Sara Lebow, Paul Briggs, and Suzy Davidkhanian

Reimagining Retail: Canadian and US brands—Why they succeed (or fail) in each other's markets

Audio

On today's episode, in our "Retail Me This, Retail Me That" segment, we discuss why US home improvement company Lowe's didn't work out in Canada, why Canadian athletic apparel retailer lululemon athletica succeeded in the US, and which Canadian brands would prosper in the US if they chose to fly south. Join our analyst Sara Lebow as she hosts analyst Paul Briggs and vice president of content Suzy Davidkhanian.

Subscribe to the "Behind the Numbers: Reimagining Retail" podcast on Apple Podcasts, Spotify, Pandora, Stitcher, Podbean or wherever you listen to podcasts. Follow us on Instagram

Episode Transcript:

Sara Lebow:

The new analyst access program from Insider Intelligence provides clients with exclusive access to the team of thought leaders who create our retail and e-commerce research. The one-on-one sessions would be tailored to your business needs, providing a deeper understanding of the most relevant and timely research that affects your growth goals. Visit insiderintelligence.com/analystaccess to find out how you can book interactive presentations on retail media networks, CPGs, and more.

Hello listeners. Today is Wednesday, April 19th. Welcome to Behind the Numbers: Reimagining Retail an eMarketer Podcast. This is the show where we talk about how retail collides with every part of our lives. I'm your host, Sara Lebow. Today's episode topic is Retail, Across the Canadian Border.

Before we jump in, we have come to an end of our contest. For the past four weeks, we've been running a contest where we ask questions and whoever sends in the right answer along with a screenshot of their podcast five-star rating and review, wins a Reimagining Retail branded gym bag. Last week's question was, in March, an Australian startup made headlines for creating a meatball made out of the cultivated meat of what extinct animal? And the answer is, mammoth. You can't eat it though because scientists aren't sure how mammoth meat would interact with our contemporary human digestive tracts. As someone who's worked in multiple science museums, I obviously follow all things Mammoth and mastodon closely, so this meatball story was of interest to me. Congratulations to Ashley M. for winning that gym bag, Stu from our team will be in touch with you via email on how to get that. And thank you to everyone who participated in our contest.

Now let's meet today's guests. Joining me for today's episode we have VP of content on our retail desk, Suzy Davidkhanian. Welcome back Suzy.

Suzy Davidkhanian:

Thanks for having me.

Sara Lebow:

And joining us for the first time on Reimagining Retail, it's principal analyst for Canada, Paul Briggs. Hey Paul, welcome.

Paul Briggs:

Thanks Sara, and it's great to be here.

Sara Lebow:

Great to have you. Let's jump into our first segment, news and reviews, where I give the news and our guests tell me their reviews. Today's story is an April 13th one from the Wall Street Journal titled, Amazon CEO Andy Jassy Commits to Cost-Cutting and Innovation in Shareholder Letter. Amazon and Amazon Web Services in particular faces challenges as businesses pull back on spending. Amazon's gone through two rounds of layoffs recently and Jassy is trying to reassure shareholders in this letter. Paul, your review of this story in 60 seconds is?

Paul Briggs:

Sure. Yeah, I think it's the latest example of a big tech firm kind of warning the street that leaner economic times are impacting their performance. So in the case of Amazon, they're really pointing to spending on innovative new technologies to help boost their business in the long run. And it kind of harkens back to, back in previous recessions like 2008 for example, when they really had a deep dive in spending to develop Amazon Web Services. And so I think using that example I think is a way for Amazon to kind of let the street know that they are in this [inaudible 00:03:33] economically, investing in new technologies that may come up with something that is akin to a new business line like Amazon Web Services. So I think that's part of what the message was to the street.

Sara Lebow:

Okay. And Suzy, your view of this story in 60 seconds is?

Suzy Davidkhanian:

Literally the same thing. I would say, just the small addition, in that some parts of their business, Amazon's business is not doing very well and those are the usually more margin draining businesses that are capital intensive, whether it's people or systems in terms of inventory or goods, i.e., retail. And so it's not a surprise that they're trying to figure out how to bolster some of the tech first that is, once developed, a lot cheaper and higher margins than some of the other [inaudible 00:04:20] work or businesses. And then I would just say it's obvious for this particular audience, he needs to be super peppy and, Don't worry, we've got this right." So it's not a surprise that this is how he's going with that.

