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Elizabeth Evans

Impacts of Foreign Retail Entry on the Host Country: The Canadian Apparel Industry

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ABSTRACT

By the later decades of the twentieth century, retail internationalization was no longer the activity of a few multi-national retailers; revising the traditional view of retailing as a national business and the need to understand the process of internationalization. Academic research enriched the understanding of this activity, moving away from the early use of surveys to delve into the specific processes of the retailers in order to properly analyze foreign expansion activity. Initial research focused on the perspective of the firm, contributing to knowledge of the why, where, and how of the internationalization process. As this research expanded its scope, it became necessary for researchers to explore *when* internationalization occurs and to document *what* was the impact of internationalization on the host country. This call for research was made by Dawson (2003), who proposed a framework for the study of foreign impact on the domestic retailers of a host country. This study utilizes the Dawson model to measure, analyze, and explain the *when* and *what* of the retail internationalization process.

In recognition of the complexity of the retail internationalization process, it was determined that the study would focus on one type of impact: *changes in sectoral competitiveness*. It was also determined that this study should be undertaken in a market and retail sector where substantial foreign entry had occurred and could potentially be measured, analyzed and explained. Therefore, the study is undertaken in the Canadian apparel sector between 1989 and 2007.

The study was conducted as a mixed method research in two stages: an empirical study of market data and an interview study of industry experts. Since retail functions at the local level, the shopping centre was used as a microcosm of the market and provided empirical evidence to measure impacts in a temporal sense and by intensity. The interviews with industry experts were used to collaborate and explain the mall data, providing important first-hand context to explain the retail internationalization process. This study contributes to the validation of the Dawson model as a tool to measure and explain the impacts of foreign entry on a host country's sectoral competitiveness, and through its methodology will

provide the necessary modifications to the model for continued study of the retail internationalization process.

DECLARATION OF AUTHENTICITY

This thesis is submitted in fulfillment of the requirements of the Degree of Doctor of Philosophy (by research) at the University of Stirling.

I declare that this document embodies the results of my work and that it is composed by myself and has not been included in another thesis. Following normal academic conventions, I have made due acknowledgement of the work of others.

Elizabeth Evans
September 2012

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This is dedicated to the memory of my mother and father, Dorothy and Harry Walker.

PREFACE

Prior to my academic career I had the privilege of working in the Canadian retail sector for over 20 years. My experiences in the apparel; giftware and home goods sectors as well as consulting to a diverse retail clientele provides me with a unique perspective on the research that is undertaken in this study. From this background I have been able to draw on my industry knowledge and relationships to bring a depth of analysis and understanding into this subject that might not otherwise be possible. The generous contributions of the industry experts and the access to data have been made possible as a result of my work in the industry.

Table of Contents

Index of Figures and Tables

Figures

Tables

List of Appendices

Chapter 1 – Introduction

1.1 Overview

The pace of international retail expansion advanced significantly through the late 1900s and into the twenty-first century, establishing foreign expansion as a common strategic decision for growth among a large group of capable retailers (Dawson, 2007). Although this phenomenon was documented decades ago in the seminal work of Hollander (1970), recent research by academics has contributed to a more nuanced understanding of the retail internationalization process.

Dawson (2003) has identified the need for a broader understanding of internationalization that extends beyond the dominant perspective of the retail firm. Currently, academics are attempting to move beyond the common predisposition of focusing narrowly on the expansion of retail from developed countries into developing countries, which overlooks the more frequent and significant activity of retailers expanding from developed home countries into other developed host countries. In addition, academic retail research has been primarily conducted from a European perspective, which is understandable given the greater activity of retail internationalization from Europe as well as the advantage of close-knit, accessible national boundaries. However, this Euro-centric focus often overlooks American-based expansion within the North American continent and into the Asian-Pacific region activity toward the later part of the twentieth century. It is the goal of this study to address these under-examined areas to better understand and further conceptualize the internationalization of the retail sector.

1.2 Justification for the Study

By the first decade of the twenty-first century, the number of retail companies engaged in international expansion had grown to represent 71 of the largest 100 retailers. This expansion happened rapidly: only 50 companies in this group were engaged in retail operations outside of their home country before 1986 (Dawson, 2007). The acceleration of retail activity during this period piqued the interest of many academic researchers, notably: Kacker, 1985; Treadgold, 1991; Sternquist, 1998. Initial research efforts investigated two specific aspects of internationalization: 1) a firm's motivations for entering foreign markets, and 2) the positioning of a firm along the continuum of standardization and adaptation of offerings. These researchers challenged the traditional perception of retailing as a local activity and focused on understanding the impact that international expansion had on retail companies.

