

Retailers going loonie for Canada

Express, Big Lots join rush to open stores up north

BY DAN EATON | BUSINESS FIRST

With summer temperatures blistering in Central Ohio, some of the area's largest retailers have their minds on the comparative cool of Canada, where the economy and consumers are comfortable.

Columbus-based Limited Brands Inc. has been opening stores in the neighboring nation since 2008, and it's being joined by Express Inc. and Big Lots Inc. this year.

"They have a healthy economy, unlike others," David Marcotte, senior vice president of retail insights at Kantar Retail in Cambridge, Mass., said of Canada. "The currency is strong, the banking system is strong and the consumer has a desire for U.S. brands."

Not only is Canada thriving while the United States struggles, but there is opportunity to grow there, while much of the U.S. retail market is tapped out.

"There are lots of areas to develop in our urban centers," said Mario Paura, senior partner in the real estate group at Stikeman Elliot, a law firm in Toronto. "The U.S. is saturated."

Paura said Canada is often viewed as almost another state because of its proximity and similarities of consumers. The country is slightly smaller than California in population and gross domestic product. According to Industry Canada, the country's development agency, retail sales slipped to a six-year low in December 2008 at \$33.3 billion (Canadian), but have rebounded to more than \$37 billion a month since last year.

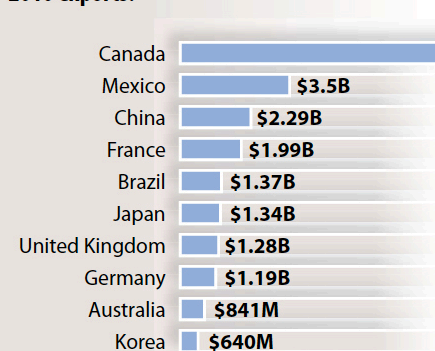
"Their consumer is considerably more confident about the future," Marcotte said. "They have far more faith that they'll keep their jobs and far more faith that if they lose their job, they'll find another. They're much more upbeat."

Paura and Rockey Delfino, senior partner with Stikeman Elliot's corporate group, work with U.S. retailers migrating north and said activity has clearly increased in the past two years.

Colliers International's spring retail report said there still is plenty of room for merchants to grow in Canada. The U.S. has 23 square feet

GOOD NEIGHBOR, EH?

Canada leads the world in exports from Ohio. 2010 exports:



Source: Ohio Department of Development

of shopping center floor space per capita versus 14 square feet in Canada. Paura said rents are lower, though the American influx is starting to change that equation.

"The (real estate) market is not fragmented," he said. "There are less than two dozen major property owners, which gives landlords increased leverage. Companies like Wal-Mart and Home Depot may find they can't get their way with landlords."

Colliers said a presence in Canada means more sales at full price as retailers keep shoppers at home rather than see them cross the border to buy less-expensive products at U.S. stores. Also, an estimated 70 percent of Canada's population lives within 100 kilometers of the U.S. border, so many retailers could take advantage of existing supply chains to expand store networks.

"If retailers can maintain their same cost structure and operational efficiency in Canadian stores as they do in U.S. stores, there is the potential for significantly greater profitability north of the border," the report said.

Limited Brands crossed the border first with its Bath & Body Works and Pink chains and followed last year with Victoria's Secret. The retailer has grown to 60 Bath & Body Works, eight Pink and six Victoria's Secret stores in Canada. The \$9.61 billion-revenue company has said it sees Canada as a \$1 billion market

with potential for as many as 200 Bath & Body Works and up to 20 Victoria's Secret flagship stores.

Express will open its first six stores in Canada this fall, with plans for up to 50. Big Lots acquired Brantford, Ontario-based Liquidation

World Inc. in May, giving it a 92-store head start into Canada once the \$1.84 million deal closes, with the potential of having 150 stores.

It isn't just Columbus retailers seizing opportunities. Major players such as Best Buy Company Inc., Whole Foods Markets Inc. and Lowe's Companies Inc. have entered Canada in recent years on their own or through acquisition.

Target Corp. this year acquired 220 popular Zellers discount stores, which it will convert by 2013.

Canada may be similar, but it isn't a U.S. clone.

"There's nothing insurmountable or enough to dissuade a retailer from expanding," Delfino said, but he noted legal differences that need to be known concerning employment law, privacy, consumer protection and, most notably, packaging and labeling. With English and French as Canada's official languages, companies are required to use French in some advertisements and labels nationwide. Bilingual laws are even stricter inside French-speaking Quebec province.

"Quebec is even a challenge for Canadian retailers, and vice-versa," Marcotte said.

That provincial pride is evident nationwide. "The consumer is a little different. They're not radically different, but it's enough that you have to learn," Marcotte said.

Canadians are proud of their culture and heritage, he said. Proud enough that they spurred McDonald's Corp. to put a maple leaf symbol on its iconic golden arches and prompted Home Depot Inc. to single out Canadian-made products in stores. Some outsiders opt to keep a Canadian brand name. Big Lots has said it could operate as Big Lots and Liquidation World, and Limited Brands has maintained the La Senza brand, the Quebec lingerie chain it purchased in 2007.

"That was a very, very Canadian company," Marcotte said.