Sara Lebow:

Makes sense. Okay, now it's time for our next segment. Retail Me This, Retail Me That, where we discuss an interesting retail topic. Today's topic is retail in Canada. Paul's joining from Canada and Suzy is joining us in a Canada tee shirt, yay. I'm joining us just from New York City, not in a Canada tee shirt, but today's topic is retail in Canada. In the last six months, Lowe's, Nordstrom and Bed Bath & Beyond have all announced that they are leaving Canada. On the flip side, some US brands like Walmart and the Home Depot have done exceptionally well in Canada recently. So let's jump in with an extremely broad question, what makes a US brand succeed in Canada?

Paul Briggs:

Yeah, I can dive right on that one for sure. Just for some context, some of the largest mass merchants in Canada are American businesses with Canadian owned whole subsidiaries. So a key for those successes is investing in the market, investing in local knowledge, understanding the regulations that apply to the retail sector in Canada and investing in local talent. And I think that's what a few of those examples that you mentioned, including Walmart, the Home Depot, Costco is another one, that have a massive impact on mass merchant retail in Canada. So a key drawback for some of the failures is trying to apply some of the strategies that worked in the US and apply them to Canada. I think it's a different market and it needs to be invested in adequately in order to succeed with the Canadian consumer.

Suzy Davidkhanian:

And I would say, you can't just come into a new market and not do research. So we're talking about a completely different country, not another state of the US, but even for another state, you need to understand who the consumer is, what the competitive landscape is like, is there room for your brand? Can you build a community? All the usual things, but now you have to add extra knowledge, which like Paul is saying, it's the people on the ground. So the French language and what does that look like, the different laws, the different ways of thinking about pricing, the different ways that Canadian consumers express loyalty, coupon usage. I mean, you have to think about all these things in order to be successful.

Paul Briggs:

Yeah, and packaging as well, Suzy. So obviously two national languages in Canada requires packaging to be bilingual and I think that's something that, it's an obvious item that it's easy to understand, but even that has been a pitfall for some retailers.

Suzy Davidkhanian:

And I would also throw in location is important. So these are companies, retail brands, that are in more or less a strip mall sort of style, they're not a department store in a mall mall. Canada doesn't have a ton of malls and it certainly doesn't have a ton of amazing malls, the population density is such that there are key areas where one could potentially be. So Nordstrom, it didn't necessarily stand to a, I know we're going to talk about that after, but Nordstrom had a tough time because it's in a mall and there aren't that many successful malls. Whereas if you think about Walmart, Costco, they're all in these strip mall sort of centers, which also has a different foot traffic, different usage pattern, it could have helped. Even Best Buy is more of a strip mall style retailer than a Nordstrom.

Sara Lebow:

Yeah, I was just going to bring up Best Buy, which succeeded in Canada by acquiring an existing company, right?

Paul Briggs:

Yeah. We're going back a few years here where Best Buy entered the Canadian market 15 plus years ago and they acquired Future Shop, which was a local retailer, and that was their big strategy to come into the market, was to acquire a company that was essentially the same as Best Buy but in Canada and then eventually over time rebranded those Future Shops into Best Buys. And according to some of the surveys that we see, especially in consumer electronics, Best Buy is a leader today, all these years later. So that's one key strategy.

Another example is Lowe's. Lowe's [inaudible 00:08:32] market, 2007, 2008 timeframe, they acquired a company called RONA based out of Quebec who was in that big box home improvement space. They acquired RONA in 2016, but Lowe's just announced back in the fall that they're exiting the market and they're taking a pretty big haircut on that deal. They acquired RONA for two and a half billion dollars back in 2016 and they sold their Canadian business unit in total for 0.4 billion just to Sycamore Partners back in November. So a massive devaluation on that transaction for sure.

Sara Lebow:

So what made Home Depot succeed where Lowe's failed?

Paul Briggs:

I think it goes back to what we mentioned earlier about investment in the market, understanding the market very well. Home Depot was the first of that ilk to come in before Lowe's and some of the others. So I think Home Depot had a real niche play in Canada including pouring contract businesses or contractors as part of their consumer base. So that was a big effective strategy for them as well.

Suzy Davidkhanian:

It's interesting though, because there is no rinse and repeat. Just like I was saying how malls, if you're in a strip mall, you'll be more successful. If you think about Lowe's, they're also in a strip mall. Best Buy is in a strip mall. I mean, Bed Bath & Beyond's not doing well, although that's not a surprise since it's not doing well here in the US either. So it is interesting, I find that Home Depot is fine because we have a really, really strong Canadian do-it-yourself hardware store called Canadian Tire. So it is, again, it's like you have to start with research and understand what's happening in the market and who are the consumers and is there room for a second one? So clearly there was room for another giant home hardware type store.