The majority of past research has focused on the processes of internationalization in the pre-entry context, analyzing the actions of firms to identify the initial steps necessary to engage in foreign expansion, such as: motivation for expansion (Alexander, 1990; Williams, 1992: Dawson, 1994; Sparks, 1996), where retailers choose to enter (Evans, Treadgold & Mavondo, 2000), and which method of entry has been utilized (Doherty, 1999; Burt, Davies, McAuley & Sparks, 2005). While there continues to be calls for further theoretical and empirical studies of these pre-entry behaviours (Alexander & Myers, 2000; Dawson, 1994), a general framework of firms' processes prior to expansion have become fairly well understood through numerous studies. It became evident to researchers that the focus needed to shift from the study of pre-entry activity to what was now happening post-entry in these new host markets, stimulated by observations that both the firm and the host country are heavily affected once foreign retailers become established in these new countries.

In the early 2000s, retailers had already been operating on various levels of international business activity for many years. International retail activity was in the process of growing – with firms such as Zara, IKEA, and Body Shop operating in over 20 countries by 2000 – and the study of this post-entry activity became more intensive within academic research. Dawson (2003) was thus able to identify three primary international business areas: 1) export activity, 2) sourcing products from foreign countries, and 3) the internationalization of managers and managerial ideas. Furthermore, he recognized that, "with a few notable exceptions, the operation of shops internationally by large firms, other than as a token presence in another country, is a relatively new phenomenon associated with the globalization trends in economies" (Dawson, 2003: p. 2). Dawson asserted the need for further studies to look at retail internationalization from a new perspective in order to expand the understanding of post-entry impacts and processes for foreign retail activity. Other academics have made similar recommendations for inquiries into the study of post-entry impacts and processes including: Alexander & Myers, 2000; Coe & Wrigley, 2007. To further this research, this study will focus on the processes involved in a retailer entering a foreign country and adjusting the framework of its store operations accordingly.

Studies into specific areas of retail has highlighted the need for better understanding of what happens to a firm once it is operating in a foreign country, such as branding (Burt & Sparks, 2002; Burt & Davies, 2010), knowledge transfer (Palmer & Quinn, 2005), and retail failure or divestment in a foreign operation (Alexander & Quinn, 2002; Burt, Dawson & Sparks, 2003). These areas have revealed that the host country and the domestic retailers in that country have significant roles in the internationalization process, but little is known about what that role has been. Dawson (2003) recognized this research gap, which he split into two categories: “consideration of *when* retail internationalisation takes place and *what* the effects and impacts are on the domestic retail system of foreign retailer arrival in a country” (p. 3; my emphasis). This study will specifically address the question of *what* occurred when foreign retailers entered the Canadian marketplace.

Early research into retail foreign expansion focused on those retailers entering less commercially established (referred to as *developing*) countries from more commercially established (referred to as *developed*) countries. Studies by Goldman (1981, 1986) and Hollander (1970) tended to view internationalization as having the potential for social, economic, and cultural advances in developing foreign countries; however, this position has been called into question because it may be influenced by corporate interests, using pre-established research that promotes the advantages of globalization to secure profits. In addition, although the entry of retail stores into the emerging markets of China and India has been significant, this research overlooks the equally important need to study what happens after retailers from developed countries expand into other developed countries. In reality, most retailers have taken their early internationalization steps into other developed countries in close proximity, e.g., IKEA opening stores in Europe and other Scandinavian countries, Walmart entering into Canada and Mexico, and UK and European company expansion within the European Union.

Finally, the majority of academic research has focused on the mass merchant, discount, and grocery categories of the retail sector, which is understandable given that much of the research is dominated by a European perspective and appeals to major retailers such as

Carrefour, Metro, Ahold, Tesco, IKEA, and others. Similarly, most of the non-European research has concentrated on Walmart, Home Depot, and McDonalds as large companies who were comparatively early movers in the internationalization activity. However, there is a significant gap in the study of other retail categories, most notably the foreign expansion of apparel companies.

Only a few studies have looked at specific firms – such as the Gap (Evans & Cox, 1997) and Zara (Lopez & Fan, 2009) – and although several have looked at the fashion sector and luxury brands (Wrigley & Moore, 2007; Moore, Fernie & Burt, 2000), there has been an absence of research into the broader expansion of clothing retailers, particularly from perspectives other than a specific firm's. Although specialty apparel retailers are often overlooked in terms of company size, revenues, profitability, and market capitalization value – which are far below global leaders such as Walmart and Metro – they are amongst the most prolific internationalizing companies in the past thirty years, particularly in terms of market spread or coverage, and therefore deserve an isolated study which highlights their unique processes for foreign expansion.

The focus of this research is to examine the impact of foreign apparel retailers on the domestic market of a host country, specifically within the context of companies from a developed country moving into another developed country. This study will contribute to the furthering global understanding of the retail internationalization process, examining the perspective of the host country and its domestic retail sector that are affected when foreign companies enter the market. In particular, the analysis will be focused on the entry of foreign apparel retailers into the Canadian market between the years 1989-2007. The significance of these dates and the rationale for selecting the Canadian apparel market will be clarified in the next section.

