

Canada's Leading Retailers: Latest Trends and Strategies for their Major Chains

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Introduction

The paper analyzes the latest strategies of growth carried out by Canada's leading retailers. It addresses the reorganization of retail capital that emerged from recent consolidation processes, in particular in the fashion sector. The concentration of retail capital into the domain of a few corporations is an ongoing process in Canada. The urge to merge became a widespread phenomenon in the 1990s but still prevails in the country's retail economy. Large retailers have been growing faster through the incorporation of existing networks rather than by the development of new chains. Although mergers and acquisitions in Canadian retailing have slowed down in pioneer sectors such as department stores, food, bookstores and, to some extent, home improvement, they are escalating in the fashion sector.

Post-acquisition policies of divesting from unproductive stores/chains in addition to the general trend of increasing store size and reducing the number of locations have modified the way that retailing is organized over space. Restructuring and integration processes that large retailers develop have tremendous impact on retailers, developers and consumers. Small retailers face stronger competition; mall developers confront higher vacancy rates and demand for larger spaces; and consumers travel further distances to reach the new retail formats in the suburbs or in specialized retail strips.

In order to shed some light on the current reorganization of retailing in Canada, this paper focuses on three aspects of the country's leading retailers: their profile and strategies; their market concentration; and, the remaking of their retail networks.

Leading Retailers' Profiles and Strategies

The classification of firms as Canada's leading retailers is based primarily on the sales ranking of those retail conglomerates generating over 100 million dollars a year in sales revenue. A series of financial and locational information has been systematically gathered for these firms since 2000.¹ Complete financial information on these firms is collected annually; therefore, the figures that are used in the analysis are for the latest year available for all the firms under study. Only automotive and government retail businesses are excluded from this collection and analysis.

Data for 2003 retail sales indicate that 94 corporations, controlling about 330 chains, contribute to over 78% (\$149.2 billion) of the non-automotive total sales (\$190.8 billion). Canada's leading retailers do the bulk of the retail activity and serve a variety of regional markets and social niches. Most of their networks are focused on the country's major markets where innovative and more efficient store formats can easily reach their critical mass of customers. Retailers concentrate operations in the four provinces that include the country's largest cities: Ontario, Quebec, British Columbia and Alberta (Simmons and Kamikihara 2005).

The top three corporations with sales over 10 billion dollars practically control almost 3,200 locations nationwide and over 25% of the retail market. The largest 30 firms have over one billion dollars in annual sales revenue, control almost 14,000 locations and account for 68% of the market (Table 1). In comparison with previous years, the most noticeable changes in the ranking of top retailers are: (a) the steady climb of Wal-Mart Stores Inc. and the reduced participation of *The Hudson's Bay Co.* in the department store sector; (b) the rise of *Home Depot Inc.*, *Home Hardware Stores Ltd.* and *Rona Inc.* within the home improvement sector; and, (c) the repositioning of several fashion retail corporations such as *The Reitman Group* and *Y.M. Inc.* due to acquisition processes (Gomez-Insausti 2003).

Despite the fact that data on total number of stores, floor space and employees are not sufficiently trustworthy to make rigorous comparisons over time, it is noticeable that many large retailers are increasing the size of their stores while decreasing the number of locations. Some good examples come from food and fashion retailing where consolidation processes explain many store closures, renovations and conversions. Large retailers have the power to quickly adjust investment strategies in order to increase efficiency and to reduce uncertainty, volatility and market limitations in their operating environment.

During post-acquisition periods, the integration of newly acquired networks increases the complexity of the firm and demands adjustments in the whole distribution system. New distribution centres, warehousing facilities and technologically updated office buildings are constructed in strategic locations (e.g., *The Weston Group Ltd.* and *The Sobey Group Inc.*). Integration processes usually lead towards

1. The data warehouse of the Centre for the Study of Commercial Activity (CSCA) holds all information used in this analysis.