Paul Briggs:

Yeah, and I think that's a good point, Suzy. It's pretty competitive on a national level for do-it-yourself kind of hardware stuff. And Canadian Tire as you mentioned, is a longstanding iconic brand in Canada. "There's more to Canadian Tire than tires," as the famous ad campaign from probably the '80s [inaudible 00:10:34].

Suzy Davidkhanian:

And they're probably the first one with a true loyalty program with cash back.

Paul Briggs:

That's right, Canadian Tire money. Canadian Tire money. So for those that you don't know, there was little fake dollar bills in various amounts that, I remember as a kid, I had a bunch of Canadian Tire money in a jar.

Suzy Davidkhanian:

Yeah, yeah.

Sara Lebow:

Physical dollar bills you had to hold onto?

Suzy Davidkhanian:

Monopoly style. Yeah, but we're talking about, I don't want to say-

Sara Lebow:

I can't' even bring a punch card to the coffee shop.

Suzy Davidkhanian:

Well, I don't want to insinuate how old Paul is, but we're talking about 25 years ago, maybe more, because I was a kid too and we had them way before anybody else was talking about this. And then they realized nobody wants, like you said, nobody wants to carry their Canadian Tire money, so they had these bins where you could donate the money for causes. So I think it was just a different way of thinking about a feel good sort of halo effect about a brand that is truly loved in Canada, I would say.

Sara Lebow:

It's very Canadian

Suzy Davidkhanian:

Yeah, and yet Home Depot is doing well. So there is no one size fits all I guess is the answer to why some fail and some don't.

Sara Lebow:

I mean, you're talking about, sort of like, what you said, a second one coming into the market. That's kind of what happened with Target, which also sort of fizzled out in Canada. Walmart was succeeding in Canada.

Paul Briggs:

Yeah, the Target example is... So this Nordstrom news that came out a few weeks ago or a month ago, a lot of people are comparing the Nordstrom announcement to what happened with Target. So Target came in about 10 years ago to Canada with a lot of fanfare, but the consumer experience was not what it was in the US. So a lot of Canadians crossed the border into the US states to shop at Target and they loved it, they thought it was a better Walmart.

But the experience in Canada was not the same. They had supply chain issues and merchandising issues that they could not overcome and they basically packed up shop and that was a high profile exit of the market. And a lot of the recent news, including Nordstrom's, including Lowe's, Bed Bath & Beyond, people are comparing it to that Target example.

Suzy Davidkhanian:

It's interesting because Nordstrom has been in Canada for a lot longer. Target came and left, they cut their losses and moved on very quickly, but Nordstrom has been in Canada for longer and they really tried to give it their all. We have a lot of cool Canadian brands. I don't know if they weren't carrying enough Canadian brands or if the price disparity between buying Canadian, whatever these brands were that were carried at the Nordstroms in Canada was different from them pricing-wise. It wasn't worth your while, you were better off cross-border shopping.

I also don't know if Nordstrom... I mean Target definitely had issues scaling their operations. One of the "issues" with Canada is that everybody is pretty much around the US border and then there are bits and pieces of people everywhere else. So it becomes very expensive to do that last mile delivery, clearly more important for a target that is everyday goods versus a Nordstrom. But I think companies come in, give it their best shot without truly understanding how to scale properly and then either keep sinking money into the operations, perhaps like Nordstrom did, or just cut their losses and move on target.

Sara Lebow:

Yeah, I think that's really interesting.

Paul Briggs:

Yeah, and another factor I think regarding Nordstroms, to close out the Nordstrom topic, I think they were up against a really entrenched competitor in Holt Renfrew in a lot of the same markets, Toronto, Vancouver, et cetera. And at Holt Renfrew, there's a lot of loyalty to that brand in Canada, so I think that was another factor.

Sara Lebow:

Yeah, I think that's really interesting also the cross-border aspect because what you both have been saying is that Canada's not another US state as much as people in the US might think of it as like North Dakota, but even though it's a completely different country, you still have most

Canadian consumers living driving distance from the US and being familiar with the US shopping experience. So you still have that competition.

Suzy Davidkhanian:

Right. And I mean the stat is something like 38 million Canadians, which is around the size of California, and then about 90% of Canadians live within 150 miles of the US border. It's not as easy... Again, when I was growing up it was super easy to go back and forth, and we were talking about this before, you could go for the day and come home, not quite as easy, but still so easy. Plus let's not forget, you can do cross-border shopping online now too, you don't need to physically go to the store. So I think over the years people just have a different expectation and experience with brands regardless of where their headquarters are and those expectations remain when you have a physical location in your neighborhood.

