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Consumer Trends Update



Canada's Changing Retail Market

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This update highlights the structural changes experienced in the Canadian retail landscape since *The Consumer Trends Report* was released in 2005. The major actors operating within this retail sector and the impact of shifting consumer behaviour on the evolution of retail operations in Canada are also discussed.

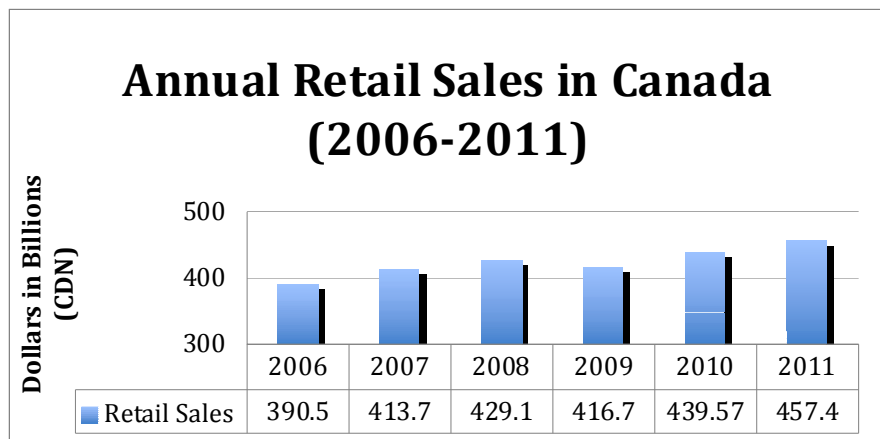
The *Consumer Trends Update* is published by the Office of Consumer Affairs, Industry Canada. It provides brief reports on research or policy developments related to themes explored in the 2005 *Consumer Trends Report*, which is available at: www.consumer.ic.gc.ca/trends.

1. Canadian Retail Market Overview

Since the 2005 *Consumer Trends Report*, the retail sector¹ has continued to play an increasingly vital role in the Canadian marketplace, given its contribution to the Canadian economy and its impact on consumers and their consumption activities. In 2011, the sector generated \$457.4 billion in retail sales and represented approximately 12 percent of the Canadian workforce (Statistics Canada, 2012c). Despite experiencing falling demand during the recession in 2009, the sector's sales grew by 17.1 percent between 2006 and 2011 (\$457.4 billion in sales in 2011, an increase of \$66.9 billion compared to 2006). Even at its lowest ebb in 2009 (\$416.6 billion in sales), the sector represented 6.2 percent of Canada's gross domestic product, an increase of 0.2 percent compared to 2001 (Industry Canada, 2010; Statistics Canada, 2012c). The gains in sales since the recession have been relatively healthy, rising to \$457.4 billion for all of 2011, reflecting an increase of 4.0 percent from the previous year (Statistics Canada, 2012c). Sales in the retail sector were dominated by the motor vehicle and parts dealer sub-sector, which totalled \$100 billion in sales in 2011, or 21.9 percent of market share, and the food and beverage stores sub-sector, which totalled \$104.1 billion, or 22.8 percent of market share. *For a list of total sales by the retail sub-sectors in Canadian, please see Table 1.*

¹ For the purpose of this report, the retail sector is defined as: motor vehicle and parts dealers, furniture and home furnishings stores, electronics and appliance stores, building material and garden equipment and supplies dealers, food and beverage stores, health and personal care stores, gasoline stations, clothing and clothing accessories stores, sporting goods, hobby, book and music stores, general merchandise stores, and miscellaneous store retailers.

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Source: Statistics Canada CANSIM data, Table 080-0022

The sector has grown by other measures as well. In April 2011, retail sales in Canada were equivalent to retail sales in the U.S. on a per capita basis for the first time (Ladurantaye, 2011) reaching US\$13,000 per person (Cooper, 2011). As recently as 2004, sales per capita in Canada had only been US\$8,000 versus US\$12,000 in the U.S. (Colliers International [CI], 2011a). This reveals that while sales growth in the U.S. has slowed, growth in Canada has continued to accelerate. It's important to note the shift in sales per capita between Canada and the United States may not be fully attributable to strong productivity gains or increasing consumer debt burden in Canada, but instead, due to poor performance by the American retail sector heavily influenced by the 2008-09 economic recession.

Table 1: Sub-Sectors of the Canadian Retail Marketplace (In Terms of Sales) (2011)

Sub-Sectors of the Retail Market Place in Canada	Retail Sales in 2011 (dollars x 1,000)	Percent of Market Share
Motor Vehicle and Parts Dealers	\$100,005,680	21.9
Furniture and Home Furnishing Stores	\$15,027,138	3.3
Electronics and Appliance Stores	\$14,983,443	3.3
Building Material and Garden Equipment and Supplies Dealers	\$27,038,063	5.9
Food and Beverage Stores	\$104,134,083	22.8
Health and Personal Care Stores	\$32,847,751	7.2
Gasoline Stations	\$57,682,168	12.6
Clothing and Clothing Accessories Stores	\$26,049,959	5.7
Sporting Goods, Hobby, Book and Music Stores	\$11,153,804	2.4
General Merchandise Stores	\$57,785,413	12.6
Miscellaneous Store Retailers	\$10,695,657	2.3

Source: Statistics Canada CANSIM data, Table 080-0022

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Impact of the Global Recession on Consumer Confidence in Canada

The 2008-09 global recession had a mixed impact on consumer sentiment in Canada. Although the Canadian retail sector has recovered from the global economic downturn, a segment of the Canadian population still felt wary and conflicted over the economic environment. In late 2010, 14 percent of the Canadian population believed the economy would weaken in 2011. This figure increased significantly in late 2011, as 33 percent of Canadians thought the economy would weaken in 2012 (Deloitte, 2011).

This is consistent with similar measures of consumer sentiment, such as the Conference Board of Canada's Consumer Confidence Index (CCI). With Canada's CCI reaching a high of 89.0 following the 2010 holiday season (January 2011), the CCI started to fall in March of 2011 and hit a low of 69.9 in December of 2011 -- the lowest level since 2009 when the Canadian economy started to recover from the 2008-09 recession (Canadian Press, 2011; Deloitte, 2011; Conference Board of Canada, December 2011). As of December 2012, Canada's CCI had recovered slightly from the dip experienced in late 2011 and sat at 77.9 (Conference Board of Canada, 2012).