1.3 Research Context: The Post-1989 Canadian Retail Market

Retailing has become an international economic force, which was made possible and accelerated due to an international mentality that embraced globalization. The year 1989 is a particularly significant global milestone in the post-WWII era for two reasons: 1) It is the year that both the 'iron' and 'silk' curtains fell, marking a new era of global capitalism, and 2) It is the year of the initial commercialization of the internet. These events established a framework for global economic activity in the twenty-first century, facilitating the development of increasingly open markets and communication networks that permitted the evolution of retail expansion into markets around the globe. This study will place emphasis on the host market and its commercial market to examine the retail expansion process, as it is necessary to understand the particulars of the Canadian market in the assessment of the types, processes, and intensity of international retail, which are unique to its own historical progression.

Historically, the Canadian market has been open to foreign retail entry. Like most markets, Canada has been the recipient of foreign investment for many decades. Dating back to the early twentieth century, companies such as Sears, Woolworth, K-mart, and many others had established businesses in Canada. In 1973, Marks & Spencer opened the first of forty stores in the Canadian market, expanding through a combination of acquisitions and organic growth, but eventually exited Canada in 1999. The challenges and misfortunes of Marks & Spencer in Canada have been well documented (Burt, Mellahi, Jackson & Sparks, 2002; Evans & Cox, 1997), however, despite its lack of success, Marks & Spencer's expansion reflects the evolutionary change of the retail environment during the 1970s and 1980s as new suburban malls were opened, replacing the strip plazas and main streets as primary shopping destinations. Other than Marks & Spencer and American mass merchants, very few foreign clothing retailers operated in Canada in the 1970s and 1980s, yet these early entries established the beginnings of foreign retail growth in Canada. For example, in 1975, non-automotive foreign retail sales only accounted for 10% of total Canadian sales, but by 1990 this share of market had increased to 17% (Simmons & Kamikihara, 1999: p. 19).

The Canadian retail market would simultaneously become more accessible and increasingly vulnerable to the internationalization movement in retailing across all retail categories. In particular, events in the late 1980s changed several aspects of the Canadian market (both internal and external) that supported significant retail growth for foreign operators and had a considerable impact on the apparel category. These factors occurred during the period of 1989-2007 and had a permanent impact on Canada’s retail market.

1.4 Accessibility of the Canadian Retail Sector before 1989

After World War II, Canada’s coming of age and the increasingly looser alliances of the Commonwealth gradually eroded British influence on Canada. As Canada is geographically positioned beside the large commercial market of the United States, it began to open its markets to commercial trade from the United States. Thus, Canadian policy and practice has been a balance of taking commercial opportunities while attempting to protect the much smaller economy and population interests of Canada.

Interested in building its own national identity, Canada established government bodies to develop its own national interests, such as the Foreign Investment Review Agency (FIRA) established in 1973, the National Energy Board (NEB) established in 1959, and the Canadian

Radio-Television and Telecommunications Commission (CRTC) established in 1968. These agencies, boards, and commissions (ABCs) were powerful entities that helped shape the growth of Canada. Each of these ABCs had a central mandate to protect the interests of Canada in any interactions with foreign countries or companies; however, in the 1980s, the mandate and influence of these three ABCs and other protection-oriented laws began to facilitate foreign investment due to pressure from new international trade agreements and corporate international expansion. Overall, there are three dominant factors that contributed to increasing accessibility to the Canadian market for foreign retailers by 1989:

1. Free Trade Agreements and the resultant opening of international borders
2. Increasingly receptive Canadian consumers
3. Socio-Cultural realities in Canada

Each of these factors warrant an isolated study to understand the full extent of economic and socio-cultural changes in Canada, but this is beyond the scope of this study. For the purposes of this study, these factors will be summarized to identify the role they played in creating a Canadian retail market structure that was accessible to foreign entry.

1.5 Free Trade Agreements and Opening International Borders

Historically important trading partners, Canada and the United States entered a period of formal trade discussions in the 1980s. The goal was to create one of the world's largest free trade zones at a time when similar trade agreements were developing in other regions of the world. These negotiations would mark a significant departure from the traditional protectionist trade laws and mandate of agencies such as FIRA.

In reality, FIRA provided little protection to Canadian industry and approved most applications for foreign investment. In 1985, FIRA was re-established as Investment Canada with a mandate of stimulating foreign investment. This change was made based on trade discussions between Canada and the United States that were initiated in 1982, were agreed to in principle in 1987, and enacted in 1989 as the first free trade agreement between the two countries. The complicated bureaucratic processes required to expand foreign retailing into Canada were removed and the accessibility of the market proved to be enticing for American retail companies.

By January 1994, the North American Free Trade Agreement (NAFTA) came into effect in Canada, the United States, and Mexico. It marked the formalization of agreements for the flow of goods and services between the three countries. Most importantly, NAFTA was an understanding that the border between Canada and the United States would be more open to generate economic benefit for both countries. However, the agreement was not without its contentious issues: for example, the lumber and steel industries held protectionist positions on both fronts, and Canadians foresaw a competitive threat to long-standing manufacturing industries such as garments, footwear, and other important vendor sources for the Canadian retail industry.