Sara Lebow:

I think that's the perfect transition for flipping this question on its head. We've talked about how US brands have fared in Canada, now let's talk about how Canadian brands have fared in the US. So in the first half we did Retail Me This, Retail Me That, now we're going to do Retail Me That, Retail Me This. I asked about US brands that succeeded in Canada, what are some Canadian brands that have done well in the US?

Paul Briggs:

I think the shining example here is Lululemon. So Lululemon is based out of Vancouver and it's kind of funny because there's something in the water in Vancouver because a lot of what we're going to talk about in this segment is Vancouver centric, so just an FYI. But Lululemon opened their first shop in Vancouver back in the early 2000s. By 2005 they had three stores in the US but they had four times as many in Canada and now they have more than 300 locations, Lululemon retail locations in the US. And it's a category that... That athleisure category of apparel, I think Lululemon was at the very forefront of tapping into it and is a big reason why it had appeal in the US and internationally.

Suzy Davidkhanian:

There are lots of brands coming out of Vancouver, you're right, Aritzia is another one. I think, as a proud Canadian I would say there are many, many, many brands that are here in America that we don't even realize are Canadian, and we can talk through a lot of them. Some of them super iconic like Aldo, Canada Goose, obviously, there's OAK + FORT, which is a brand new brand in Canada that's popping up all over the US right now. I think there is some sort of cachet sometimes for having, because just like Americans think Canadians are another state, they also kind of think of them as international, and they're like... Canada is really strong when it comes to fashion and fashion sense, and so I think there's also that appeal as to why some of these companies make it big here, although there are some, sadly, that don't make it big, that try and then don't stick around in the US.

Paul Briggs:

I wanted to jump on what Suzy was mentioning about Aritzia, because Aritzia, Bloomberg, so after the most recent quarterly announcement, Bloomberg and the US said it's the hottest fashion brand in the US is Aritzia. And this is a brand out of Vancouver that's been around since the '80s in Canada, but they're now really investing smartly in building up their retail brick and mortar footprint across the US and are doing extremely well. And I think a big part of the story of Aritzia is Gen Z, which we call Gen Zed in Canada, they tag their clothing everyday luxury and I think that it comes at a price point that appeals to younger consumers. So Gen Z is a big target for Aritzia and of course they're tapping into some influencers on TikTok and Instagram that are really highlighting some of the new fashion lines as well. So Aritzia is an interesting story because of that tie to the Gen Z demographic.

Sara Lebow:

Everyday luxury is a really interesting thing for you to call out because that's sort of what Lululemon is also is affordable luxury. So maybe a similar story, slightly different generation. Suzy, did you have something to add?

Suzy Davidkhanian:

I think there is potentially a little bit of currency exchange favor for Canadian companies too, making it here in the US, and also better understanding what markets are hot in terms of trends, whether it's fashion, athleisure, affordable luxuries so that they can make it big. Because if you think about it, a little bit as luck too. Why did Lululemon make it big, but maybe Roots didn't make it quite as big as a super iconic brand in Canada that does apparently have 14 stores in the US, but still not quite as big as Lululemon. Or why is Canada Goose huge, but then we have a lot of other, SOREL is not quite as big, but also a Canadian company. So I think some of it is a little bit luck too, or maybe it's first mover advantage.

Sara Lebow:

I guess the overarching question is, why do you think that Canadian brands tend to have more luck in the US than US brands tend to have in Canada?

Suzy Davidkhanian:

That's a good one. I think I would say probably there's luck all around. Just how there are so many entrepreneurs who start a new business idea and only a very, very small percentage make it, even though some of them have the exact same business idea. So some of it is about the right talent, some of it is about enough capital, some of it is about entering the market at the right time. Sometimes you can be too early to get to market. If Lululemon had come into the market right now, would it have been okay? Maybe not because they would have zero brand recognition and everybody is tightening their budgets. So I think it's a little bit of everything on both ends, whether you're going into Canada or whether you're coming into the US.

Paul Briggs:

Yeah. And the examples that we talked about, Lululemon, Aritzia, they were kind of on the leading edge of trends in fashion. So I think they had sort of a first mover advantage I think that allowed them to gain traction in the US and internationally. So I think if you want to look at potential next success stories, I think that's where you would look. Are they bringing something to the market that isn't matched elsewhere? And if they are, are they doing it with a smart strategy of brick and mortar and e-commerce, have a real omnichannel strategy to make it happen.