It's important to note that Canadians, in general, have remained more positive about the Canadian economic climate when compared to American consumers respecting their marketplace. In the same time frame, the American CCI dropped from 62 (in December 2010) to 45 (in September 2011) (Deloitte, 2011). As of December 2012, the United States' CCI stands at 65.1, a slight improvement from the lackluster levels experienced 12 months earlier (Conference Board, 2012).

2. Structural Changes in the Retail Landscape:

The Canadian retail marketplace continues to evolve: some types of retail outlets have grown, while other more traditional retail outlets have stagnated. More recently, retailers are expanding beyond their traditional distribution channels to better deliver goods and/or services in an environment of changing consumer behaviour and market segmentation. This section examines the shifting nature of the physical retail marketplace in Canada, and its impact on Canadian consumers.

i) Bricks and Mortar Retail Outlets in Canada

Canadian Malls:

Shopping malls have been a staple of the Canadian retail landscape since their emergence in the 1960s and 1970s. Although malls in Canada occupy 39 percent less space per capita than American malls, Canadian malls, on average, have attracted higher sales per square foot of retail space. Since matching sales outputs of American malls in 2004 (US\$380, per square foot), Canadian malls have outperformed American malls by an increasing margin (CI, 2012b). As of 2011, Canadian malls have generated nearly US\$600 in retail sales per square foot per year, compared with the American average of slightly above US\$400 in retail sales per square foot (CI,

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2012a). The Yorkdale Mall in Toronto draws the largest retail sales per square foot in Canada – approximately \$1,200 per square foot – and ranks second in retail sales per square foot in North America, after the Forum Shops at Caesars Palace in Las Vegas (\$1,400 in retail sales per square foot) (Bula, 2011a).

In spite of this success, the growth of malls in Canada has been curtailed by the limited amount of commercial space available for retail development in traditional retail urban spaces along with retailers' desire to diversify their locations and retail outlets. Canadian municipalities have reduced the allocation of urban land for new retail space in favour of industrial and office space, which has reduced the number of large regional shopping centres being built (Bula, 2011a). Since 1989, only two major enclosed shopping malls have been built in Canada: Vaughan Mills in Toronto and Cross Iron Mills in Calgary. To cope with the limited retail space available in downtown areas, existing shopping centres are renovating and expanding within their allocated space, usually building upwards and adding additional floors. Retailers have also established new retail outlets outside of the city centre to accommodate big box retailers, such as in power centres², to overcome the limited space available in more traditional shopping malls and improve accessibility to serve larger regions (Simmons and Kamikihara, 2011).

The Demise of Strip Malls

Strip malls are becoming less relevant in the Canadian retail landscape, although they are still a ubiquitous presence in most suburban landscapes, as consumers' preferences have shifted to shopping at large, multi-levelled shopping centres and/or power centres. Many strip malls across Canada are in need of significant restoration, and vacancy rates are soaring (Hopper, 2011). The curtailment of strip malls can have a substantial impact on small communities in Canada. These small, open malls are a major source of employment for many small communities and are a key provider of part-time work for students and young people (Beckman, 2011). Strip malls also provide easy accessibility to goods and services for small, surrounding communities that may not have the means or time to travel to shopping malls or power centres outside the core.

Power Centres:

Since their entry into the Canadian market in the late 1980s, there has been “widespread development and clustering of big box stores into a broad range of power centre venues” (Hernandez, 2011). Between 2006 and 2010, the number of power centres in Canada increased from 451 to 487, a rise of 8 percent (Hernandez, 2011). Although the growth rate of power centres slowed between 2009 and 2010 due to the poor economic climate, the growth rate remained steady due to previously committed retail developments by retailers. Canada also experienced an increase in power centre vacancy rates between 2006 and 2009; however, there

² According to the Centre for the Study of Commercial Activity, power centres are a group of three or more big box stores arranged around a central parking pad, with ancillary commercial activities.

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was still a dramatic growth in tenants from 8,627 in 2006 to 12,086 in 2010, a rise of 40.1 percent, as the number of big box stores per power centre increased along with the increase in power centres (Hernandez, 2011).

Table 2: Canadian Power Centres, 2006-2010

Year	Number of Power Centres	Total Number of Tenants	Number of Big Box Stores	Average Number of Tenants per Power Centre
2006	451	8,627	2,929	19.1
2007	461	9,622	3,139	20.9
2008	474	10,545	3,305	22.2
2009	484	11,548	3,429	23.9
2010	487	12,086	3,511	24.8
Change from 2006 to 2010				
Number	36	3459	582	5.7
Percent	8.0%	40.1%	19.9%	29.7%

Source: Hernandez (2011)

However, the development of power centres has varied considerably from region to region across the country, leaving the retail landscape concentrated and uneven. In 2010, Ontario had the most power centres in Canada (211), almost triple the number of centres found in Quebec (74), Alberta (73) and British Columbia (70) (Hernandez, Erguden and Svindal, 2011). Hernandez, Ergunden and Svindal (2011) posit several factors that could contribute to this uneven development, including

“restricted land availability and associated development costs, land-use planning issues, the existing retail infrastructure and cultural-competitive concerns of US and other international retailers with regard to entering French-speaking Canada or smaller markets across Canada”.

Even though power centre development has been uneven, these retail structures have provided stronger inventories (e.g. more product variety and selection) across all major urban markets (CI, 2011b). In contrast to the past, where power centres were “anchored by large grocery, general merchandise, hardware and electrical retailers”, they now have a diverse mix of new players, including sporting goods stores, fashion stores, pharmacies and ancillary services (e.g. restaurants, financial institutions and entertainment services) (Hernandez, Erguden and Svindal, 2011). Power centres have adopted more aesthetic and consumer-friendly designs, including bus stops, bicycle lock-ups and racks, pedestrian walkways and seating areas). Overall, this provides a highly functional retail space for Canadian consumers. However, it’s important to note socio-

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economic downsides arise for vulnerable segments of the population, which will be outlined later in the report.

