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SHOPPING FOR ANSWERS

Baggs. DIANA NETHERCOTT

Canadian retailers are not as affected by cross-border shopping as you might think

by Kim Westad

Shoppers tend to be of very differing minds about retail indulgence at this time of year. For some, January and February are months to tackle lingering post-holiday debt. For others, it's prime time to ferret out a bargain—even if it's in another country.

The impact of cross-border shopping often makes headlines, with various business interest groups saying it's diverting up to $1.6 billion from BC's retail economy.

Those concerns in the context of a fluctuating Canadian dollar piqued the interest of Jen Baggs, an economist in the University of Victoria's Gustavson School of Business. She studies how forces such as free trade agreements and exchange rates affect business survival and growth.

"There was a lot of anecdotal information on the effects of cross-border shopping, but it was not gathered with enough rigor," Baggs says. "Blanket statements were made, and it was all very rough."

So she and two colleagues decided to research a topic they felt had been understudied, even though it plays a large role in any economy—shopping.

With 20-plus years of Statistics Canada business tax data at their fingertips (1986 to 2008), they analyzed sales, profits, number of employees and driving distance from a border, relating that to exchange rate and where the businesses were located. They studied a range of retailers, including apparel, grocery stores, gas stations, food services and accommodation.

The result? The number of cross-border shoppers isn't as high as some would have us believe, says Baggs, and the effect on Canadian retailers gets smaller very quickly with distance away from the border.

"As you'd expect, proximity means everything," she says. Canadians living within 10 km of the border will make the trip to save a few bucks and that can have a significant effect on Canadian retailers. But the effect "is notably diminished for businesses 30 or 40 km from the border and the effect is gone by 100 km."

The likely explanation for this is the time, cost and hassle of crossing the border. That's particularly true for places such as Vancouver Island, where a ferry or plane ride is needed. "You're not going to do it to buy four apples, a granola bar and a T-shirt," she says.

A positive effect of a high loonie is cheaper imports for Canadian retailers. So while some businesses may lose consumers to shopping in the US, they may also be getting less expensive imports.

In clothing and apparel, for example, over 80 per cent of merchandise in Canadian stores is imported, and retailers pay for those imports in foreign currency. "In a sense, retailers are huge cross-border shoppers themselves," notes Baggs.

Over the years of the study, the Canadian dollar ranged from $0.62 to $1.07 US and "everywhere in between." One thing is for sure, says Baggs: our dollar will keep fluctuating.

The research is helpful for policy discussions on how or if governments should help impacted retailers, for managers to determine how to deal with the exchange rate, and for retailers making projections or investment decisions.

These kinds of everyday life statistics also help Baggs in class, as they're easy to explain and almost everyone can relate. "When it comes to shopping," she says, "people have a lot of opinions so it's easy to spark debate."

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According to Statistics Canada, cross-border shopping nearly doubled between 2006 and 2012 from $4.7 billion to $8 billion, but still accounted for less than two per cent of total Canadian retail sales.

About three-quarters of Canadians live within 160 km of the US border. In 2012, Canadians made almost 56 million visits to the US, up 38 per cent from 2006.

In addition to border proximity and strength of the loonie, other factors that influence cross-border shopping trends are price differentials, changes in retailer landscape, duty-free limits, tax changes and economic conditions.

Internet shopping has grown substantially in Canada, but cross-border internet shopping hasn't. That's likely because of the added costs of cross-border online shopping, such as taxes and duty.

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