Suzy Davidkhanian:

And to be honest, I find that in America there are so many stores. I mean I know obviously that means that there's a lot of competition, but in Canada there is not... Every brand, Nordstrom had 20 stores between all the different banners, in Canada, we're not overstored by any stretch of the imagination, in New York there are 10 Gaps around within a very small radius. So I think that also helps, because Canadian brands can come into the US, obviously it's a gigantic country with a much higher population, and you can drop stores in lots of different places, especially if you use your data. So if you're doing cross-border selling and where you're shipping packages to and you drop a store there, you are more likely to be successful using that data piece and insight than an American brand who's going and littering Canada with a bunch of stores and that's just not the way we operate over there.

Sara Lebow:

I want to talk more about speculation about what stores would succeed in the US. First, I want to circle back to something you said, Suzy, which is Canadian brands that don't necessarily succeed in the US. Who did you have in mind?

Suzy Davidkhanian:

I mean, I think it depends on how we measure success. If we measure success as coming, trying and leaving, I actually don't have too many in mind. I think probably the one we always talk about... I feel like they're all successful in a different way. If they go in and try a store and it doesn't work, like ALDO used to have a lot of stores and now they're sold in a department store. I think different brands come in and try and tweak their business model to try and be successful. There are other companies that have come and gone. I mean, we talked about Tim Hortons, which we can definitely talk about, but Le Château is one that came and then fizzled out of the US before it fizzled out of Canada. So yeah, there are some, but it's definitely harder to find.

Paul Briggs:

Yeah, and regarding Tim Hortons, I think the success metric is a bit unfair because in Canada, Tim Hortons is ubiquitous, it's on every street corner. It's part of the Canadian identity for a lot of people. So to achieve that level of success in the US is just not feasible. There's too much competition. It's a different market entirely. So Tim Hortons has aggressively gone into the US and border states as far back as the 1980s and the '90s, it didn't really have a lot of success. Now the news is that they're opening in the Southern US, like Florida and Texas, to appeal to snowbirds, which are Canadians that are retired and head down for six months of the year. So that's the newest strategy from Tim Hortons is to open in those states in the South to try to tap into that market.

Sara Lebow:

Okay, my last question here, I want you both to speculate. What is a Canadian brand you think would succeed in the US if it chose to fly South? Paul, you go first.

Paul Briggs:

Great. You know what, I was really tempted to go with Dollarama. Dollarama is a discount store chain. It dominates discount retail in Canada with a 50% share, and is just amazing. So I don't know if they would want to take the leap into the US, so I'm not going to say Dollarama. But the company that I want to highlight is a company called Herschel Supply. They do backpacks and accessories for outdoors. It's also based in Vancouver. They had their first retail shop there, they now have a CEO formerly from the North Face, from Arc'teryx, that is looking at expansion to the US. They launched their first retail outlet in New York City in November. I love their stuff personally, and I think they have a real opportunity to make a lot of success in the US.

Sara Lebow:

Yeah, I know Herschel, I didn't even know they were a Canadian brand-

Suzy Davidkhanian:

Me either.

Sara Lebow:

... because they definitely do a lot of e-commerce in the US already, so I mean there's reason to think they'd succeed here for sure. The backpacks are definitely recognizable.

Suzy Davidkhanian:

I picked a company that I didn't actually realize was Canadian, which is Mountain Co-op. I don't know if you remember that store, Paul? We used to have those backpacks all the time for school. It is an iconic, I didn't realize, Canadian brand, especially in the '90s, '80s and '90s really. And it's all about outdoor. It is high quality, well priced, active wear basically, and equipment. And since that is a hot market in the US I feel like it's just a matter of time that they come here. However, when asked the question, they are just saying, "We currently don't have any locations outside of Canada, but you can always shop online," which is a different way of cross-border shopping. So I don't know, maybe they'll be the next ones here.

Sara Lebow:

Interesting that you both picked outdoor goods companies. That is all we have time for today, so thank you for joining me today, Suzy.

Suzy Davidkhanian:

Thanks for having me, super fun.

Sara Lebow:

And thank you Paul.

Paul Briggs:

Thanks Sara, this was fun.

Sara Lebow:

And thanks to all of our Canadian friends and listeners, colleagues near and far. Please give us a rating and review wherever you listen to podcasts and follow us on Instagram @Behindthenumbers_podcast. Thank you to listeners and to Victoria who edits the podcast. We'll be back next Wednesday with another episode of Reimagining Retail an eMarketer Podcast. And tomorrow join Marcus for another episode of The Behind the Numbers Daily.