CANADA'S LEADING RETAILERS

TABLE 1 Profile of Canada's Top 30 Leading Retail Corporations, 2003-2004

Level of Corporate Ownership ^a	Some Selected Chains/Banners	Capital Control ^b	US Sales \$ (Mill.)	Cum % Sales ^c	No. Chains	No. Loc.	Floorage sqft. (000)	Employees Total No.	Activity SIC ^d
<i>Weston Group</i>	<i>Loblaws, No Frills, Valu-Mart, Maxi, Fortinos</i>	CAN	25,220	13.22	17	1,641	53,000	70,000	601
<i>Wal-Mart Stores Inc.</i>	<i>Wal-Mart, SAM's Club</i>	USA	11,800	19.40	2	235	27,211	47,100	641
<i>The Sobey Group^e</i>	<i>Sobeys, IGA, Bonichois, Price Chopper, Lawton Drg.</i>	CAN	11,047	25.19	11	1,311	24,004	33,000	601,603
<i>Costco Inc.</i>	<i>Costco</i>	USA	7,583	29.16	1	63	8,850	12,000	641
<i>The Hudson's Bay Co.</i>	<i>The Bay, Zellers, Home Outfitters, Fields</i>	CAN	7,400	33.04	4	562	48,200	70,000	641
<i>Sears-Roebuck & Co. Metro Inc.</i>	<i>Sears, Whole Home Metro, Super C, Loeb, Brunet</i>	USA CAN	6,225 5,567	36.30 39.22	2 12	183 510	20,700 9,600	47,973 11,500	641,621 601,603
<i>Safeway Inc.</i>	<i>Safeway</i>	USA	5,270	41.98	1	213	9,700	30,000	601
<i>Canadian Tire Corp. Ltd.^f</i>	<i>Canadian Tire, Mark's Warehouse, Work World</i>	CAN	5,100	44.65	3	772	12,150	45,000	653*
<i>Home Depot Inc.</i>	<i>Home Depot</i>	USA	4,450	46.99	1	102	11,020	12,500	653*
<i>Shoppers Drug Mart Corp.</i>	<i>Shoppers Drug Mart, Home Health Care</i>	USA	4,415	49.30	2	918	6,300	35,000	603
<i>Tengelmann Warenhandels GEs</i>	<i>A&P, Dominion, Food Basics, Ultra Mart & Drugs</i>	GER	4,160	51.48	5	242	8,500	22,500	601
<i>Home Hardware Stores Ltd.</i>	<i>Home Hardware, Home Furniture</i>	CAN	3,816	53.48	3	1,020	8,100	25,000	653*
<i>Katz Group Canada Ltd.</i>	<i>Pharma Plus, Pharmax Rexall</i>	CAN	3,550	55.34	8	1,092	4,400	10,000	603
<i>Best Buy Co.</i>	<i>Future Shop, Best Buy</i>	USA	3,120	56.97	2	127	2,820	7,000	622
<i>RONA Inc.^h</i>	<i>Rona, Botanix, The Building Box, Reno Depot</i>	CAN	2,710	58.40	14	528	10,200	20,000	653*
<i>Holding 29527 Canada Lee.</i>	<i>Pharmacie Jean Coutu, PJC Clinic</i>	CAN	2,603	59.76	3	319	3,200	13,043	603
<i>The Jim Pattison Group</i>	<i>Overwaitea, Save-on-Foods</i>	CAN	2,500	61.07	10	150	5,000	15,000	601
<i>McKesson HBC Inc.</i>	<i>ARP, Obonsoins, Clinique Sante</i>	USA	2,200	62.22	5	506	2,700	6,500	603
<i>Tim-Br-Marts Ltd. Pharmasave Drugs Ltd.</i>	<i>Tim-Br-Mart, BMR Pharmasave</i>	CAN CAN	1,550 1,500	63.03 63.82	3 1	365 321	3,600 2,000	8,500 3,700	653* 603
<i>Developments Orano Inc.</i>	<i>Couche-Tard, Mac's, 7Jours, Provi-soir</i>	CAN	1,450	64.58	6	1,843	4,700	17,200	601

TABLE 1 Profile of Canada's Top 30 Leading Retail Corporations, 2003-2004 (continued)

Level of Corporate Ownership*	Some Selected Chains/ Brands	Capital Control ^a	US Sales \$ (Mill.) ^b	US Sales % ^b	No. of Stores	No. of Footage sq. ft. (000)	Employees Total No.	Activity SIC ^c
<i>Staples Inc.</i>	<i>The Business Depot</i>	USA	1,400	65.31	1	224	5,300	7,200 651
<i>TJX Companies Inc.</i>	<i>Winners, HomeSense</i>	USA	1,350	66.02	2	185	4,044	4,500 614
<i>The Brick Group Income Fund</i>	<i>The Brick</i>	CAN	1,260	66.68	1	74	3,350	5,000 621
<i>London Drugs Ltd.</i>	<i>London Drugs</i>	CAN	1,200	67.31	1	62	1,500	5,700 603
<i>The Forzani Group Ltd.^d</i>	<i>Sports Experts, Sport-Check, Sport Mart</i>	CAN	1,108	67.89	9	391	4,649	9,200 654
<i>IKEA AB</i>	<i>Ikea</i>	SWE	1,050	68.44	1	11	2,786	4,500 621
Total 2003 Retail Sales (excluding automotive)			190,826.6					

Note:

* Sales within Canada

a. Based on *Inter-Corporate Ownership 2003*, 61-517-XCB Statistics Canada.

b. Cumulative percentage of not seasonally adjusted sales, excluding the automotive retail sector.

c. 601:Food, 603:Prescription Drugs & Patent Medicine, 610:(611,612,613,614), 611:Shoes, 612:Men's Clothing, 613:Women's Clothing, 614:Clothing n.e.c., 621:Household Furniture, 622:Appliance, TV, Radio & Stereo, 634:Automotive Parts & Home Acc. 641:Gral. Merchandise, 651:Book & Stationary, 652:Florist, Lawn & Garden Ctries., 653:Hardware, Paint, Glass & Wallpaper, 654:Sporting Goods & Bicycle, 655: Musical Instrument & Record, 656:Jewellery and Watch & Jewellery Repair, 658: Toy, Hobby, Novelty & Souvenir, 659 Other Retail.

