

CATALYSTS: WHAT'S DRIVING GROWTH IN DIFFICULT TIMES: RETAILING

Living with the giant down the street

When Wal-Mart sets up shop, local economies get a kick start - though smaller businesses often need to refocus

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Liz Westman had reason to be anxious when Wal-Mart set up shop in Okotoks, Alta., in late 2002. Within a year of the giant discounter opening at the other end of town, sales at her home decor store dipped almost 10 per cent. It was the classic so-called Wal-Mart effect: Business began to shift to the newcomer and away from the town's main street, where her store is located. Ms. Westman, however, responded swiftly.

She ditched products in her store that were also carried at Wal-Mart, such as picture frames and candles. Instead, she returned to her shop's higher end roots of custom window coverings and one-of-a-kind sofas and chairs. Sales at Homeworks Custom Interiors recovered, and have since doubled to about \$1-million a year, she says.

Now she and other Okotoks merchants are steeling themselves for the next onslaught. As it is doing in communities across Canada, Wal-Mart is dramatically expanding its Okotoks store, transforming it into a Supercentre with an even wider array of home furnishings and other items, and a full supermarket. The move comes just as retailers across Canada brace for what could be the toughest holiday season in two decades amid the global financial meltdown.

"I think there's a little bit of concern when Wal-Mart comes," Ms. Westman says. "It does worry a small town when it happens ... But we probably needed a kick in the pants, and to refocus."

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Wal-Mart, the world's largest retailer, forces rivals to pull up their socks and differentiate their offerings from it. The discounter invariably attracts an array of other big-box merchants to spots close to it, and its low prices and

wide array of products draw shoppers from surrounding neighbourhoods.

The discounter can also create sterile-looking shopping pods at a city's outskirts, sucking life out of a community's downtown. It is often the anchor for a power centre that is dotted with big box outlets in vast parking lots.

Even so, the entry of Wal-Mart into a market pinches less than 10 per cent of local stores' business, says Paul McElhone, associate director of the retailing school at the University of Alberta's School of Business.

"As bad as it is, these are often marginal businesses anyway," Prof. McElhone says. "When Wal-Mart comes to town, it makes other businesses better."

ROOTED IN GROWTH

Okotoks, which has restored its old-style main street look, is typical of the type of place that Wal-Mart targets. Crowned in the 2006 census as Canada's second-fastest growing mid-sized community, Okotoks's population has doubled since the beginning of the decade to about 20,000 - and is expected to reach 30,000 by 2015.

Its youthful population (average age: 32) is attractive to Wal-Mart because young people make more purchases than older consumers do. And the burst of housing construction is appealing because new homeowners buy more.

After Wal-Mart arrived, other big-box retailers soon followed, along with new restaurants and shops. Today, Okotoks officials estimate about 50 new shops, eateries and professional offices have come to town, while only a few closed.

Still, in the early part of the decade, local merchants' concerns about the new competitor's impact prompted the town to draft a downtown renewal plan. It poured \$6-million into planting trees, widening sidewalks and creating a central plaza around an old clock as a gathering place.

Many downtown shops went through their own rejuvenations. A picture frame store is being converted to an art gallery. Upscale restaurants, antique shops and home decor boutiques have sprung up. People from outside of Okotoks flood into town to shop. Last month, another retailer - Home Depot - opened, anchoring another shopping development several blocks from Wal-Mart.

"Certainly we have seen a change in the types of businesses that have come here," says Shane Olson, the town's economic development team leader. In his late 20s, he moved to Okotoks from Ontario more than two years ago with his wife just before their daughter was born. They shop at Wal-Mart for children's necessities. "Wal-Mart has some of the most competitive prices on these sorts of things."

But the couple shop elsewhere too, and studies have found that other retailers cash in from Wal-Mart's presence.

According to one of the more comprehensive studies on the subject, retailers' sales rose faster in districts with Wal-Mart stores - an average of 27.2 per cent - compared with areas without the discounter, where sales grew 18.6 per cent. The research, done for the Centre for the Study of Commercial Activity at Ryerson University, was conducted from 1994 (when Wal-Mart arrived in Canada) to 1998.