The implications of the 1989 trade agreement that led to NAFTA would eventually eliminate the ownership restrictions that had made foreign entry more difficult. Prior to this date, foreign direct investment had been subject to extensive review; for example, to ensure an advantage for Canadian industries, the government often restricted the percentage of foreign ownership. Yet from this point onward, the Canadian retail market was open for American expansion and vice versa. Growth-oriented retail companies seized this opportunity to develop international expansion strategies. The Canadian market was attractive to foreign retailers not only because of its accessibility, but also because foreign retailers sensed vulnerability created by a receptive consumer and a comparatively weak domestic retail sector. This confluence of accessibility and vulnerability offered a perfect entry point for foreign retailers and created a market environment in which foreign entry would have direct impact on the domestic sector.

1.6 Increasing Mobility and Receptiveness of the Canadian Consumer

There are many similarities between Canada and the United States, as illustrated in Burns and Rayman's (1995) comparison of the two nations, but their retail businesses are not identical. Burns and Rayman argue that much of this has to do with timing of progress: American retailers advanced earlier and more competitively through the introduction of new formats and formulas. In addition, with the majority of Canadians living within 200 miles of the U.S. border, the movement of visitors between the two countries increased drastically in the 1960s and 1970s. Disproportionate to population size, Canadians have been more frequent travelers to the United States, primarily in the flow of tourists for annual trips to warmer climates. Thus, Canadians became familiar with the more advanced retail formats and concepts that were spreading across the United States. This awareness of American retail brands would prove to be an important advantage for their entry into Canada.

In addition to the attractiveness of the U.S. shopping environment, Canadian consumers also found the prices to be lower and the retailers to have better service. U.S. retailers were able to maintain lower prices due to benefits from their economies of scale, and lower operating costs as a result of lower taxes and labour costs. Collectively, these factors stimulated a significant amount of cross-border shopping, which continued to be appealing even with a currency exchange rate that typically put the Canadian dollar at a lesser value to the U.S. dollar. Some of the highs and lows of currency exchange rates through the 1970s and 1980s reveal the dramatic swings in currency value – from a high of 1.0443 in 1974 to a low of .6913 cents in 1986 (see Appendix 1). The relative strength of the Canadian dollar in the 1970s played a significant role in creating the cross-border shopping behavior that drew consumers to the American retail brands. In addition, the incentive for cross-border shopping escalated when the Canadian government introduced the Goods and Services Tax (GST) on almost all goods and services in 1991, providing a further push for consumers to seek out foreign retailers.

1.7 Socio-Cultural Realities in Canada

Accessibility to the Canadian market was increasing for foreign retailers in the years leading up to the early entrants in 1989. This was supported by memorable shopping experiences during trips to the United States as well other cultural influences originating in the United States such as magazines and newspapers, radio, and television. While efforts by the CRTC initially focused on protecting Canadian content by limiting foreign cultural access to Canadians, these efforts were generally futile given the proximity and the growing dominance of American culture throughout the world. By the later part of the twentieth century, American media was fully entrenched in the Canadian market. This media served to provide even broader awareness of American retailers – in particular, the U.S. fashion publications were everywhere and were highly effective marketing tools for clothing retailers.

The fundamental social norm of Canada was fixated on the 'cultural mosaic' model, which further contributed to the accessibility and receptiveness of the Canadian market (Burns & Rayman, 1995; Evans, 1996). This mentality perpetuated connections with foreign homelands, creating a much more global-oriented populace than would be found in the American 'melting pot' society. The impact of this mosaic would lead Canadians to openly accept and often desire foreign products, resulting from less emphasis on developing a sense of Canadian-made superiority. This helped England, France, and the U.S. to dominate fashion retail during the second half of the twentieth century.

By 1989, foreign entry into the Canadian market had been well established. The combination of more open trade structures and a receptive and knowledgeable consumer were powerful contributors to this accessibility; however, these factors are not sufficient to account for the penetration into the market and the impact of foreign retailers. The vulnerability of the competitive environment and the Canadian market structure were also contributors to what would occur with retail internationalization.

1.8 Vulnerability: The Canadian Retail Landscape

The evolution of retailing in Canada follows a similar trajectory of change as the United States. However, as noted by Burns and Rayman (1995), there were significant differences in the timing of change (Canada was significantly slower) and the degree of change (the U.S. was much more aggressive and innovative). As the two retail environments began to converge in the 1980s, these differences would leave Canada with a much more vulnerable market structure. This vulnerability can be best described under the broad headings of *changing patterns in format growth* and *the complacency of existing market oligopolies*.

By 1989, three decades of significant growth in major shopping mall development was beginning to slow down. The opening of new shopping centres throughout the 1960s, 1970s, and 1980s had been the catalyst for expanding Canadian department stores and specialty chains, particularly clothing. However, Canada had more restrictive zoning by-laws than in the United States, and a lack of quality sites would cause the rapid growth to come to a sudden halt. The opening of the Erin Mills Town Centre in Mississauga in 1989 and Mapleview Shopping Centre in Burlington in September 1990 would be the last major enclosed malls to be developed until Vaughan Mills in 2004. In the late 1980s, it was obvious that the rate of growth was slowing, but neither developers nor retailers foresaw the recession of 1991-1992 when the associated interest rates rose to 14% to 16%.