Independent Retailers:

Small businesses³ are often identified as the backbone of the Canadian economy. As of July 2012, small businesses accounted for ninety-eight percent of businesses operating in Canada (Industry Canada, 2012). These firms contribute more than 30 percent to Canada's gross domestic product, and employ nearly five million Canadians, or 48 percent of the total labour force in the private sector (Industry Canada, 2012). Of all industries, the retail industry represents the largest segment of small businesses in Canada with more than 146,000 firms employing more than 795,000 individuals⁴ (Industry Canada, 2012). While there are a large number of small retail businesses operating in Canada, the top 124 retail organizations still control 75% of the non-automotive retail sales (Daniel and Hernandez, 2012). Nevertheless, small businesses play an integral role in Canada by establishing and maintaining employment opportunities, serving consumers and driving and shaping local economies and communities (Gulluce and Parent, 2011).

³ Industry Canada defines small business as firms that have fewer than 100 employees

⁴ The majority of small retail businesses operating in Canada are concentrated within the "grocery and convenience stores, car dealerships, pharmacies, gasoline stations, clothing stores and appliance retailers" (RBC, 2008).

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Canadian Small Business during the Economic Downturn

From 2000 to 2007, small businesses in Canada “experienced a roller coaster of strong growth”, which heavily subsided in 2008 with the proliferation of the 2008-09 global economic downturn (Cooper, 2009). The national economy suffered from a decrease in gross domestic product, an “increase in unemployment”, and a “decline in business activity and consumer confidence” (Gulluce and Parent, 2011). Canadian small businesses in the retail sector faced the same challenges as all small businesses operating in Canada (i.e. decline in demand for products and services, debt), and had to shift and adjust their business practices to maintain their competitiveness within the Canadian economy (Gulluce and Parent, 2011).

A survey completed by the Canadian Federation of Independent Business revealed that small businesses, in general, for example, adjusted their sales and marketing techniques, including introducing new products and services, reducing prices and increasing their advertising and promotional efforts, to remain competitive during the global economic downturn (Gulluce and Parent, 2011).

Canadian small businesses had several advantages in the marketplace to aid their operations through the global economic downturn. Most notably, a strong and stable banking system provided small businesses with the opportunity to secure credit at a relatively low cost (Cooper, 2009). Secondly, Canada’s domestic economy and financial markets remained relatively stable when compared to other parts of the world allowing an environment for small businesses to continue to thrive (Cooper, 2009). Lastly, a strong Canadian dollar also reduced the costs for small businesses on imported materials, finished goods, new technologies and in recruiting talented employees (Cooper, 2009). Overall, the stable Canadian markets coupled with the flexible and adaptive business practices of small businesses contributed to small businesses “helping Canada move forward from the 2008-2009 recession” (Brodie, 2011).

ii) Multi-Channel Retail Outlets:

Retailers are adopting new forms of business in response to shifts in the macro-economic environment and in consumer behaviour.

“New technologies, global access, enhanced mobility, social media: each of these has had a profound impact on how consumers gather information and make purchase decisions. This, in turn, has shifted how retailers target, attract, maintain and engage with their customers” (PricewaterhouseCoopers [PWC], 2012).

To cope with the increasingly fragmented consumer demographic⁵, retailers are embracing multiple distribution channels (multi-channel retailer⁶), and rethinking traditional models to

⁵ The changing and evolving economic climate mixed with diverging consumer sentiment, determined by an individual’s education, employment status, viability and household status, has influenced consumers’ purchasing habits and behaviour, and, consequently, fragmented the consumer economy (Melnick, 2011)

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offer their consumers a variety of ways to purchase products and services. Furthermore, PricewaterhouseCoopers' *Demystifying the Online Shopper – 10 Myths of Multi-channel Retailing* reports consumers are not shifting their purchases from one channel to another, but, in fact, embracing multiple-channel retail outlets and “spending more” with these retailers (PWC, 2012).

Although brick and mortar stores still account for approximately 95% of all non-automotive retail sales, the proliferation of retail electronic commerce continues in Canada. In 2010, Canadians purchased \$15.3 billion in goods and services using the internet, up from \$12.8 billion in 2007, and nearly double 2005 levels (7.9 billion) (Statistics Canada, 2008; Statistics Canada, 2011c; Standing Committee on Industry, Science and Technology, 2012). More so, between 2007 and 2010, the number of orders placed online increased from 70 million to 113.1 million per year, with the “average value of internet orders per person” totalling \$1,362 in 2010. (Statistics Canada, 2011a; Statistics Canada, 2011c).⁷

This growth in electronic commerce is attributable to the advancement of consumer technologies, coupled with a largely web-connected society that is stressed for time (Cooper, 2011). Despite this, Canadian retailers are still lagging behind the United States in terms of electronic commerce capabilities as the online retail environment in Canada is considered a “huge and largely missed opportunity in Canada” (Cooper, 2011). Factors contributing to the lag include: a “lack of access to capital” to fund new technological development, the high investment costs of technological upgrades for small and medium-sized businesses, and “concerns with security and consumer protection”, amongst others (Standing Committee on Industry, Science and Technology, 2012; Nowak, 2012). Nevertheless, the potential market for electronic commerce is vast in Canada with approximately 79 percent of Canadian households connected to the Internet in 2010, and smart phone penetration expected to reach 100 percent by 2014 (Standing Committee on Industry, Science and Technology, 2012).⁸

⁶ A retailer that sells products and/or services directly to the public through more than one distribution channel (e.g. bricks and mortar, electronic commerce, catalogue ordering, etc.).

⁷ It's important to note that retail organizations have faced “significant challenges in integrating their online, catalogue and in-store operations”, which, in turn, has made it complex to track and capture reliable data on multi-channel operations (PWC, 2012; Hernandez, 2013). For example, if a consumer orders a product online and picks-up the product in store, or purchases a product online and returns the product in store, retailers face difficulties in determining where to allocate the sales and returns within their financial statements.

⁸ For more information on mobile commerce in Canada, please see Industry Canada's Consumer Trends Update on [Mobile Commerce – New Experiences, Emerging Consumer Issues](#).

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The Re-emergence of Catalogues

Beyond brick and mortar and internet-based distribution channels, retailers are exploring other channels to expand their business into new segments of the market. For instance, print and in-store catalogues have re-emerged as a popular staple for stores such as Ikea, Anthropologie and H&M. The catalogue, once considered costly and outdated, is now considered a dynamic tool for targeting niche markets.

“The most innovative catalogue practitioners are pursuing expanded versioning, targeted messaging and special tactile elements designed to capture attention and provoke response through any channel. Many are reinventing the catalogue as a premium marketing tool, deploying high quality materials and creative content to connect with audiences who value such detail” (Australian Direct Marketing Association, 2012).

