This column is the first in a regular series by consultant Ian Gordon that explores marketing and management issues that are important to readers of *Home Style*. In this issue, we consider the impact of the recent rise in the Canadian dollar.

Q. My customers are telling me to cut my prices or they will shop in the U.S. But even though the dollar is on par, my costs haven't changed and most of my suppliers say they can't reduce their prices now either. What should I do?"

A.

Retailers of all sizes are asking questions about how to cope with cross-border shopping. Even though the Canadian dollar has pulled back from the all-time high exchange rate, the rapid and significant escalation in its value compared to the U.S. dollar over the past year has changed the marketplace. Now Canadian retailers are suddenly incorporated into a continental North American market. Not since 1991, when the Canadian dollar also rose rapidly, have as many Canadians been buying in the U.S. This time though, shoppers can conveniently avoid those time-consuming trips to the U.S . because the Internet removes the need to travel. Faced with the prospect of mass defections and the hemorrhaging of revenues, Canadian retailers could consider some of the following options to keep more customers shopping in their stores:

Reduce pricing

It's not easy, but you may have to reduce prices to make U.S. purchases less interesting to customers. The level of discounting that is even possible will depend on the nature of the goods. Some retailers may also wish to discount only the 'good' items if they have a range of 'good-better-best' products, to improve pricing optics to the consumer. Obviously, price reductions have limited appeal to retailers if the net result is to compress margins but it may be necessary to cut prices to keep customers in the short term until margins can be restored, such as when reductions make their complete way through the supply chain to the retailer.

Cut costs

When booking new orders, retailers will be seeking cost relief from their suppliers to offset the margin compression referred to above. However, distributors and suppliers have their own constraints and may not be able to reduce prices immediately. As well, they may be doing business in currencies like the Chinese Yuan that have not experienced exchange rate changes comparable to the U.S. dollar depreciation.

Suppliers themselves may be facing increasing costs from their own suppliers – manufacturing costs for many goods have risen in concert with rising metals and commodity costs. In addition, some larger international suppliers may hedge their currency contracts which can reduce currency volatility and leave less room for price reductions. Retailers need to know whether the wholesaler's goods are also available in the U.S. and how wholesale prices in the U.S. compare to Canadian wholesale prices.

Product/service differentiation

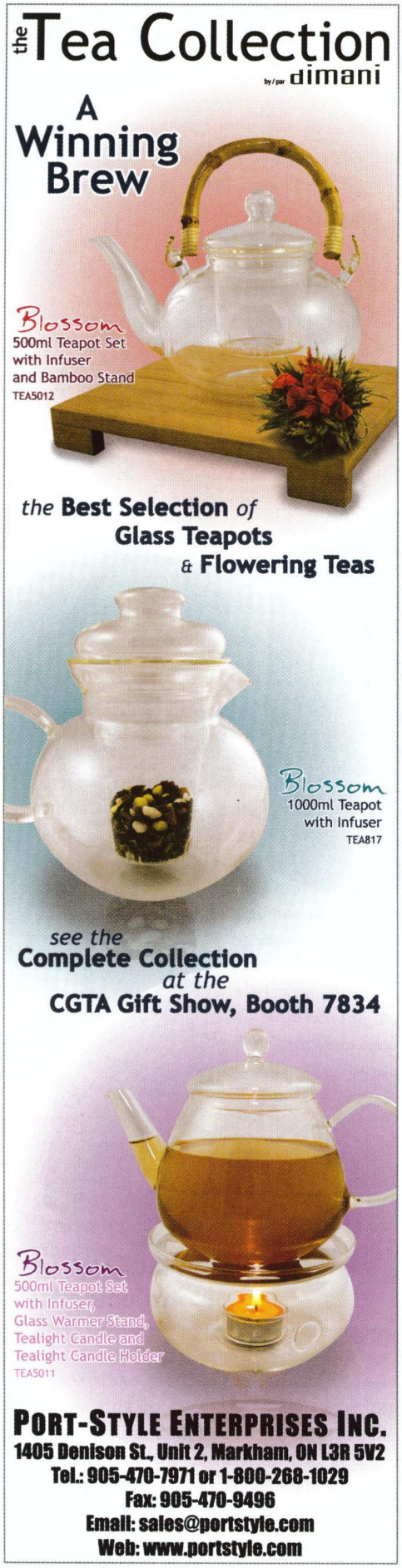
Where retailers' products and services can be easily compared to U.S. equivalents, consideration must be given to selling unique or distinct products instead. Prices might be reduced on products where customers can make a quick comparison to American goods, such as the 'good' items in the 'good-better-best' range referred to previously. At the same time, there may be opportunities for prices to be increased on products that resist comparison such as store brands, non-standard, personalized or customized products. In addition, products that might be less readily compared could be part of a collection, assembly or assortment that can only be fulfilled locally. Buying local always gives a small, independent retailer a distinct competitive advantage.

