



High duties

COSTING RETAILERS AND THEIR CONSUMERS

The retail sector is obviously vital to the Canadian economy on many different levels, but unfortunately the high duties Canadian retailers must absorb is hurting their competitiveness significantly, both domestically and abroad. Perhaps more problematic, these duties are undermining the Canadian consumer's faith in the merchants operating in the country, leading to the misguided belief that they are at best unable to adapt to a global economy or at worst price-gouging for financial gain. | BY ANDREW HIND

If a retailer is to thrive in Canada, it must first understand the problems surrounding duties and then determine how best to mitigate its effects on their business.

One can trace the roots of the problem back to 1994 when the North American Free Trade Agreement came into effect between Canada, the United States and Mexico. There was a belief in the 1980s that, as a result of NAFTA, manufacturing would shift to Mexico, where low wages would keep production costs low without companies at home needing to have to resort to manufacturing goods overseas in Asia. The original premise was sound, but it wasn't practical for a number of reasons, principally because the Mexican workforce simply didn't have the skill set necessary to achieve the end.

"Unfortunately, the fact that NAFTA didn't work as advertised is something of a grey area to consumers," explains Anthony Stokan, Partner at Anthony Russell Associates and author of *Naked Consumption*. "Having lived with NAFTA for a generation, we assume that there are no duties on goods coming from the US. People just assume that because we pay HST and PST that all taxes are covered."

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because little of what we buy is manufactured as a result of NAFTA. Most goods are still produced offshore," Stokan continues. "This lack of clarification on the part of the government, as well as retailers, has created the current problem."

The origin

The problem Stokan speaks of began to emerge a few years back, when the Canadian dollar reached parity with its American counterpart and remained there. This created amongst Canadian consumers a demand for parity in prices between the United States and Canada, even though the United States is a far larger market with a greater level of consumption per capita. Thus, comparing Canadian and US pricing simply based on proximity has created tremendous pressure on Canadian retailers, which has only been exacerbated by Canada's high duty rates, which on retail goods typically range from 5% to 18%, with an average rate of 11.1%.

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"For example, there is a 17% duty on cotton items, most of which are made in India, in the misguided notion that duties would help protect a non-existent domestic cotton-manufacturing industry. This duty makes selling cotton kitchen aprons and towels very difficult, because the cost to consumers would be very high," Pritchard explains. "If my supplier is in the United States, the Canadian consumer pays duties twice on the same item: once when it enters the US and again when it enters Canada."

Overpricing customers?

Hidden duties and high prices have left people to believe that Canadian retailers are overpricing their customers when in fact they are not. The result in the mind of the consumer is growing dissatisfaction and a growing trend toward purchasing in the United States instead. This means that all of the benefits of the transaction with respect to supporting local economies, creating jobs, and adding taxes goes to a foreign country.

It's not just domestic consumers that are being affected. Because we operate in a global economy, our high prices are undermining sales all over the world.

"Our antiquated duty-system makes us uncompetitive on a global scale. When I set retail prices, American consumers say 'what's wrong with those Canadians, why aren't they competitive?'" bemoans Pritchard.

It's a viewpoint many in the industry share. "The US is our largest trading partner, with more than 52% of our imports coming from them," explains Diane Brisebois, President and CEO of Retail Council of Canada. "Given our proximity to the US and the relative openness of our shared border, it is increasingly important, yet difficult, for our retailers to remain competitive with their US counterparts."

The Future

It's unlikely that duties are going anywhere---they generate too much income for the Government for that to happen---leaving retailers with the unenviable task of navigating the problem on their own. In particular, the responsibility of educating

consumers about duties falls on the backs of retailers, since the Government clearly isn't willing to do so. This presents a huge challenge for retailers operating all across the country.

But Stokan believes there is opportunity here as well.

"Increasingly it is trust, transparency and traceability that Canadian shoppers are looking for in purchases. The Internet has had an incredible impact on pre-shopping, and the customer now has the ability to go online and evaluate almost any product. They're immersing themselves in a Google world and coming to the store better informed," he says. "The Web is a retailer's opportunity to sell their brand, and interestingly enough, it's not just pricing that is driving consumers."

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AMERICAN EXPRESS CANADA**

For example, a recent American Express study shows that 36% of Canadians said that they want to play a greater part in their local communities, buying from local brands and vendors. In addition, almost half (46%) of Canadians say the availability of locally-sourced or locally-made products affects their spending today. This flies in the face of the notion that some might have which is that price comparison is the only thing on a shoppers mind.

The same American Express study concludes that "growing disaffection with the impersonality of global trends will lead consumers to seek simplicity, sustainability and local shopping experiences. This confers an advantage to local producers who can connect with shoppers at a personal or community level with hand-crafted, artisanal products. Corporations with global operations and perspectives must learn to act small, speak locally and engage with communities in meaningful ways to maintain relevance with the consumer."

"The savviest spenders in Canada now consider so much more than just cost," elaborates Jennifer Hawkins, General Manager Consumer Products and Partnerships, American Express Canada. "We're seeing a 180-degree turnaround from the last decade where consumption was conspicuous. Now people are buying to make a statement about the kind of world they want to live in."

These conclusions suggest that Canadian retailers have other avenues that they can pursue to retain consumer loyalty beyond price parity. Will doing away with duties and tariffs benefit Canadian retailers and consumers? Absolutely. But the higher prices don't necessarily spell doom and gloom for our retail sector. Instead, Canadian businesspeople will reap benefits by demonstrating flexibility and originality, finding new ways beyond price parity to attract and retain shoppers.