d. Based on Jones, K., Evans, W. & C. Smith 1994; Jones, K. & M. Doucet 1999; Simmons, J., Montgomery, D. & S. Simmons 1997.

e. The corporation acquired Comisso's Food Market in February 2004.

f. Canadian Tire Corp. Ltd. can be classified as SIC 653 instead of SIC 634 due to the exclusion of the automotive-related sales

g. Includes SIC 5639 Other Building Materials, Wholesale (NAICS 444110 Home Centres)

h. Rona Inc. acquired the operations of Castorama Dubois in Canada in July 2003, and Totem Building Supplies Ltd. in April 2005.

i. The Forzani Group Ltd. acquired all *National Sports* stores in January 2005.

higher levels of centralization in decision-making, contributing to the increasing concentration of headquarters in Ontario and Quebec. In the food sector, for example, *The Loblaw's Cos.* and *Sobeys Inc.* have reorganized their buying functions as their distribution systems are becoming truly nationally integrated. The expansion of *Loblaw's The Real Canadian Superstore* chain in Ontario pushed the move of the general merchandising division from Alberta to Ontario. The incorporation of newly acquired local and regional retail and wholesale networks into nationally integrated systems will likely have more a noticeable impact on suppliers and consumers in the near future. The impact of this type of structural reorganization is not known yet; and, even less known is whether Canadian and American retailers differ in the way that they carry out these strategies within the context of the North-American Free Trade Agreement.

The role of Canadian capital remains strong in the retail sector as a whole. Indigenous retailers control approximately 19,000 stores and 60% of the sales, while American firms command almost 5,500 stores and account for over 35% of the remaining market share (Table 2). The participation of foreign firms in the

TABLE 2 Top 94 Leading Retailers' Market Control by Origin of Capital, 2003

Origin	2003 Sales (Millions)	No. of Stores	Millions/Store
Canada	89,557	18,744	4.8
Foreign	59,645	6,764	8.8
USA	52,854	5,688	9.3
Other Foreign	6,791	1,076	6.3
Total	149,202	25,508	

TABLE 3 Market Concentration, 2003

SIC	2003 Sales Millions	% Top 4 Retail Conglomerates/Corporations				CR4 ^a
		First	Second	Third	Fourth	
601 Food	70,185.2	35.9 Weston Gr.	15.7 Sobeys Gr.	7.9 Metro Inc.	7.5 Safeway	67.0
603 Pr. Drugs	16,260.9	27.2 Shop. D.M.	21.8 Katz Gr.	16.0 P.J. Coutu	13.5 McKesson	78.5
610 Apparel	16,456.5	8.2 TJX Co.	5.7 Gap Inc.	5.2 Reitman Gr.	3.0 Aldo Gr.	22.1
620 H.F. & Appl.	19,453.9	16.0 Best Buy	6.5 The Brick	5.4 Ikea	4.1 BMTC Gr.	32.0
641 Gral. Merch.	34,978.4	33.7 Wal-Mart	21.7 Costco Inc.	21.2 Hud. Bay Co	17.8 Sears Co.	94.4
650 Other Retail	24,297.0	21.0 Cdn. Tire	18.3 H. Depot	15.7 Home Hard	11.2 Rona Inc.	66.2

Note:

a. The Concentration Ratio CR4 depicts the sum of the market shares of the four largest corporations.

group of leading retailers has continued to increase through acquisitions processes and the relatively recent expansion of, for example, *Best Buy*, *Williams-Sonoma*, *Zara*, *fcuk* and lately, *H&M* and *Mango*. It is interesting to mention that the average amount of sales for Canadian-controlled chain stores (\$4.8 million/store) is considerably lower than that for foreign-controlled outlets (\$8.8 million/store). Canadian capital supports many retail networks in food and fashion that are organized throughout the country while foreign capital is often attached to powerful chains in specialty retailing focused primarily on major markets.

Market Concentration

Mergers and acquisitions have turned into a main tool for corporate growth since the 1980s. Department stores and food retailing pioneered in Canada during the 1990s. Home improvement did soon after, and the fashion sector appears to follow the same path nowadays. Home improvement retailer *Rona Inc.* acquired *Castorama-Dubois* operations in Canada in 2003 and *Totem Building Supplies* in 2005. In fashion, *Groupe Jacob Inc.* acquired the *anne.x* chain from *La Senza Corp.* in 2004 and *Y.M. Inc.* bought *Suzy Shier* in 2003 and *Bluenotes* in 2004. After deep restructuring plans, several other fashion retailers such as *Boutiques San Francisco*, *Comark (Cardigan Holdings)* and *Saan (Gendis Inc.)* sold totally or partially their holdings to private groups of investors. The reorganization of fashion retailing has been intense; however, the sector still shows the lowest level of market concentration CR4 22.1% (Table 3). The recent penetration of the Canadian market by well-known European fashion retailers such as *H&M* (Swe-

den) and *Mango* (Spain) that have aggressive expansionary plans might transform the sector even further in the next few years.