The Canadian market structure had been well established by 1989 with the majority of major shopping centres anchored by two Canadian department stores – such as Eaton's, Simpsons, Woodwards, Sears, or The Bay – as well as the mainstays of Canadian specialty retailing, such as Dylex Limited, Reitmans, and Jack Frasers, which operated numerous banners as in-line stores. As has been well documented (Burns & Rayman, 1995; Hernandez & Du, 2009), the development of these shopping centres in North America provided the catalyst for both department store and specialty clothing chain growth into the expanding suburban markets. This development evolved into a changing competitive dynamic between the department stores and the specialty chains: while department stores had been the dominant one-stop shopping destination in urban street locations, they now were positioned as one of several choices within the mall environment. Clothing departments had been central to the department store offering, but could not remain competitive among the in-line shopping centre apparel stores that catered to specific segments of the consumer market. In particular, younger more fashion-conscious consumers were drawn to specialty chains with their unique merchandise selection, purposefully seeking alternatives to the department store as it became synonymous with their parents' shopping experience.

As the new shopping centre development peaked in Canada in the later part of the 1980s, the progressive loss of customers by the department stores was all too clear. The early stages of the decline of department stores in Canada would eventually lead to consolidation and closures in the 1990s (see Appendix 2). This represented an additional threat to the growth opportunities of mall developers: beyond the problems with zoning by-laws and the U.S. dominated market, the deterioration of Canadian department stores as standard mall anchors was a significant concern. Collectively, these market conditions left mall developers in a vulnerable position. To stay competitive, they would need to address these shortcomings in the 1990s.

Just as the expansion of major shopping centres in Canada slowed to a halt, the entry of new retail formats in the form of big box category killers, superstores, and membership and warehouse clubs were gaining momentum. These new retail formats led to the formation of new planned shopping destinations such as power centres and power nodes (CSCA, 1994). There was limited activity for this growth in Canada before 1989, but the pace of expansion in the United States was escalating. Following the early moves of the large discounters, it was evident that the new formats would expand into Canada significantly in the years ahead. Unlike traditional malls, these new formats adopted a new style of land development, enabling them to find openings in the zoning by-laws to secure attractive locations for growth.

These new formats were primarily dominated by categories other than apparel. The main focus for inventory included home furnishings, do-it-yourself, office supplies, electronics, toys, and other hard goods. The off-price company Winners, which was purchased by TJMaxx in 1981, is one of the few exceptions that sold apparel in these new centres. In this respect, the early days of the large discounters had limited impact on the specialty clothing retail market. However, these stores had a much greater impact on the department stores, which were already weakened by the increased competition from the specialty clothing retailers. The department stores were now being attacked on non-apparel category assortments and were especially vulnerable to the pricing advantages of the new formats. With the exception of Simpsons-Sears, the department stores began to retreat from such a large range of product categories, focusing instead on their apparel offerings. By 1989, some early consolidation had taken place with the Hudson's Bay Company: the company purchased Zellers, Robinsons, and the Simpsons Limited business from Sears Roebuck Co., which ended the twenty-five year partnership of Simpsons-Sears. A significant transformation was taking place: retail innovation was no longer happening in the major shopping centres, but seemed to be accelerating in new retail structures.

All of this activity marked a critical point in the evolution of the Canadian retail market structure, leaving it increasingly vulnerable to foreign entry. Department stores and specialty clothing stores were forced to adjust to the limited growth opportunities for new store expansion, particularly in the apparel category. At the same time, the clothing retail sector was increasingly concentrated in the suburban malls, all of which led to the market being controlled by a small number of mall developers and apparel retailers, which created the oligopoly structure that further contributed to the vulnerability of the Canadian market.

1.9 The Complacency of Market Oligopolies

The Canadian market was particularly vulnerable because the control of most retail and shopping centres was in the hands of a small number of companies. After years of competing in a closed market, there was a general sentiment among industry experts that the oligopoly structure of the market led to a degree of competitive complacency. There were essentially only three major landlords owning or managing the prime shopping centres in Canada, Cadillac Fairview, Oxford and Ivanhoe Cambridge. This significantly limited the potential for new domestic innovations. In addition, department stores were not expected to pay rent in their role as anchor and the specialty chains had established a comfortable hierarchy of location and leasing that made the competitive market almost non-existent. Within the clothing category, the legacy of close ties to Montreal-based manufacturers further entrenched the closed competitive environment.