Although catalogues have lost the traction they once held in the retail marketplace, they serve as an important tool for informing consumers of new products as well as directing purchases into niche markets through brick and mortar stores, internet-based distribution channels and mail order & call centres. (Beasty, 2012).

iii) What does it mean for consumers?

The Canadian retail marketplace continues to adapt and evolve as it attempts to better meet the needs and demands of Canadian consumers. As some types of retail outlets, such as power centres, have become more prevalent in the retail marketplace, others, such as strip malls, have become less relevant. Shopping malls continue to be a staple of the Canadian retail landscape; however, the lack of commercial space for retail development in city centres has further pushed retailers to shift their retail outlets towards more efficient and innovative store formats, such as power centres, “to easily reach their critical mass”. (Daniel and Henderson, 2012).

Many consumers will benefit from the growth and development of power centres, as they provide convenient *one stop-shop* experiences that are easily accessible off major transportation routes, and are normally located close to large housing developments in suburban areas (Parlette and Cowen, 2010). However, some consumers may be negatively impacted by the lack of preservation and/or development of retail outlets in central locations. Some demographic segments may face accessibility issues with respect to power centres as they do not own a vehicle nor do they have other means to easily travel to such locations. This may also limit an individual’s choice in terms of products and prices available in retail outlets that are close in geographic proximity. Some vulnerable population segments, including seniors and disabled individuals, may also face problems in navigating around the large spaces that dominate the power centre landscape, or transporting their purchases from the power centres back to their residences, particularly if they do not have access to a vehicle.

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Consumer Stories of Accessibility and Vulnerability

Hammond (2012) and Sanders (2012) both noted the closure of several grocery stores in downtown locations of Winnipeg, and the impact on seniors, students and low income consumers who resided in the area. Often referred to as food deserts, neighbourhoods with poor access to grocery stores that offer fresh and affordable food create accessibility issues for local residents who are required to spend extra time and money to take a bus or a cab to reach a grocery store outside of their community. Both authors also acknowledged individuals, out of ease, normally turn to shopping for their groceries at local convenience stores, which normally only offer “high-energy, low-nutrition packaged foods” with limited options for real, fresh food (Hammond, 2012; Sanders, 2012). This, in turn, may also cause negative health issues in these communities as individuals are not eating a healthy, recommended diet.

Also, see *Discount Retailer Fields to Close* (McKenna, 2012): Article speaks of the planned closure of Fields Department Stores, a major retailer in western Canada, and the potential impact on small towns to purchase basic goods.

The expansion of retailers into different distribution channels, most notably internet-based electronic commerce, provides a variety of advantages to the consumer. First, electronic commerce allows a time-constrained consumer the convenience of shopping at any time of the day rather than adhering to the operating hours of brick and mortar outlets. Online retail outlets also provide consumers with a large variety of products to select from, often unmatched by traditional retail outlets, as well as the ability to research, review and price match products from a variety of retailers.⁹ These new distribution channels aid consumers in making confident and informed purchasing decisions in the retail marketplace. Multi-channel retailers also provide consumers with a variety of means and options to purchase products and services from retailers, such as ordering a product online and picking it up in store, or ordering a product in store and having the item shipped directly to your address. Lastly, multichannel retail outlets provide a competitive advantage over online-only retail outlets as consumers facing customer service issues (e.g.: returns). For example, if a consumer purchases a product online from a multichannel retailer, and an issue arises with the product, the consumer can redress the problem in a brick and mortar location of the multichannel retailer. However, it’s important to note that some distribution channels within a multichannel retail organization “remain distinct and only loosely connected” or “operat[e] as separate silos”, which may raise issues amongst some consumers in terms of “inconsistent product offerings or prices throughout a retailer’s different channels” or when attempting redress through a channel different from the original purchase (IBM, 2009; PWC, 2012).

⁹ Online shopping is also important for driving competition in speciality products. In speciality retail markets, the internet allows these retailers to aggregate markets and offer better selection and prices to customers across a broad geographic area. Traditionally, speciality retailers existed only in large metropolitan areas where a sufficiently large enough population base existed that could visit their retail outlets.

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Several shortfalls exist with electronic commerce. First, despite significant harmonization efforts, consumer protection laws in Canada at the provincial and federal level are still “not uniform across the country, especially as they relate to new concepts like e-commerce [and] social media” (Standing Committee on Industry, Science and Technology, 2012). Here, governments have identified a need to revise and update the current consumer protection framework to ensure “the rules [are] clear for all stakeholders” across the board (Standing Committee on Industry, Science and Technology, 2012). Also, the issue of consumer safety online is a “fundamental issue in e-commerce” as individuals are not confident releasing their personal information or processing secure financial transactions online¹⁰ (Standing Committee on Industry, Science and Technology, 2012). As well, when making a purchase online, it’s difficult for a consumer to know how reliable the merchant may be if it’s an unfamiliar brand name, or to determine the quality or physical attributes of the product.¹¹

3. Major actors within the Canadian Retail Marketplace

The Canadian retail market structure continued to change and evolve as foreign retailers increased their presence within the Canadian marketplace. In 2011, 53 percent (or 66) of the top 124 leading retail organizations in Canada were foreign owned and operated (Daniel and Hernandez, 2010). The 66 leading foreign retailers in Canada accounted for approximately 40% of total leading retail corporations’ sales in Canada, an increase of five percent from 1996 (Simmons and Kamikihara, 1999), or approximately \$85 billion of total retail sales (Aversa, Hernandez and Daniel, 2011). Of the foreign retailers operating in Canada, U.S.-based retailers maintained a significant presence in Canada’s retail landscape, accounting for 95 percent of retail sales by foreign retailers¹² (Simmons and Kamikihara, 2011). And this presence is a significant one as of the top 20 retailers (by sales) in Canada 10 were American-based, with 4 of these companies being among the top 10 retailers operating in the country. *For a list of Non-U.S. Based Foreign Leading Retailers in Canada, please see Table 5.*

Conversely, Canadian retailers have not experienced the same level of success with expansion abroad, although a handful of organizations have had notable success in expanding their operation into United States, such as Aldo and Joe Fresh. In 2012, Aldo, for example, had over

¹⁰ “One estimate is that over 35% of Internet users will not give their credit card information online because of security concerns. That’s a large chunk of people who are just not engaging in e-commerce and who could be.” (Standing Committee on Industry, Science and Technology, 2012).