By contrast, the top four general merchandisers continue to have the highest level of market concentration. The steep growth of *Wal-Mart Stores Inc.* and *Costco Inc.* explains the increase of the CR4 from about 84% in 2001 to 94% in 2003 (Gomez-Insausti 2003). Also, prescription drug and food retailing have maintained high levels of market concentration, more than 60% since the late 1990s. The prescription drug sector shows somewhat a fairly stable profile and no major transformations are foreseen at the present time. However, food retailing will be considerably transformed once again after the sale in 2005 of the Ontario operations of *The Great Atlantic & Pacific Tea Co. (Tengelmann Warenhandels-ges)* to Quebec's *Metro Inc.* (Flavelle 2005b). The transaction raises the third player to a privileged position. Home improvement retailing might also see soon some changes in the market share of the top four as *Rona Inc.* and *Home Depot Inc.* are deepening their expansionary plans and the U.S. retailer *Lowe's Cos.* is planning to establish several stores in the Greater Toronto Area by 2007 (Flavelle 2005a).

The department store and food retail sectors, and home improvement to some extent, pioneered in merger and acquisition processes until recently. Therefore, no more than slight post-acquisition adjustments are expected in the short term. Their market shares have reached levels that are close to the critical values of market concentration the Competition Bureau accepts; the largest retailer controls about 35% of the market and the top four close to 80%.

The Canadian regulatory environment does not typically constrain mergers and acquisitions within the framework of the Competition Act enacted by the Federal Government in 1986. The Act introduces the idea that efficiency gains can outweigh the disadvantages of reduced competition, allowing high levels of market concentration where the corporations in a given industry are not yet operating at minimum efficient scale economies. The assumption is that, in a small economy as the Canadian, greater market concentration is required for firms to achieve economies of scale and be competitive in the world economy.²

Different interest groups raised concerns about the fact that retailers in Canada are becoming larger and fewer, and changing their relationship with consumers and suppliers at different levels of geography. Large retailers argue that mergers and acquisitions allow them to lower costs of procurement, distribution and marketing while increasing efficiency, profitability and competitiveness. However, the power of big chains in large concentrated markets such as major urban agglomerations is empirically equivalent to market concentration itself as their large market

2. The Competition Bureau favours the *total welfare* perspective over a more consumer-oriented approach. The total welfare approach means that a merger will not be challenged where there is likely an increase in the sum of producer and consumer surpluses. That is, the wealth transfer effect of mergers is considered *neutral* as no weight is assigned a priori on who deserves more. Therefore, the transfer from consumers to producers is treated as a mere redistribution of income within the Canadian economy. However, in an open economy as the Canadian, this position is not without reservations.

shares give them high market power (Cotterill 1999).

In the search for acquisitions that are a good business opportunity and a geographical fit retailers' confront the challenge of carrying out post-acquisition processes successfully. The aggregate performance of their own and the newly acquired networks depends on the integration of many spatial and non-spatial factors such as product compatibility, ownership structure and management organization. During integration processes, large retailers restructure their operations by divesting in the less profitable networks while expanding, renovating or building new facilities in the most profitable chains. They have the possibility of reallocating capital internally in order to achieve alternative but interrelated goals for their different chains/banners. The opening, closure, renovation and conversion of stores are symptoms of adjustments in the allocation of retail investment over space.

The Remaking of Retail Networks

Changes in the locational choices made by Canada's leading retailers for their respective chains will shed some light on their business strategies. Store openings and closures by type of preferred location reveal to some extent the allocation of retail investment over space. Between 2000 and 2004, large retailers' strategies portray two main macro-tendencies: (a) chains in large urban markets are basically growing through the opening of innovative store formats that are typically located in power centres while, at the same time, they are decreasing the number of stores in malls; (b) many chains are also expanding in smaller urban markets, particularly those under 100,000 inhabitants, by opening mainly mall and free standing or street front locations. In sum, it appears that the power centre phenomenon is so far more related to larger urban centres. Nevertheless, the number of power centre locations has gradually increased in medium size markets.

The Food Retail Sector

In the food sector, the incorporation of recently acquired chains and the organization of truly nationally organized retail networks have been the main goal of the country's top two food retailers. However, the strategies differ by firm and chain. Some retail networks expand at fast pace while others shrink. *The Weston Group* focuses its medium-price supermarkets *Loblaws* on large urban markets, with over 1,000,000 inhabitants, where it decreases the number of mall stores while it increases the number of free standing or front street locations. The new superstore concept that *Loblaws* currently develops primarily in Ontario averages about 90,000 sq. ft. It serves a wider trade area from locations strategically positioned along main city roads. The company proactively builds this new store format in order to face the eventual penetration of *Wal-Mart Supercentres* into Canada.

The Weston Group also expands the network of discount food stores under the *No Frills* banner. Many of the openings are taking in both mall and free standing or front street locations in Ontario's large and medium size urban agglomerations.