Suppliers can help retailers in this regard by partitioning channels and markets – that is, helping the retailer to sell only models or bundles of products that are unavailable in the U.S., or developing store brands.

Customer differentiation

Retailers could assess the lifetime financial value of different customer segments and focus mostly on the most valuable among them. Listen to valuable customers and understand what is most important to them. Are these customers price-sensitive? If so, the business is in near-term peril if prices are not reduced as soon as possible.

On the other hand, some valuable customers may be service-sensitive or have other unique expectations, which suggests an opportunity for relationship marketing Some retailers are training their staff to quickly distinguish cus-



tomers who enter the store according to preferred profiles. Customer differentiation has the potential to focus staff on the most profitable business opportunities.

Customer Loyalty

As part of relationship marketing, retailers could consider introducing a program to reward customers for their loyalty, purchase frequency or simply to appreciate their business. This need not mean points-based programs nor do programs of this type need to be just for large retailers with the necessary technology. Many small retailers have customer appreciation evenings with savings on certain product lines or cooking demonstrations. Whatever approach is chosen, small retailers would do well to emphasize a key asset – their staff – and take steps to train staff effectively when communicating with high value customers in general, and responding to questions about pricing, in particular.

Time for new practices?

Although this option will not provide immediate relief, retailers might consider whether this is a good time to challenge their existing business models and cost structures. If prices are reduced by 10% (say), and a retailer's variable costs are 60% of the selling price, a 10% price reduction would require a volume increase of one-third for profits to be the same as they were before the price reduction. Similarly, a 20% price decrease for these same goods would require volume to double for profits to remain the same. Such high increases may not be possible and retailers will need to find new ways to reduce costs, adopt new technologies, develop new selling strategies, or explore entirely new revenue streams.

Even the business model could be reconsidered such as whether everyday low pricing (EDLP) would be appropriate if seasonal pricing is not working effectively. Could excellent service become a primary profit generator? Could a retailer consider competing on scope (providing different goods to specific customer profiles) rather than assortment and scale (providing more of the same goods to more customers)?

We all need to educate consumers about the strengthening Canadian dollar, the challenge of reducing prices and the costs of doing business in Canada. Although consumers may think that retailers are not passing along gains from a stronger currency, there are likely several factors of which the consumer may not be aware. These factors might include the smaller size of Canadian markets, import tariffs and duties, and the often higher Canadian costs of occupancy and corporate taxes.

Unfortunately, most consumers will want to save their money rather than become more informed while still paying more. Instead of, or in addition to, educating consumers, retailers could provide more relevant reasons to keep customers shopping in their stores. Loyalty, earned over a long period can be lost quickly if customers perceive that a store's slow response to currency changes are benefiting the retailer at the consumer's expense. It may not be appealing – but it may be necessary – for retailers to cut prices while they still have customers. Pricing action may be part of the answer, at least in the near-term, but it should be only one part of an overall strategy to get and keep customers. The rapid appreciation of the Canadian dollar will bring any gaps in your business strategy into sharp focus. This might be a good time to review strategy before deciding whether and how to approach pricing challenges. ■

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