¹¹ In 1999, the OECD developed guidelines for consumer protection in the context of electronic commerce to ensure that consumers are no less protected when shopping online. The guidelines reflect existing legal protection available to consumer representatives, and are intended to help eliminate some of the uncertainties that both consumers and business encounter when buying and selling online. The guidelines have played a major role in assisting governments, business and consumer representatives to develop and implement online consumer protection mechanisms without erecting barriers to trade. For more information, please see: <http://www.oecd.org/fr/sti/consommateurs/oecdguidelinesforconsumerprotectioninthecontextofelectroniccommerce1999.htm>

¹² Five percent of foreign retailers operating in Canada are concentrated amongst retailers from France, Italy, the United Kingdom, Sweden, Spain, Netherlands and Japan (Simmons and Kamikihara, 2011)

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1,500 storefronts in over 55 countries, whereas Joe Fresh signed a deal with J.C. Penny to open 700 shops within 1,100 of its locations in the United States (Strauss, 2012b)

Table 3: Top 20 Retail Companies in Canada, 2011

Rank	Retailer	Revenue (\$mil)	% of total retail sales	Employment	Activity	Nationality
1.	Weston Group	31,705	10.61	137,163	Food	Canadian
2.	Wal-Mart Stores Inc.	23,551	7.89	90,000	Department Store	American
3.	Empire Company Ltd.	16,055	5.37	97,997	Food	Canadian
4.	Costco Canada Inc.	13,867	4.65	21,764	Department Store	American
5.	Metro Inc.	11,431	3.82	65,000	Food	Canadian
6.	Shoppers Drug Mart Inc.	10,459	3.5	52,714	Pharmacy	Canadian
7.	Canadian Tire Corp. Ltd	8,437	2.83	73,199	Speciality	Canadian
8.	Rona Inc.	6,800	2.28	30,221	Speciality	Canadian
9.	Safeway Inc.	6,707	2.24	22,684	Specialty	American
10.	The Home Depot Inc.	6,426	2.15	26,621	Speciality	American
11.	Best Buy Co.	6,023	2.02	17,941	Specialty	American
12.	NRDC Equity Partners	5,763	1.93	50,699	Department Store	American
13.	Sears Holdings Corp.	5,717	1.91	47,412	Department Store	American
14.	The Katz Group Inc.	5,498	1.84	12,834	Pharmacy	Canadian
15.	Home Hardware Inc.	4,977	1.67	31,518	Speciality	Canadian
16.	Jean Coutu Group	4,002	1.34	19,811	Pharmacy	Canadian
17.	Jim Pattison Group	3,420	1.14	17,024	Food, Automotive	Canadian
18.	Staples Inc.	3,040	1.02	15,000	Specialty	American
19.	TJX Companies Inc.	2,651	0.89	17,111	Department Store	American
20.	McKesson Corp.	2,585	0.86	6,877	Pharmacy	American

Source: (Daniel and Hernandez, 2012)

There also continued to be a significant level of corporate concentration at the highest tiers of retail in Canada. In 2011, the top 30 major retail companies in Canada controlled “approximately \$196 billion in total retail sales”, “equivalent to 66 percent of total non-automotive retail sales in Canada” (Daniel and Hernandez, 2012). In the same year, the three largest retailers (The Weston Group, Wal-Mart Stores Inc., and the Empire Company Ltd) controlled “23.9 percent of the non-automotive retail market, or \$71.3 billion [in retail sales], with 3,148 retail locations between the three combined” (Daniel and Hernandez, 2012). And, the concentration ratios are high amongst the top four retailers in each sub-sector as five out of the nine retail sub-sectors have

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concentration ratio levels higher than 55% (Daniel and Hernandez, 2012). For a list of Market Concentration Ratio Levels in Canada by Sub-Sector, please see Table 4.

Table 4: Market Concentration in Canada by Retail Sub-Sector

Retail Sub-Sectors	2011 Sales (millions)	Market Concentration Ratios (percent)	Top Four Retailers in each sub-sector
Furniture and Home Furnishing	\$15,028	35.2%	1. Sears (10.7%); 2. The Brick (10.2%); 3. IKEA (8.5%); 4. Leon's (5.9%)
Electronics and Appliances	\$14,982	55.2%	1. Best Buy (40.2%); 2. Apple (4.7%); 3. BCE (3.7%); 4. GameStop (3.6%)
Home Improvement	\$27,037	74.6%	1. Rona (23.9%); 2. Home Depot (23.8%); 3. Home Hardware (17.6%); 4. Tim-Br Marts (9.4%)
Grocery/Food	\$104,134	61.9%	1. Weston Group (30.0%); 2. Empire Company (15.1%); 3. Metro (10.4%); 4. Safeway (6.4%)
Pharmacy and Personal Care	\$32,848	68.6%	1. Shoppers Drug Mart (31.8%); 2. Katz Group (16.7%); 3. Jean Coutu (12.2%); 4. McKesson (7.9%)
Clothing and Accessory	\$26,049	18.9%	1. TJX Companies (7.7%); 2. Reitman Group (3.9%); 3. Canadian Tire (3.8); 4. Gap (3.5%)
Hobby Store	\$11,155	35.0%	1. Canadian Tire (15.1%); 2. Indigo Books (8.3%); 3. Toys 'R' Us (7.2%); 4. Golf Town (4.4%)
General Merchandise	\$56,770	85.7%	1. Wal-Mart (41.5%); 2. Costco (24.4%); 3. Canadian Tire (10.2%); 4. NRDC (9.6%)
Miscellaneous	\$10,696	34.8%	1. Staples (28.4%); 2. PetSmart (2.9%); 3. Roark Capital (2.3%); 4. Hallmark Cards (1.2%)

Source: (Daniel and Hernandez, 2012)

American retailers have had a “profound impact” on the Canadian retail landscape as many of these retailers are “capturing the lion’s share of retail sales across many sectors” (Aversa, Hernandez and Daniel, 2011). American retailers now dominate significant segments of the Canadian market, including the general merchandise category (e.g. Wal-Mart and Costco) and the electronic and appliance sectors (e.g. Best Buy and Future Shop). However, as revealed in table 2, Canadian-based retailers still dominate the grocery (e.g. Weston Group, Empire Company and Metro) and pharmaceutical (Shoppers Drug Mart, Katz Group and Jean Coutu) segments of the retail sector.