In this province, the firm is also reorganizing the network of *Zehrs* supermarkets that basically serves medium size markets. Although the total number of stores declines gradually, some of them are conversions into other banners such as *The Real Canadian Superstore*. In Quebec, *The Weston Group* is still reorganizing the networks inherited from *Provigo Inc.* The adjustment of strategies affects both their own and the recently acquired chains. *Maxi/e* supermarkets that focus on the largest and smallest markets of the province has decreased the number of stores in large markets but increased in places with less than 100,000 people. Store conversions explain most of these changes; many *Provigo* stores turned into *Maxi/e* and several *Maxi/e* were transformed into *Loblaws* supermarkets.

The penetration and quick expansion of *The Real Canadian Superstore*, the warehouse club format developed by *The Weston Group*, is modifying the distribution system of the company in Ontario. Some *Loblaws*, *No Frills* and *Zehrs* supermarkets are turning into the warehouse club format at fast pace. More changes are about to happen as this format that successfully started in Western Canada spreads out quickly throughout the country. It has already reached the Maritimes and is escalating in Central Canada. The growth of the non-food products in *The Weston Group* organization justifies the move of its general merchandising division from Calgary to the Greater Toronto Area.

The food chains of *The Sobeys Group* are still under full reorganization after the acquisition of *The Oshawa Group* and, more recently, the *Comisso's Markets* in Ontario. The gradual incorporation of the recently acquired networks has produced an intricate combination of strategies. The low-medium price chain *Foodland* is virtually bounded to the country's smallest markets wherein several closures have taken place. The discounter *Price Chopper* and the low-medium price *Sobeys* expand their networks in large and small markets through store conversions and rebranding. The construction of new larger stores is for the moment virtually limited to the *Price Chopper* network. The network of *Sobeys* supermarkets is expanding quickly through store conversions; many *IGA* stores were transformed into *Sobeys* supermarkets in Alberta, and many *Sobeys* were turned into *IGA* stores in Quebec (Figure 1). The company explicitly seeks for the integration and standardization of its retail networks into four specific nationwide banners: *Sobeys*, *Price Chopper*, *IGA* and *IGA Extra*. Therefore, many more store conversions are expected in the short term.

Metro Inc., a Quebec-based food retailer, has displayed a fairly stationary growth in recent years; not many locations were added or closed. *Metro* stores are found in most markets across the province, and the *Marche Richelieu* shops are found for the most part in small markets. However, *Metro Inc.* has looked for an opportunity to expand; it just finished the acquisition of *The Great Atlantic and Pacific Tea Co.* operations in Canada. By so doing, the firm will be able to expand in Ontario that includes the country's most diverse and fast growing markets (Marotte 2005; Strauss and Pitts 2005).

In Western Canada, *Safeway Inc.* has steadily extended its network over time, particularly in medium and small markets. The new additions are found in different types of retail environment, but most of the stores that closed were mall loca-

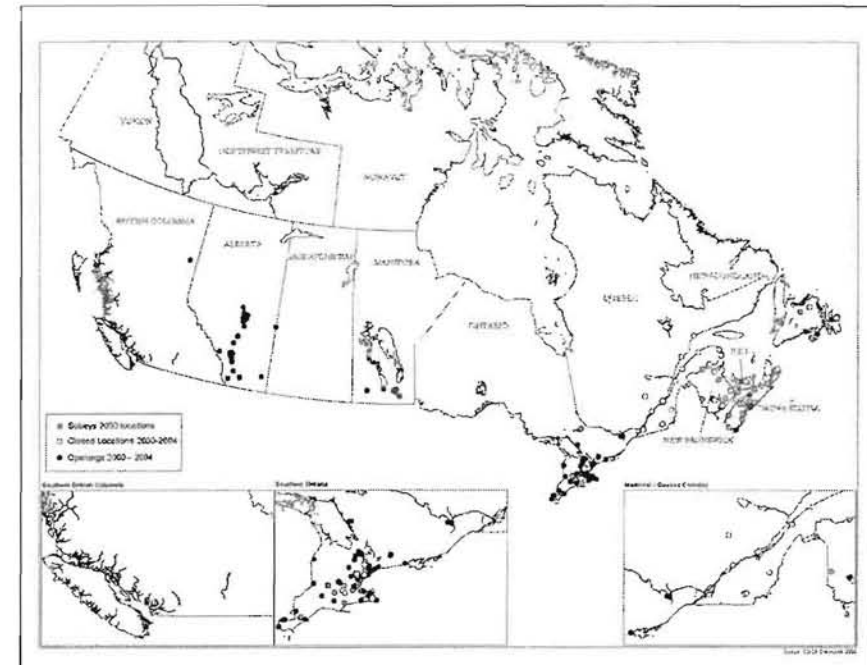


FIGURE 1 Location Strategy of Sobeys Supermarkets, 2000-2004

tions. The other powerful Western player of *The Jim Pattison Group* has added a bunch of stores to its network of *Save on Foods* supermarkets, mainly in mall and free standing or front street locations within small urban markets. However, the firm has also opened a few other stores in power centres within the largest urban markets of British Columbia and Alberta.

