biggest supermarket chains. Two retirees and a store employee have filed a claim in an Ontario court that seeks class action status for about 300,000 beneficiaries of the Canadian Commercial Workers Industry Pension Plan in a potential high-profile legal battle for removal of the trustees and restitution of the alleged losses.<sup>21</sup>

It's an international problem that's been called the world's fastest growing crime wave. Counterfeit products represent 7 per cent of global trade, or about \$500 billion annually. "Counterfeiters couldn't care less about any quality control. They don't care whether the thing really works or not. When you're talking electrical devices or pharmaceuticals or kids' clothing that isn't fire-retardant, they're just putting everybody at risk" says Sgt. Andris Zarinds of the RCMP federal enforcement branch. As examples, he points to Christmas lights, batteries and faulty electrical cords that aren't up to safety standards and are prone to catching fire. This year, Health Canada issued a warning about fake batteries, saying there have been nearly 90 incidents, since 2000 when counterfeit-brand batteries exploded, 41 in toys. Eight children were burned. And counterfeit batteries can contain poisonous mercury.<sup>22</sup>

The pharmaceutical market has also been flooded with fake drugs that simply don't do what the patients hope and expect. Canada's record on this is so poor the International Anti-Counterfeiting Coalition, which represents the interests of 150 companies and trade associations has put Canada on a watch list, painting it as a mecca for counterfeit goods.<sup>23</sup>

## **Health & Safety**

According to the Ministry of Labour, major hazards in the retail environment include: ergonomics and overexertion (sprains, strains, lifting); material handling and use of forklifts; material handling and storage of goods; slips and falls and ladder use; electrical contact; being caught in machinery (meat grinders, dough mixers); machine guarding/lockout; WHMIS, Occupational Exposure Limits (OELs), and carbon monoxide (propane powered equipment used in doors); working alone; and violence.<sup>24</sup>

For wholesale businesses, the Ministry of Labour identified the following major hazards: slips and falls; moving vehicle traffic (lifting devices); falling materials; being caught in moving machinery (conveyors); carbon monoxide (propane power equipment used indoors); ergonomics (sprains, strains, lifting); heat stress; machine guarding; material handling; and ladder use.<sup>25</sup>

Violence in the workplace is a growing concern among retailers. There have been numerous examples in the news this year including a Wal-Mart greeter in Vaughan was punched in the face after she tried to stop a shoplifter with a cart full of baby formula, York Region police say.<sup>26</sup>

Robberies are up overall in Peel (region) but there has been a particular spike in the number of jewellery heists. It's been so bad that robbers, brazenly posing as police officers, hit two other stores last month, prompting Peel police to form a task force. It's not known how many businesses have been robbed, but the jewellers said at least half a dozen retailers across the GTA have been victimized.<sup>27</sup>

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- <sup>1</sup> Statistics Canada, "Retail trade December 2006 and annual 2006," 21 February, 2007.
- <sup>2</sup> Statistics Canada, "Retail trade December 2006 and annual 2006," 21 February, 2007.
- <sup>3</sup> Statistics Canada, "Wholesale trade December 2006," 19 February, 2007.
- <sup>4</sup> Retail Council of Canada "Four in a Row Retailers Confident After Strong January," Retail Conditions Report, 12 February 2007.
- <sup>5</sup> John Ward, "Exports rise 1.1% to a high in 2006," *Toronto Star*, 14 February, 2007.
- <sup>6</sup> Retail Council of Canada "Four in a Row Retailers Confident After Strong January," Retail Conditions Report, 12 February 2007.
- <sup>7</sup> Canadian Grocer, "Survey Says: Grocery Sales Reach \$73.3 billion," *Canadian Grocer E-Newsletter*, 22 January, 2007.
- <sup>8</sup> Retail Council of Canada "Four in a Row Retailers Confident After Strong January," Retail Conditions Report, 12 February 2007.
- <sup>9</sup> Retail Council of Canada "Four in a Row Retailers Confident After Strong January," Retail Conditions Report, 12 February 2007.
- <sup>10</sup> Passport to Safety website, <<http://info.passporttosafety.com/About-Passport.php>>.
- <sup>11</sup> Dana Flavelle, "World's retailers are going global," *Toronto Star*, 18 November, 2006.
- <sup>12</sup> Hollie Shaw, "Big holiday sales likely for online," *Globe & Mail*, 5 December 2006.
- <sup>13</sup> Office of the Privacy Commissioner of Canada, "Fact Sheet: RFID Technology," [http://www.privcom.gc.ca/fs-fi/02\\_05\\_d\\_28\\_e.asp](http://www.privcom.gc.ca/fs-fi/02_05_d_28_e.asp), 23 February, 2006.
- <sup>14</sup> Gary McWilliams, "Wal-Mart suppliers balk at radio-activated tags," *Globe & Mail*, 15 February, 2007.
- <sup>15</sup> Dana Flavelle and Tara Perkins, "Irate card users left in dark," *Toronto Star*, 20 January, 2007.
- <sup>16</sup> "Holt Renfrew gives biometrics thumbs up," *Canadian Retailer*, November-December 2006, pg 48.
- <sup>17</sup> "Harry Rosen does service with a stylus," *Canadian Retailer*, November-December 2006, pg 49.
- <sup>18</sup> Marina Strauss, "Returns a \$10 billion pain," *Globe & Mail*, 22 November, 2006.
- <sup>19</sup> Elisabeth Rosenthal, "Can polyester save the world?" *Toronto Star*, 5 February, 2007.
- <sup>20</sup> "Government of Canada Rejects Trade Restrictions on Imported Bicycles and Barbeques," Department of Finance Canada. <http://www.fin.gc.ca/news06/06-019e.html>, 29 May 2006.
- <sup>21</sup> Tony Van Alphen, "Grocery workers seek class action," *Toronto Star*, 24 January, 2007.
- <sup>22</sup> Betsy Powell and John Duncanson, "Fake goods flood shops in Canada," *Toronto Star*, 5 December, 2006.
- <sup>23</sup> Betsy Powell and John Duncanson, "Fake goods flood shops in Canada," *Toronto Star*, 5 December, 2006.
- <sup>24</sup> Ontario Ministry of Labour, *Industrial Health and Safety Program, Sector Plan*, 2005/06.
- <sup>25</sup> Ontario Ministry of Labour, *Industrial Health and Safety Program, Sector Plan*, 2005/06.
- <sup>26</sup> Linda Nguyen, "Greeter punched in the face," *Toronto Star*, 14 February, 2007.
- <sup>64</sup> Betsy Powell and John Duncanson, "They are all scared now," *Toronto Star*, 21 November, 2006.