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Table 5: Non-U.S. Based Foreign Leading Retailers in Canada, 2011

Corporate Ownership	Nationality	Dominant Chains Controlled	Retail Sales (\$ millions)
IKEA AB	Sweden	Ikea	1,270
Seven-Eleven Japan Co. Ltd.	Japan	7-Eleven Food Stores	759
H & M Hennes & Mauritz AB	Sweden	H & M	423
Hilco UK	U.K.	HMV Canada	326
Billabong International Limited	Australia	West 49, Amnesia, D-Tox	205
LVMH Moët Hennessy Louis Vuitton SA	France	Louis Vuitton, Sephora	170
Goldfish Trust	Italy	Birks	168
Inditex Group	Spain	Zara	167
Sony Corporation	Japan	The Sony Store	147
Luxottica Group S.p.A.	Italy	Sunglass Hut, LensCrafters	114
L'Oréal International	France	The Body Shop	80
French Connection Group plc	U.K.	FCUK	21
Edizione Holding SPA	Italy	United Colors of Benetton	6

Source: Daniel and Hernandez (2012)

i) ***Renewed Influx of Foreign Retailers in Canada***

The recession may indeed have contributed to a recent jump in U.S. and foreign interest in the Canadian retail marketplace as global retailers consider Canada as a relatively safe and attractive market for expansion. The global recession has made it increasingly difficult for foreign retailers to achieve their desired growth levels in the U.S. market and abroad. As a result, focus has turned to Canada as foreign retailers survey potential opportunities to increase their growth opportunities and customer base in a highly-competitive global marketplace.

In particular, Canada has garnered much attention by foreign retailers due to the strong Canadian dollar and high levels of sales per square foot of retail space (Cooper, 2011). In addition, Canada experienced a relatively mild recession compared to other industrialized countries as the “housing markets have remained robust”, “household wealth relative to disposable income is near record high,” and the unemployment rate has remained relatively low (Cooper, 2011; Harrison, 2011).

The heavy American presence in Canada, beyond the favourable environment, noted above, is also attributable to the close proximity of the two countries, a common language, and a shared popular culture¹³ (Aversa, Hernandez and Daniel, 2011). This aids American retailers in transitioning

¹³ Canada also receives high levels of American advertising and marketing courtesy of American cable television networks broadcasting in Canada as well as U.S. periodicals and publications distributed in Canada both in terms of subscriptions and news stand sales.

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their retail concepts and store formats smoothly and effectively into the Canadian retail marketplace. Notable American retailers that have expanded their operations into Canada include: the Apple Store, J. Crew, Lowe's, Marshall's, Nordstrom and Target, among others. Although European and Asian retailers are also becoming more prevalent in the Canadian retail marketplace over the last decade (e.g. H & M from Sweden, Sephora from France and the Sony Store from Japan), American retailers are still the dominant actors amongst foreign retailers operating in Canada.

ii) ***What does it mean for consumers?***

The increased presence of foreign, especially U.S.-based, retailers is expected to benefit Canadian consumers, providing important advantages such as a wider variety of products, more convenient store locations and formats, and the potential for a more competitive pricing environment (Harrison, 2011; CI, 2011).

However, Kyle Murray, Associate Professor of Marketing at the University of Alberta's School of Retailing, warns:

“consumers expecting the transplants to offer the same shopping experience they receive south of the border may be disappointed...as stores may charge higher prices than their U.S. counterparts” (Mah, 2011).

A case in point was the opening of J. Crew's first store in Toronto in August 2011, where consumers were met with prices 15 percent higher than those at the company's U.S. outlets (Strauss, 2011b). Even with the strong Canadian dollar, American products are often priced approximately 20% higher in Canada than the U.S. (Cooper, 2011). During the recession, the total retail spending in Canada increased by 5 percent from 2009 to 2010 without retailers resorting to price-cutting strategies to maintain sales volumes (Collier International, 2011a). Given the relative robustness of the Canadian retail market, some foreign retailers may recognize the opportunity to price their merchandise at the full Canadian sticker price, rather than implement discounted prices similar to those found in the U.S., thus reducing any competitive price advantage for consumers in Canada.

A second factor of relevance to Canadian consumers is location. The majority of foreign-owned retailers are heavily concentrated in a handful of major urban markets (i.e. Calgary, Edmonton, Montreal, Toronto and Vancouver), with certain geographic regions being less favoured by foreign retailers. In particular, the province of Quebec, with nearly 23 percent of the nation's population, is home to only 13.5 percent of all foreign-owned retail organizations in Canada (CI, 2011a).

The location choices are not surprising – approximately 70 percent of the Canadian population lives in concentrated areas within 100 kilometres from the U.S. border. For example, Toronto and

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the surrounding area (i.e. the Greater Toronto Area) has a population of 5.8 million, or 16.8 percent of the Canadian population (Collier International, 2011a). Other major Canadian cities, such as Vancouver, Ottawa and Montreal, also, fall within 100 kilometres of the U.S. border. Locating just across the border allows American retailers to use their existing supply chains to service their Canadian retail outlets, reducing the investment and risk of entering Canada (CI, 2011a). Although some of the major foreign retailers do expand outside of major Canadian markets (e.g. Wal-Mart and Costco), many Canadian consumers living in smaller markets are relatively untouched by the positive convenience and product variety effects attributable to the expansion of foreign operations into Canada.

4. Transformation of Retail Products:

The economic climate and changing consumer attitudes have had a palpable influence on businesses' operations, and hence on consumer purchasing behaviours. Voinea and Filip (2011) reveal that the global economic downturn has changed consumers' attitudes and buying habits towards being "more economical, more responsible and more demanding" towards retailers. More so, the shift in consumer purchasing behaviour is further supported by a research report by LoyaltyOne and the Retail Council of Canada. The survey results revealed that following the recession, in 2011, 80 percent of consumers in Canada stock up on sale items, 77 percent pay closer attention to prices, and 68 percent have cut back on impulse purchases all together (Cameron, 2011). As such, retailers have had to adapt and evolve to Canadian consumers' shifting behaviour and purchasing habits in order to remain competitive within the retail marketplace.

i) Product and Pricing Strategies:

Retailers have undertaken a variety of strategies to maintain attractive prices for day-to-day consumer goods. One such strategy employed by food retailers, in collaboration with manufacturers, is reducing the food quantities provided and, consequently, adjusting the size of packaging accordingly (Schmidt, 2011; Clifford, 2010). Companies are flattening containers, thinning boxes, and heightening and thinning jars to maintain consistent prices of their consumer goods. Companies have been noted to employ package reduction practices as "consumers generally prefer a slight adjustment to packaging size over a price increase" (Schmidt, 2011).