The Prescription Drug Sector

Prescription drug retailing exhibits a relatively stable retail environment; only a few chains have undergone major transformations. On the one hand, *Shoppers Drug Mart Corp.*, which is the most powerful nationwide player, aggressively extended operations throughout the country by adding power centre locations in the largest markets and closing down mall stores in small markets. The expansion of the network in the largest urban agglomerations of British Columbia, Alberta and Ontario is particularly noticeable (Figure 2). Another prescription drug retailer that has added a considerable number of stores is *Pharmasave Drugs Inc.* It has expanded its network in the largest and smallest markets but it reduced its operations in medium size markets.

On the other hand, other pharmacy chains transformed their networks only slightly. The network of *Pharmacies Jean Coutu* has added free standing or front

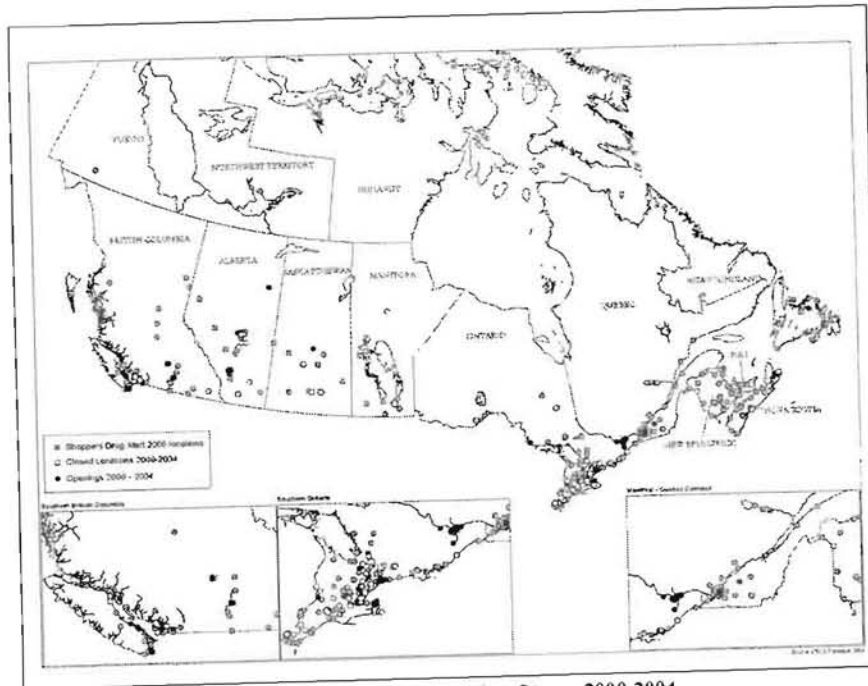


FIGURE 2 Location Strategy of Shoppers Drug Mart Stores, 2000-2004

street stores in large urban areas but it kept steady the number of locations in smaller markets. The other chain of the firm, *Clinique Sante*, has remained virtually unchanged. It only decreased the number of stores in markets with less than 100,000 inhabitants. *Lawtons Drugs* that is controlled by *The Sobey Group Inc.* has developed a very similar strategy for its network of pharmacies in the Maritimes. It basically reduced the number of stores in medium and small markets. In sum, most pharmacies continue to be predominantly located in malls within large and medium size urban markets, and in free standing or front street locations in smaller markets. Up to now, the prescription drug sector shows no foreseeable trend towards power centre locations

The Department Store and Home Furnishing Sectors

Traditional department stores such as *The Bay* and *Sears* show no major changes in their total number of locations in recent years. Their networks have remained rather stable after the deep adjustments the sector underwent in the 1990s (Doucet 2001). However, discount department stores such as *Zellers* and *Wal-Mart* depict a very different situation. *Wal-Mart* stores that belong to the most powerful American retailer have closed mall locations but opened new larger stores in power centres and free standing or front street sites throughout the country. Many of the