As a country with a relatively small population spread across expansive space, the number of domestic companies operating in Canada was few and generally held by family interests. Eaton's, Hudson's Bay Company, Woodwards, Zellers, the Reitman's fashion chain, Dylex Limited, and a few other clothing chains were the primary tenants in shopping malls. One exception was the Simpsons-Sears department stores, a partnership between Sears Roebuck and Simpsons, which in 1989 represented the only major retailer in Canada not wholly owned by Canadians. Where some oligopoly structures might inhibit foreign entry due to strong dominant competitors protecting their market, the opposite proved to be the situation in Canada throughout most retail categories including clothing. It is within this context that the author identified the potential to study the process of retail internationalization in Canada.

1.10 Research Aims and Objectives

There has been a recent call for further study into retail expansion from perspectives beyond the traditional focus on the firm and its pre-expansion processes. This has come from two primary sources: Dawson (2003), and Coe and Wrigley (2007). These researchers call for a concerted effort to explore the under-studied area of retail globalization, particularly the impact of foreign entry and host economies on the internationalization process. After considering these two studies, the author determined that the Dawson framework provides a more accessible approach to studying any foreign expansion scenario, regardless of companies or countries involved. Coe and Wrigley (2007) do not contribute as significantly to this study, as they continue to use the more traditional focus on developed-to-developing expansion with a Euro-centric emphasis on the companies involved. The decision to align with the Dawson methodology will be fully discussed at the end of Chapter 3 through a comparative evaluation of the two models.

This study utilizes the Dawson (2003) framework to assess the impact of foreign retailers on the domestic Canadian market. Dawson specifically proposes the need to distinguish the types of impacts, the processes associated with impacts, and the degree of intensity of impacts. Furthermore, his extensive research into internationalization has provided the basis for a framework that identifies six broad categories related to the institutions and structures that are affected by foreign retailers, as illustrated here:

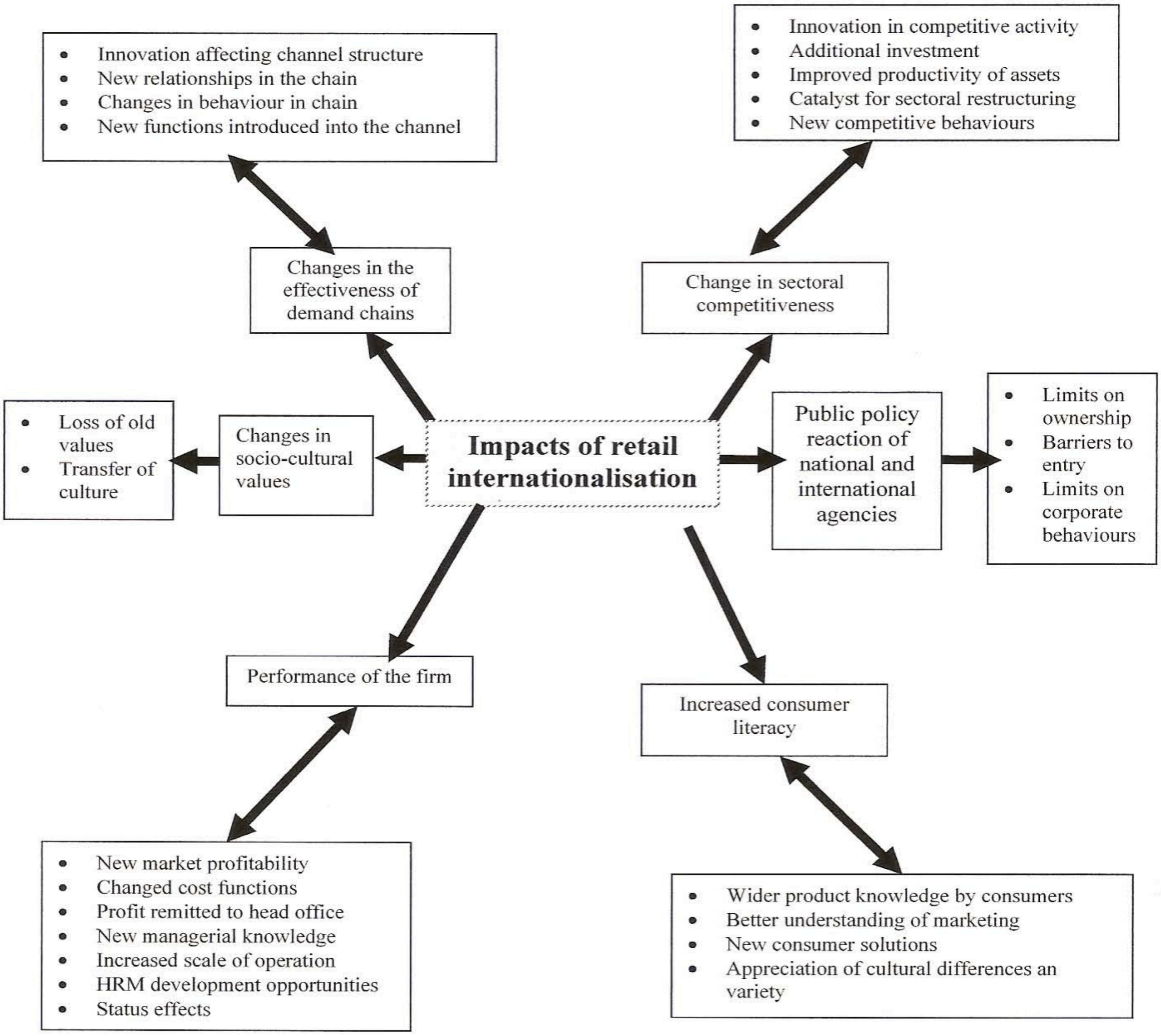

Figure 1.1 – Types of impact of internationalization retail in a host country (Dawson, 2003: p. 4)