The modification and reduction of product sizes is not a new practice, and has been a common occurrence since the late 1980s "when coffee companies began reducing tins from 1 pound to 13 ounces" (Rampell, 2011).¹⁴ Generally, retailers have the ability to determine the package sizes and costs of their products. However, some consumer product containers in Canada are regulated to

¹⁴ In Canada, notable examples of package size reductions of consumer products include: i) Scott's toilet paper reducing the sheet size from 4.1 inches by 3.7 inches, instead of 4.5 inches by 3.7 inches; ii) Classico and President's Choice repackaging their pasta sauces in taller, thinner glass jars and reducing the quantity of sauce from 700 millilitres to 650 millilitres; and iii) SunChips reducing the bag sizes of their products from 240 grams to 225 grams (Schmidt, 2011).

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be a certain size, including frozen and canned fruits and vegetables, baby food, pre-packaged bacon and sandwich meats.

Some stores have been proactive in responding to consumers' shifting behaviour and cash-flow concerns during the recession and beyond. Dollar stores, for example, have "capitalized on the downmarket trend" by expanding their merchandise into household necessities and maintaining lower costs for day-to-day consumer products (Clifford, 2010). As some shoppers are unable to afford regular-sized products, such as detergent, dollar stores have "worked with manufacturers to create smaller packages that cost less" (Clifford, 2010). Although the price per unit may be higher with these consumer products, they are a more attractive option for consumers living on lower incomes and managing pay cheque to pay cheque. Well-known manufacturers of brands, such as Hanes, Quaker Oats and Nabisco, as well as major retailers, such as Wal-Mart, have taken note and are changing their pricing and product strategies to include more attractive, smaller-packaged products (Clifford, 2010).

Some fashion retailers have also flourished on the premise of offering current, high-end fashion styles at cheaper and more attractive prices. Also known as cheap chic fashion, retailers such as Joe Fresh, H&M and Zara have established a successful retail formula that "hinges on the quick conversion of styles from the fashion runway to the store front" (Shaw, 2012). With this, high-end fashion items that would normally cost hundreds – if not thousands – of dollars can be purchased at dramatically reduced prices. Moreover, cheap chic retailers are prospering from this formula as they are experiencing higher growth rates than their high-end counterparts.

ii) *Private Label Products versus Branded Label Products*

Globally, consumers are increasingly opting for private label products or store label products¹⁵ over branded label products¹⁶ to cut costs (KPMG, 2009). A global study by Ipsos Marketing found that 80 percent of global consumers consider private label brands comparable to national brands available in terms of quality (Powell, 2011). The initial perception of private label brands being a low-cost alternative has evolved towards these labels being perceived as products of lower cost, but of comparable quality to national brands.

"Consumers are turning their back on brand names in the food, drinking and consumer goods sector, creating a quandary for manufacturers and a tricky position for mainstream retailers, whose relationships with suppliers are rapidly being rewritten" (KPMG, 2011).

Canadian grocers have noted a similar trend in their stores as customers are "trading down" and "opting for cheaper alternatives" (Strauss, 2011c). With this, consumers are "defending value in

¹⁵ Private label describes products manufactured/produced for sale under a specific retailer's brand.

¹⁶ Branded label describes products manufactured/produced by one company for sale by other companies.

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terms of price” as they make more “deliberate choices over where to shop and what to buy, trading down to outlets that offer higher value for money and [favouring] private and store labels over many national brands” (KPMG, 2009). Popular private label brands in Canada include: President’s Choice by Loblaws, Great Value by Wal-Mart, Kirklands Signature by Costco, Master Choice by Metro, as well as MasterCraft and Blue Planet by Canadian Tire.

Consumers’ cost-cutting switch to private-label brands has reportedly encouraged major consumer product manufacturers in the U.S. to adopt more aggressive market-share strategies by “cutting prices, accelerating product launches and spending more on advertising” (Byron, 2010). From a business management perspective, these pricing strategies are said to present the risk for the manufacturer of getting trapped by across-the-board discounts: “deep discounts devalue a product or service, limiting companies’ ability to raise prices as the economy improves” (Mohammed, 2011). A business’ ability to recover from the recession is thus seen as linked to the use of a creative and constantly evolving array of pricing strategies (see textbox).

Adaptive pricing strategies

Some businesses have been recognized for their ability to adapt their marketing strategies in ways that allowed them to weather the recession, without permanent profit-cutting effects. For example, financing packages linked to job loss guarantee programs were launched by some car manufacturers, to try to alleviate consumers’ hesitation in making a big purchase (Roseman, 2009). These programs were designed to protect consumers in the event of a job loss when making a major purchase, such as those offered by car manufacturers. In the case of involuntary unemployment in the first year of ownership, vehicles could be returned without penalty.

iii) Price Discrepancy between Canada and the U.S.:

The Canadian dollar experienced a significant appreciation in recent years, rising more than 30 percent since 2009 (Porter, 2011). Although consumers and retailers would expect to benefit from a strengthened Canadian dollar in terms of purchasing power (Blackwell, 2011; Tencer, 2011), Organisation for Economic Co-operation and Development (OECD) data reveals the 2011 Canadian dollar (equivalent to approximately US\$1) is on par with the 2002 Canadian dollar (equivalent to US\$0.62) at approximately \$1.23 per U.S. dollar (Tencer, 2011; OECD, 2012). In other words, the strong Canadian dollar has not translated into the lower pricing of goods and services in Canada as Canadians still pay approximately 20 percent more than their American counterparts for similar goods and services¹⁷ (Porter, 2011).

¹⁷ The Consumers’ Association of Canada notes that the price gap between the United States and Canada is actually higher than revealed by Porter, reaching levels of nearly 30 percent (Strauss and Tavia, 2011).