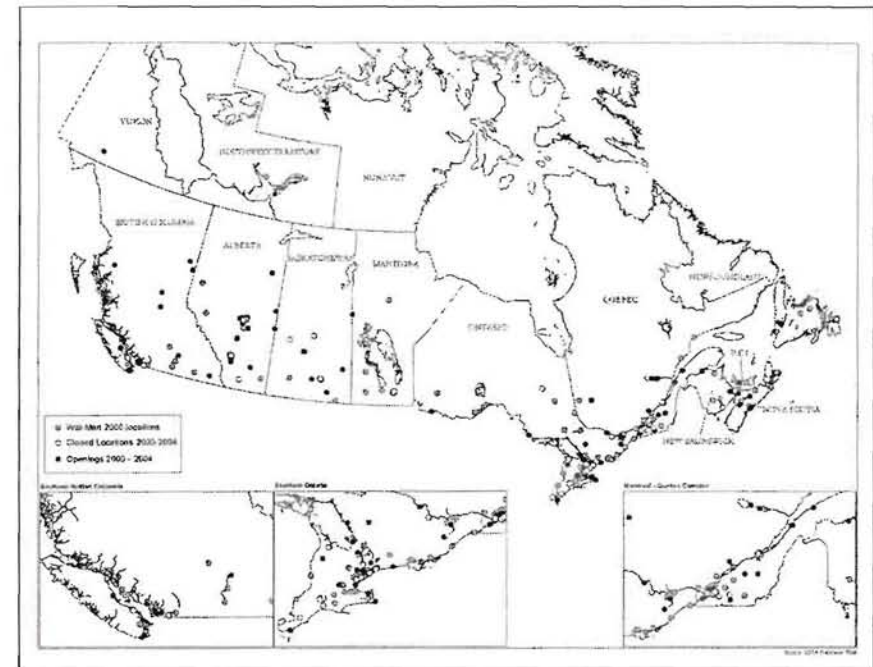


FIGURE 3 Location Strategy of Wal-Mart Stores, 2000-2004

new *Wal-Mart* stores are located in medium and small size markets, particularly in Western Canada and Ontario (Figure 3). The competition between discount department stores is fierce in places with less than 100,000 inhabitants. The network of *Wal-Mart* stores jumped from 59 in 2000 to 105 in 2004 while *Zellers* that is controlled by *The Hudson Bay Co.* moved down from 118 to 96 over the same period.

In home fashion retailing, two players *Home Outfitters* (*The Hudson Bay Co.*) and *Home Sense* (*TJX Co.*) present very similar strategies. They open power centre locations in large urban markets primarily, and in medium size markets secondarily. The home furniture sector presents a rather stable environment with only some minor changes. *Sears Whole Home* stores that are mainly located in large urban markets have started expanding the network through power centre locations in medium size markets. *Leon's Furniture* and *The Brick*, and its recently acquired chain *United Furniture Warehouse*, concentrate operations mainly in small markets where some new stores were opened. No other major furniture retailer expanded in small markets. However, *The Brick* has moderately extended its network through the power centre locations within the largest urban agglomerations of Ontario and Quebec. In electronics retailing, *Best Buy Co.* aggressively grows by establishing *Best Buy* and *Future Shop* stores in power centre locations within large and medium size markets.

The Apparel Sector

The variety of business strategies in fashion retailing is the highest as several trends have been coexisting in this sector (Hernandez and Garvey 2003). In apparel retailing, it is clearer than anywhere else that retailers develop alternative but complementary strategies for their different chains/banners (e.g., *Gap Inc.* controlling the high-medium price chain *Banana Republic*, the medium-price *Gap* and low-medium price *Old Navy*). Although this type of organization based on chain differentiation is emerging in the food sector, apparel retailing continues to be the leader in market fragmentation.

A three-fold classification of chains can be defined regarding the locational strategies that reflect their development strategies: (1) the fast growers; (2) the slow growers; and, (3) the laggards. The most dominant feature of the fast growers is the fact that many of them combined the opening of mall and power centre locations in large markets, and mall and free standing or front street locations in small markets, in agreement with the type of store format the chain/banner adopts for its different markets. The group of slow growers is basically contracting or maintaining the number of locations in large markets, where some mall closures occurred. The final group, the laggards, comprises those networks that have undergone deep adjustments due to restructuring or acquisition processes.

The group of 'fast growers' includes chains such as *Winners* (TJX Co.), *Penningtons*, *Smart Set*, *Reitmans* (Reitman Group), *Danier Leather* (*Danier Leather Inc.*), *Mark's Work Wearhouse* (*Canadian Tire Corp.*), *La Senza* (*La Senza Corp.*), *Suzy Shier*, *Stitches* (*Y.M. Inc.*), *Gap* and *Old Navy* (*Gap Inc.*), which are aggressively expanding in nearly all markets. Most of them set up operations in power centre locations of large and medium size markets. *Mark's Work Wearhouse* has grown very fast since it was acquired by *Canadian Tire Corp.* The new owner added numerous new locations in power centres throughout where many *Canadian Tire* stores are also located; however, other locations are just temporary or permanent conversions of the old *Work World* stores in malls of small markets (Figure 4). The network of *Penningtons* stores shows a similar aggressive pattern of expansion while closing some mall locations in major urban agglomerations.

However, there are several exceptions to this move of fast-growing fashion retailers towards power centre locations. Chains such as *La Senza*, *Suzy Shier*, *Stitches* and *Gap* are basically mall-oriented operations up to now. These chains are growing by locating stores in spaces with some cultural meaning for the shopper; the mall environment is one of the distinctive consumption spaces that offers to powerful fashion retailers a place where economic and cultural needs and desires can be fulfilled (Marston and Modarres 2002).