Although it would be beneficial to test the entirety of Dawson's model, the scale of such an undertaking is beyond this study. Thus, this study has decided to focus on the *change in sectoral competitiveness* branch of Dawson's model because all new domestic and foreign entries have an impact on the structure of the market, which has a demonstrable affect on the competitiveness in a given retail sector. Not all of Dawson's categories have such a consistent impact. For example, the *changes in the effectiveness of demand chains* and *performance of the firm* categories will generally be company-specific and context-specific.

Similarly, *increased consumer literacy* is also context-specific and, in the growing age of internet, it is increasingly difficult to analyze the impact of in-store entry versus online entry.

Examining this category of the impact of foreign entry on *change in sectoral competitiveness*, there are several types of impacts that may occur. To account for these types, this research has been structured in two stages to ensure a comprehensive analysis: the processes related to retail expansion, and the intensity of the foreign retailers' impacts on the domestic sector. The first stage will establish that foreign entry does have an impact on the host market, exploring how foreign entry can manifest in relation to the types, processes, and intensity of impacts as proposed by Dawson's framework. The second stage of the research will expand upon the empirical evidence of the first stage to explore the knowledge of industry experts and determine how these impacts can be interpreted and understood.

Utilizing the Dawson (2003) framework this study will specifically address the following research questions:

1) What are the impacts of foreign retailer entry and how can they be measured over time and by degree of impact?
2) What are the changes in sectoral competitiveness that can be measured and interpreted?
3) What processes are used when responding to the changes in sectoral competitiveness?
4) What gaps in the Dawson model can be identified from this application?

Chapter 4 will provide a detailed discussion of how this study explores these research questions and contributes to the understanding of the retail internationalization process.

1.11 Research Design and Methodology

The two-stage design of this study has resulted in a two-stage methodology. The first stage is a quantitative analysis, which will provide empirical evidence of whether foreign entry does in fact change sectoral competitiveness and, if so, what types of impacts can be observed from the data. The second stage is a qualitative analysis that seeks to provide an explanation of what the data shows about the impacts of foreign entry. This approach seeks reflective first-hand perspectives of the impacts, which is best achieved through a qualitative expert survey with those involved in the period of internationalization. These interviews were initiated in 2008/09 and analyzed through 2012.

The value of utilizing both quantitative and qualitative research methodologies in a study with Dawson's framework can be considered on two levels:

1. The Dawson framework is founded on a comprehensive review of internationalization activity and accumulated research, but has no empirical basis for the structure of the model. Thus, there is a significant need to provide a quantitative analysis to test the framework.
2. The data in and of itself cannot fully explain the change in types and processes of sectoral competitiveness. To fully explain and understand the impact of foreign entry, it is essential to provide qualitative context from experts in the field.

Overall, the value of the combined approach to this study ensures that both the events and the processes of internationalization are fully understood through Dawson's framework. Although the study could have been conducted without the quantitative data – utilizing only the industry expert interviews to provide commentary on the proposed terms of reference from the Dawson model – the empirical data provides evidence of the intensity of impact. However, as with much of the research on retail internationalization, there is an on-going need for more empirical evidence, particularly in the form of performance data rather than survey data, to advance the understanding of when and what happens in foreign expansions activity.

1.12 Structure of the Thesis

This thesis is structured over seven chapters. The first chapter provides an introduction and justification for the study, including the research context for the Canadian retail market. The aims and objectives are identified, the context and time frame are explored, and the broad design and methodology for the research are explained.

Chapter Two introduces and reviews the foundational research on retail internationalization literature. Starting from the seminal work of Hollander (1970), this chapter will provide definitions of essential terms such as *adaptation* and *standardization*, in addition to the dominant perspectives of researchers who both contributed to and limited the knowledge of retail internationalization.

Chapter Three progresses through the more recent literature on retail internationalization and explores the processes and impacts of this activity. This chapter investigates literature on the *why*, *where*, and *how* of foreign expansion. It also identifies the evolving study of retail branding, knowledge transfer, and ultimately the failure and divestment that have lead to the recognition that the *when* and *what* of retail internationalization have not been fully explored. The framework of Dawson (2003) and Coe and Wrigley (2007) are critiqued for their application to this study. It should be noted that given the timeframe of the data collection period for this thesis the literature review in Chapter 3 is a synthesis of academic publications primarily up to the end of the year 2007. Post-2007 literature is drawn into the thesis only where it is pertinent to the study.