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Table 6: Price Comparison between Canada and the United States, 2011

Item	Canadian Price (Canadian dollar)	U.S. Price (U.S. Dollar)	U.S. Price* (Canadian dollar terms)	Gap (%)
Magazine	6.64	5.66	5.54	20
Book "Moonwalking with Einstein"	16.75	14.82	14.52	15
Blu-ray Movie "The King's Speech"	24.99	19.99	19.59	28
W-S Double Mezzaluna Chopper	50.00	38.00	37.24	34
Crate & Barrel Appetizer Plates (12)	24.95	22.95	22.49	11
Gap Cargo Shorts	44.50	39.50	38.71	15
Running Shoes	147.99	101.99	99.95	48
Titleist ProV1 Golf Balls	49.99	45.99	45.07	11
Canon Rebel T1i Camera	749.99	749.99	734.99	2
iPod Touch 8GB	249.99	204.99	200.89	24
Cars (sample 5)	37,349	32,988	32,328	16
Average				20.4

Source: Porter (2011)
*using C\$0.98/US\$ exchange rate

The price gap between Canada and the United States is most evident in the pricing schemes for books and magazines, as those products list the prices of both currencies. It also tends to be visible on big ticket items, such as high-end automobiles (e.g. Cadillac, BMW, Lincoln, Lexus), where the percent difference translates into large absolute sums of money. Yet some retailers are taking notice of these gaps and are adjusting their price accordingly to best represent market conditions. For example, in July 2011, Apple introduced their new MacBook Air laptop with both their Canadian and American stores posting the same introductory price (Deveau, 2011). However, this practice is still relatively rare.

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Standing Senate Committee on National Finance Study on Price Discrepancy between Canada and the United States

In October 2011, the Standing Senate Committee on National Finance launched a study into the contributing factors for price discrepancies on certain products between Canada and the United States. Witness testimony of relevant stakeholders (e.g. retailers, manufacturers, consumer organizations) from across the industry revealed that price discrepancy of retail products between Canada and the United States is a sensitive matter with “many variables that contribute to the price of a product”. Although the currencies have levelled out between both countries, factors such as market competition, regulations and costs arguably impact the higher prices in Canada.

In February 2013, the Committee released its study on price discrepancy between Canada and the United States. For more information on the Committee’s report and recommendations, please see [*The Canada-USA Price Gap*](#).

iv) *What does it mean for consumers*

Retailers, along with consumer goods manufacturers, are modifying and adapting their corporate strategies to enhance their customer base and maintain a competitive advantage within the Canadian retail marketplace. For example, retailers expanding their operations into the private label market provide consumers with a product comparable to national brands at a lower price point. This not only provides savings for the consumer, but also allows the retailer to retain control of pricing, production, marketing, distribution and, most importantly, profits. However, transparency issues remain (e.g. retailers selling smaller quantities in packages that appear to be the same size as previously packaged goods) as companies do not advertise the modifications or reductions that are made to their product lines. Quality issues also arise as products, such as clothing offered by cheap chic retailers, may not offer the same quality and durability of a higher-end product and, therefore, may have a shorter life cycle.

It’s important to note that corporate social responsibility challenges arise when retail organizations locate their operations abroad to cut their operating costs, including poor labour standards in terms of living wage, working conditions and healthy and safety standards. This was made evident with the tragedy in Bangladesh in April 2013, where a garment factory that included the cheap chic retailer Joe Fresh collapsed killing over 1100 workers (O’Connor, 2013). Retailers’ failure to address corporate social responsibility-related risks can negatively affect firm reputation, brand and competitiveness amongst consumers.

The entrance of new U.S. retail chains into Canada such as Target, the United States’ second largest retail discounter, is expected to have a significant impact on the Canadian retail marketplace. For example, in 2011, Target acquired the leases of 220 Zellers stores from Canada’s

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Hudson's Bay Company¹⁸, with plans to open 124 locations across Canada from 2013 onwards (Postmedia News, 2012; Magazine, 2013). Target's unprecedented expansion into Canada is the largest to ever take place, outpacing Wal-Mart's initial expansion of 122 stores in 1994 when it entered the Canadian marketplace (Magazine, 2013). Consumers are expected to benefit from Target's competitive pricing strategies as it spurs retail competition and applies pressure on other major retailers operating in Canada, such as Sears, the Hudson's Bay Company, Canadian Tire and Wal-Mart, to lower their prices to remain competitive with Target (CTV News, 2013). More so, due to cross-border shopping, Target is well known amongst Canadian consumers; it is estimated that already 30,000 Canadians hold Red Cards and over three million Canadians had shopped at a Target in the US within the past year, providing Target with a strong awareness amongst a large portion of the Canadian population (Magazine, 2013).

Conclusion:

Given its impact on consumers and their consumption activities and its contribution to the Canadian economy, the Canadian retail marketplace continues to play an important role within the Canadian marketplace. The genesis of this Update lay in Industry Canada's 2005 research for the *Consumer Trends Report*. Further analysis has highlighted the dynamic nature of the retail marketplace in Canada as it continues to evolve and change, influenced by its economic environment, technological advancement and, subsequently, the shifting nature of consumer behaviour.

As the analysis for this Update has shown, retailers in Canada are shifting and expanding beyond their traditional physical distribution channels to better deliver goods and services in an environment of changing consumer behaviour and market segmentation. Increasingly fragmented consumer demographics mixed with emerging technological advancements are having a profound impact on how consumers interact with the marketplace in terms of gathering information and making purchasing decisions. Consequently, this has transformed the traditional retail outlet as retailers strive to target, attract and engage with their consumers.

Further analysis has also revealed a renewed influx of foreign retailers in the Canadian marketplace. The global recession has made it increasingly difficult for foreign retailers to achieve desired growth in the U.S. as well as abroad and, as a result, the Canadian marketplace has been observed as a relatively safe and attractive market for expansion to increase their growth opportunities and customer base in a highly-competitive global marketplace. Given the significant level of corporate concentration at the highest tiers of retail in Canada, the expansion of foreign retailers into Canada is expected to drive competition amongst national and foreign actors ultimately benefiting Canadian consumers.

¹⁸ In July 2008, Hudson Bay Company, a Canadian commercial corporation at the time, was acquired by an American private equity firm, NRDC Equity Partners, and, now, is currently foreign-controlled.

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The economic climate and changing consumer attitudes and buying habits have had a palpable influence on the operation of retail businesses. Retailers have had to adapt to Canadian consumers' shifting behaviour in order to remain competitive within the Canadian retail marketplace. Consequently, retailers are modifying and adapting their corporate strategies to maintain attractive prices and products to enhance their customer base and maintain a competitive advantage within the Canadian retail marketplace.

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