The group of 'slow growers' comprises apparel retail chains such as *Talbots* (*Aeon Co. Ltd.*), *Jacob Boutique* (*Groupe Jacob*), *Sirens* (*Y.M. Inc.*), *Tan Jay* (*Nygaard Co.*) and even *Aldo* (*Aldo Hldgs.*), *Roots* (*Roots Canada Ltd.*) and *Le Chateau* (*Le Chateau Inc.*). They have basically maintained a fairly steady total number of stores by expanding adding mall locations in small markets and keeping a stable or slightly lower number of stores in the largest markets. These retailers

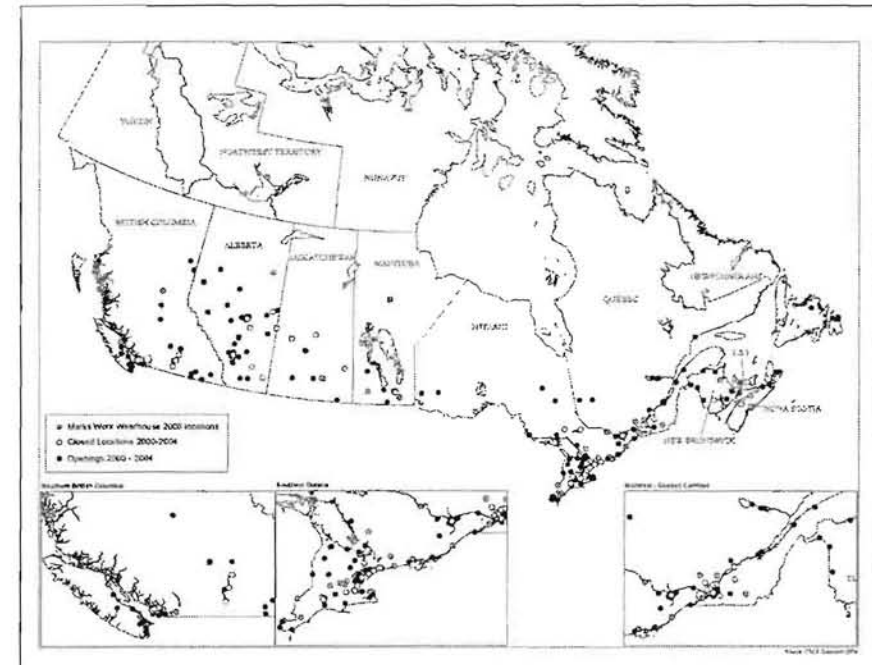


FIGURE 4 Location Strategy of Mark's Wearhouse Stores, 2000-2004

appear to be currently adjusting strategies and expanding as shown by the recent moves made by *Groupe Jacob* (acquired the *anne.x* stores from *La Senza Inc.*), *Y.M. Inc.* (acquired *Suzy Shier* from *La Senza Corp.* and *Bluenotes* from *American Eagle Outfitters Inc.*) and *Le Chateau Inc.* (added more than a dozen of stores in 2004-2005).

The group of 'laggards' contains chains such as *Cotton Ginny*, *Jack Fraser*, *Saan*, *Pantorama*, *Northern Reflections*, *Bata*, and to some extent *Bikini Village* and *Eddie Bauer*, which are decreasing their total number of stores due to current restructuring and post-acquisition processes. *Pantorama*, *Jack Fraser*, *Bata*, *Bikini Village* and *Eddie Bauer* chains are consolidating operations; *Cotton Ginny*, *Northern Reflections* and *Saan* stores are undergoing deep restructuring processes after their recent ownership change. *Cotton Ginny* chain is a good example. Since *Continental Saxon Asset Management* acquired the network, there have been many closures of mall stores that sometimes coexisted in the same shopping centre. The closures occurred primarily in the largest and the smallest urban centres, and secondarily in medium size markets where the chain seems to be more successful.

Conclusions and Further Research

Market concentration in the Canadian retail sector has continued to grow, as leading retailers are increasingly more dominant and competitive. Large indigenous retailers are very powerful in food, bookstore, sporting goods and apparel retailing, but the number of foreign retailers has grown overall. Foreign retailers remain very strong in the department store, prescription drugs and specialty retailing sectors. However, it is in the apparel sector where some noticeable changes have occurred. Well-known foreign fashion retailers are penetrating the Canadian market (e.g., *H&M*, *Mango*) and some foreign investors are acquiring Canadian-owned firms (e.g., *Saan Acquisition Group* linked to *Avalon Group Ltd.*, USA).

Mergers and acquisitions have produced decisive integration processes in the food and home improvement retail sectors, wherein the standardization of chain/banners continues to be a generalized phenomenon. In locational terms, two main macro-tendencies were detected. Large retailers' chains are growing in large urban markets by opening innovative store formats that are often located in power centres while simultaneously closing many mall locations. By contrast, in small markets, large retailers are expanding their networks by opening mall and free standing or front street stores. So far, the move of retail operations from malls to power centres appears to be a phenomenon more related to large urban markets.

A longer time-series of store conversions will be tremendously useful for further analyses of large retailers' strategies. The food sector is ahead of others and provides evidence that distinct chains develop different but interconnected strategies for different markets and social niches. Home improvement retailing appears to follow a similar pattern, particularly after the integration of chains/banners that *Rona Inc.* is carrying out. The apparel sector also offers a great opportunity for more detailed analysis of store conversion and rebranding; this sector is currently under deep reorganization. However, it is also critical to study the location of distribution centres that supply the networks of Canada's leading retailers. The integration of their retail systems is strongly affected by the building of the new warehousing facilities.

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