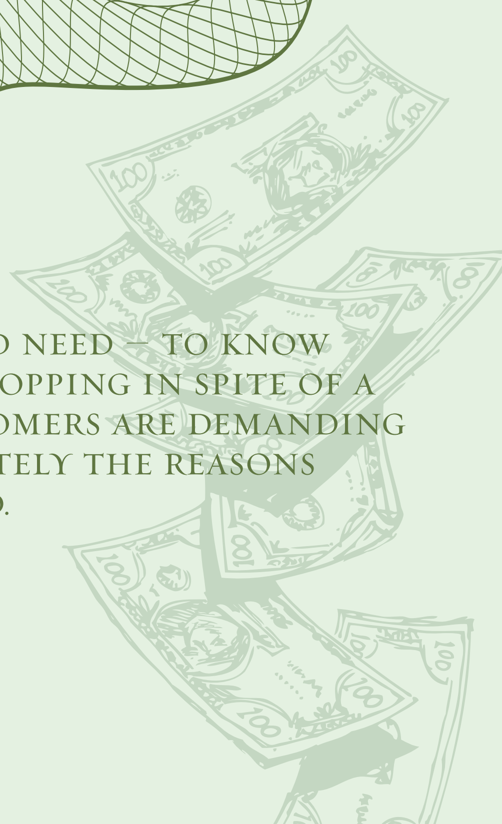
# WHAT PRICE IS RIGHT?

## RETAILERS WANT — AND NEED — TO KNOW WHY PRICES AREN'T DROPPING IN SPITE OF A STRONG LOONIE. CUSTOMERS ARE DEMANDING ANSWERS. UNFORTUNATELY THE REASONS AREN'T CUT AND DRIED.

BY SUSANNE RUDER



When the Canadian dollar became equal in value to the U.S. dollar for the first time in 30 years in September, there arose a great hue and cry from media and consumers alike. "Hey! If the two currencies have the same value, why are Canadian goods still so much more expensive?" they railed. Some retailers have joined their ranks, demanding to know why suppliers aren't offering price cuts. In some cases, suppliers are even raising prices. If the loonie buys more than it used to, why aren't suppliers passing the savings along to retailers?

Fred Pritchard, owner of Mississauga-based Golda's Kitchen, has dropped prices on more than 500 products by 10 to 20 per cent over the last several months. Still, he's lost business to cross-border shopping and says he's "disappointed with a handful of suppliers" that haven't budged on pricing and show interest only in helping their own profit margins.

"The retailer is the poor guy squeezed in the middle, because there are angry consumers out there who demand to know why they can purchase something in the U.S. for substantially less," says Hope Milner, former owner of La Premiere Compagnie de Paniers in Pointe Claire, Que., and founder of Hope's Bag, a Web site showcasing hot products. "A lot of times suppliers don't lower their price when you get fluctuations like this," she says, and "(retailers) can't lower their price because they'll cut into their own margin."

Like retailers, wholesalers are caught between their suppliers in a profit-squeeze, she says. Increasing costs are offsetting the stronger loonie, particularly for importers. Compared to the U.S., for example, wages, taxes, import duties and brokerage fees are higher in Canada. The cost of raw materials, from nickel and stainless steel to butter and milk, is rising due to increased global demand. Hydro, fuel and freight costs are also increasing dramatically. And because Canada is 90 per cent less populated than the U.S., "We don't have the same distribution networks, we're not as big and we can't buy the volume," says Milner. All this means Canadian importers are finding it harder to buy direct from manufacturers or qualify for the same bulk discounts as U.S. suppliers. "As fast as the dollar is going up, the cost to get the product here to Canada is almost equal."

*Continued on page 44*

*Continued from page 43*

Susan Jacobson, president of Dove Tale Collections, an Ottawa-based gourmet food wholesaler, says her cost increases have ranged from five to 15 per cent over the last several years. Rather than pass on those increases (covered only partly by the dollar's rise in value) to retailers, she's absorbed them, holding her prices steady. "I want our product to remain competitive in the market. I take offence at people suggesting that distributors and importers are gouging the market."

What's more, most suppliers purchase inventory at least four to six months in advance, so, "We have inventory that we paid much more than the going exchange rate for," says Jacobson. Similarly, many importers often mitigate the risk of foreign currency fluctuations by purchasing foreign exchange futures contracts six to 12 months in advance. This year, they're stuck with exchange rates that were locked in when the loonie was weaker. Thus, there's a lag in responding to the strong dollar until these elements work their way through the system.

Furthermore, many suppliers deal with the volatile Chinese Yuan and the Euro more than the U.S. dollar, against which the Canadian dollar isn't always strong. Suppliers sourcing goods from China have faced increased costs in that market for several years. Three things are happening there, says Andy Szandtner, president of Richmond Hill-based Samaco Trading, which sources 90 per cent of its product from countries such as China, Taiwan and India. In addition to the steep rise in raw material costs driven by global demand (the price of metals alone has doubled in the past year), labour shortages and laws are driving up wages, and as of 2007, the Chinese government has eliminated its export tax rebates for Chinese manufacturers. All of these factors add up to "very large price increases in U.S. dollars," says Szandtner. "If (the Canadian dollar) wasn't that strong, we'd have to increase our prices. What it's allowed us to do is hold our prices."

**PRICING IS AFFECTED BY MORE ELEMENTS THAN JUST THE U.S. EXCHANGE RATE, INCLUDING GLOBAL MARKETS AND THE RISING COST OF EVERYTHING FROM RAW MATERIALS TO WAGES.**

Some suppliers, however, have managed to lower prices. Jay Djang, director of sales and co-principal of Design Home Associates, a Richmond Hill-based wholesaler that sources almost all its product from the U.S., says, "We've dropped our prices across the board by about 10 per cent recently. That's partly a reflection of the stronger dollar and partly also a reflection of our need to be more aggressive in the marketplace."

Larry Henderson, vice-president of sales and marketing for Toronto-based importer Scantrade International, says that, "Some prices will decrease in January, and most will stabilize when they should have increased," as long as the dollar remains strong.

Milner concurs, saying, "I speak with a lot of suppliers every day and a lot of them are scared that (the strong dollar) is not going to last." That mentality may well affect spring's prices, being set now.

What's a retailer to do, with so many factors affecting a supplier's pricing that are beyond control? Says Milner, "Select unique products so that consumers can't comparison shop on price, and stay away from contentious items such as electronics and books, especially with pre-printed Canadian and U.S. prices."

Stores that add value by creating a welcoming environment with personal attention, adds Jacobson, "will buffer themselves against a couple of dollars increased price."

You may not have the clout to demand compensation and price relief from suppliers, as Sears Canada has done, but you can choose with whom you do business. "We will end up working with suppliers who acknowledge the problem and take steps to improve it," says Pritchard from Golda's Kitchen. "I can still motivate through deciding what products I list and don't list."

The key is making sure you communicate with suppliers to maintain transparency and a strong relationship, says Jacobson. Work with companies that support you and help you succeed. And that's of great value, no matter what the exchange rate.