Today, Wal-Mart continues to forge ahead with its expansion, even as many competitors hold back in the tighter times, spokesman Kevin Groh says. The retailer will invest "hundreds of millions of dollars" in local economies through more than 25 new or expanded stores in the next year alone, he says.

SPEED BUMPS

Not all communities have been as welcoming to Wal-Mart as Okotoks.

Guelph, Ont., waged a decade-long battle against the discounter's bid to build a \$20-million store before it was approved. Rival retailers, residents and even a Jesuit group were among the opponents. But the outlet, which opened in late 2006, performed so well that now Wal-Mart is expanding it into a Supercentre with a full grocery section (a plan that also drew objections).

In Stratford, Ont., home of the Shakespeare theatre festival, Wal-Mart is embroiled in another skirmish. The town has rejected its request for a store and the matter is to be appealed at the Ontario Municipal Board in January.

A report prepared for SmartCentres, which is Wal-Mart's real estate partner, found that 83 per cent of Stratford residents have already shopped at a Wal-Mart, and 28 per cent had shopped at Wal-Mart within the previous month. But they have to drive 30 to 40 minutes to get to the closest Wal-Mart.

And when residents shop at Wal-Mart in nearby communities, they often spend money there at other businesses too, which is a loss to Stratford, Mr. Groh says.

Still, Stratford Mayor Dan Mathieson insists that most residents don't want the discounter. "The community is very much pro-development as long as we continue to meet the unique characteristics of our town, which is heritage conservation and preservation of architecture."

FULL SPEED AHEAD

Since late 2006, Wal-Mart Canada has been rolling out its Supercentres, a retail format that wreaked havoc on the U.S. supermarket sector when introduced in 1988.

Unable to match Wal-Mart's low costs, economies of scale and clout with suppliers, dozens of grocers were pushed out of business. But survivors, such as Kroger Co., became stronger.

In Canada, Supercentres have already forced rivals to make changes. Now retailers have the added strain of operating in uncertain economic times, which tends to benefit Wal-Mart's low-price formula.

In Okotoks, as Wal-Mart prepares to expand its store, rivals are not standing still. Home Depot is drawing customers by touting its broad range of energy-efficient and environmentally friendly products, says Peter Vernon, a Home Depot district manager.

And it tries to take advantage of Wal-Mart's popularity, he says. "The more traffic in the area, the more opportunity we have to drive people into our stores, and the better off we're going to be."

But existing grocers will feel the heat when Wal-Mart introduces more food, Prof. McElhone says. Loblaw Cos. Ltd. has responded by converting its local Extra Foods into its successful No Frills discounter format. Sobeys, the second-largest chain in Canada after Loblaw with a supermarket next to Okotoks's Wal-Mart, is luring customers with a fresh-food focus and new loyalty program.

Ms. Westman feels her store has distinctive enough offerings to be shielded from the Supercentre assault. She's a loyal Sobeys shopper, but thinks she may venture down Wal-Mart's grocery aisles if tougher times start to pinch her business.

"It doesn't hurt that it's one-stop shopping," she says. "As the weather gets colder, that's appealing. Sobeys is going to have to work really hard to keep its customers."

By the numbers

304

Number of Wal-Mart stores in Canada.

39

Number of Wal-Mart

Supercentres in

Canada.

59

Number of Supercentres

expected by Jan. 31, 2009.

\$11-billion

Value of business done by Wal-Mart Canada with more than 6,000 Canadian product and service suppliers in 2007.

100,000

Number of jobs (trades and in-store) Wal-Mart estimates it has created in Canada since 1994.

Source: Wal-Mart Canada Corp.

Down in the valley

Labour force by industry

(2006)

Business services: 20%

Education: 7%

Health care/ social services: 8%

Finance & real estate: 6%

Retail/ wholesale trade: 16%

Manufacturing: 7%

Construction: 11%

Resource- based industries: 8%

Other: 17%

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