Kurt Salmon

Looking North

Logistics Strategies for Canadian Expansion

For many years, the Canadian retail market has remained an elusive catch for American companies, but now the tides are turning.

Historically, Canada lacked the transportation infrastructure of the United States, its population was spread across vast distances and retail space was comparatively expensive. This led to an underserved retail and wholesale market, both for brick-and-mortar stores and e-commerce, which has grown at a trickle compared to U.S. online sales.

GDP:	**$1.58 trillion**
Retail market:	**$0.29 trillion**
Population:	**34 million**
Size:	**3.8 million miles^2**
Retail space:	**17 miles^2**

But faced with an economic downturn in the U.S., many American companies looking abroad for growth have turned to Canada as an attractive expansion option. The growing presence of American companies has driven improvements in infrastructure and regulation that in turn make the Canadian market increasingly attractive.

At the same time, the Canadian economy, and retail sales specifically, are expected to grow over the next five years. Retail e-commerce presents a particularly attractive growth opportunity, as online spending will nearly double by 2015, reaching $30.0 billion.

So how can U.S. retailers tap into this promising market? The road to Canada depends on a retailer's overall business strategy and goals for Canadian growth. Retailers tend to fall into one of three buckets based on their level of investment, each of which comes with its own best approach for expansion.

Low. Retailers in this category have done little to no marketing in Canada, but still have brand awareness among Canadian consumers. This grouping of retailers may have a significant number of Canadians trying to purchase items on their website, but are ultimately losing as many as a third of these customers because of high shipping fees associated with deliveries from the U.S. Working with a cross-border service provider, such as Borderfree or FiftyOne, takes the pain out of duty or customs paperwork and currency conversions. Borderfree and FiftyOne make it much simpler for retailers to sell to Canadians without building an in-house competency in international trade logistics. Companies currently using cross-border services can expect significant cost savings from cutting out the middleman and drop-shipping from Asian factories directly to Canadian consumers. A host of American retailers, from Eddie Bauer to Sephora to The Container Store, are already taking this approach.

Medium. For retailers who are already testing the Canadian waters through cross-border sales, but are looking to make additional investments in Canada, a retail store or dedicated Canadian website may be the next best step. At this point, the cost of fulfillment directly from the U.S. may become prohibitive. A growing contingent of Canadian 3PLs can provide in-country distribution services, whether you're a soft goods provider who requires significant value-added services or a hard goods distributor looking for experience with Canadian regulations.

High. The most significant level of investment is the direct operation of a Canadian distribution center designed to support dozens of Canadian stores. For example, Target recently announced plans to open 100 to 150 stores in Canada, a level of investment that would likely justify a Canadian-based distribution center to support these stores profitably.

Of course, many retailers start small and gradually grow their investments in the Canadian market. Take Amazon, for example, which launched its Canadian website in 2002 without a physical presence and has gradually expanded. While in the past Amazon relied on a Canada Post subsidiary to ship goods across the border due to regulatory issues, in 2011 Amazon opened its first distribution center in Canada.

In fact, the gradual entry approach may make the most sense when faced with the myriad of Canadian fulfillment options. Choosing between American carriers (such as FedEx and UPS) and cross-border services (Borderfree/FiftyOne) is no easy task. Costs can vary greatly and revolve around a number of network variables. The complexity ratchets up when American companies begin to consider 3PLs. Despite the recent growth in logistics services, the 3PL market remains fragmented. Canadian 3PLs maintain highly variable capabilities, depending on their location and industry vertical specialization. Canadian 3PLs also operate under different regulations than their American counterparts, which can further complicate the proposal process.

Finally, those considering building their own distribution center in Canada still face a host of regulatory, tax and tariff issues that prove challenging for even the most experienced multinationals. Canada requires product labels to be written in both English and French, and operations in Quebec are subject to a litany of additional regulations.

But regardless of the red tape, the Canadian market still presents an extremely attractive opportunity for American retailers. As the Canadian market continues to grow, so will the opportunity costs of not possessing a physical presence. ❖

Logistics Strategies Vary by Level of Investment

LOW

Keeping Canadian shipping costs down.
Solution: Cross-border shipping provider.

MEDIUM

Creating a small store presence and fulfilling e-commerce through a Canadian DC.
Solution: Canadian 3PL.

HIGH

Developing a large-scale bricks-and-mortar presence.
Solution: Retailer-owned Canadian DC.

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Kurt Salmon is the leading global management consulting firm specializing in the retail and consumer products industry. We leverage our unparalleled industry expertise to help business leaders make strategic, operational and technology decisions that achieve tangible and meaningful results. For more information, go to www.kurtsalmon.com.