Chapter Four outlines the research methodology for the study, providing details of the design of the study as well as the utilization of empirical data on a microcosm scale to assess the impacts of foreign entry. The significance of industry expert interviews will also be explained. The chapter charts out the data collection, selection of interviewees, and the analysis methods utilized.

Chapter Five provides an interpretation of the quantitative data and sets up the structure for assessing the impact of foreign retail entry on the domestic market sector using the Dawson framework. The findings will lay the foundation for conducting the industry expert interviews.

Chapter Six provides the findings of the industry expert interviews. These are analyzed using the five types of impacts that Dawson identifies as potentially contributing to changes in sectoral competitiveness. This leads to a discussion of the processes for market restructuring and the domestic response to these changes.

Chapter Seven will address the overall findings of the research and provide discussion of the Dawson model for the study of impacts of retail internationalization. Finally, some suggestions for future research will be offered as a result of this study.

Chapter 2 – Foundational Research in Retail Internationalization

2.1 Overview

In this chapter, the foundational research literature on retail internationalization is reviewed to identify the early dominant themes and perspectives that academic studies would be built upon. Four authors represent the cornerstones of the foundational research: Stanley Hollander, Charles Waldman, Ariel Goldman, and Rita Martenson. They are significant for their contributions to initiating the dialogue on retail internationalization and providing context for the four most important perspectives of the early research. These four perspectives include: 1) the internationalizing firm as the dominant viewpoint, 2) transferability of the retail enterprise to foreign markets (also known as the standardization versus adaptation discussion), 3) economic impact in the host country (i.e., an attempt to align retail internationalization into the broader international business discussion), and 4) the role of innovation within the retail foreign expansion context. These early research efforts exemplified the evolution from broad surveys to a more narrowly focused analysis, which strove to add depth to the understanding of the retail internationalization process. This research served as an important foundation for this study, as these perspectives revealed the limitations of the knowledge base in international retail expansion.

The next phase of foundational researchers developed these four perspectives, attempting to build a framework for the study of retail internationalization. Researchers such as Walter J. Salmon and Andre Tordjman, Alan D. Treadgold, Luca Pellegrini, and many others focused on structuring the study of retail foreign expansion into patterns and typologies that would explain the internationalization process. As the pace of retail internationalization accelerated, this research increasingly pointed to the complexity and differentiations of studying foreign retail expansion compared to other business enterprises, ultimately leading to the study of processes and operations that will be addressed in Chapter 3. Through this period of foundational research, the four perspectives shifted to more traditional business themes of strategic, temporal, and managerial issues within the retail internationalization process.

2.2 Introduction to Foundational Research in Retail Internationalization

The study of retail internationalization is a comparatively recent phenomenon, only gaining interest and more serious investigation by the mid-twentieth century. Yet retail organizations have been engaged in business activities in foreign countries throughout the evolution of civilization: from early itinerant salespeople and global sourcing for fabrics, resource retailers have played a major role in building international networks. However, the scale of international retail business and its role in foreign economic development has been relatively small in comparison to manufacturing and other business sectors' global expansion. Within this context, retail internationalization has remained under-examined by researchers and business theorists. It was not until the economic and business growth years following World War II that researchers began a serious investigation into retail internationalization.

The past sixty years of research have provided significant insight into this activity, offering up important typologies and theories into the processes of foreign expansion. This research has also highlighted significant gaps in the study and understanding of foreign retail activity and the markets into which they have expanded. Consistent with early research investigations of any phenomenon, the researchers and their work discussed in this chapter were predominately focused on international expansion through the existing knowledge and theories from international business literature. To this end, the foundational work discussed in this chapter advanced the understanding of: 1) what retailers were doing in the period of early international expansion, 2) how this could be assessed through the relevant international business theories of the day, and 3) how this would translate into formulating new typologies to better understand the patterns that were specific to the retail international experience. Chapters 2 and 3 will identify the predominant themes that formed the foundation of retail internationalization research, and reiterate the need for further investigation into specific topics that are of significant relevance to future retail foreign expansion.

2.3 Academic Overview on Retail Expansion

It is a widely held view that retailing is a local business. Often expressed through terms such as ‘the nation of shopkeepers’ (used to describe the British tradition of retailing), this image is reinforced in the seminal work of Hollander (1970) through his opening statement: “The very word ‘retailing’ itself seems to suggest small-scale business. The term tends to create a picture of a highly localized activity of very narrow scope. Yet in actuality quite a few retail firms are veritable giants…” (p. 1).

Each retail business, whether an independent sole proprietorship or a store unit within a multi-store operation, fundamentally engages in business with the consumers of their local market. Additionally, there is a dominant tradition of entrepreneurial and ‘merchant king’ figures that led the growth of retailing in the early years of economic development. Unfortunately, this image only reinforces the perception that retailing is a less sophisticated form of business compared to manufacturing advancements – this mentality led international business research and theoretical development to pay little or no attention to the retail sector throughout much of the twentieth century.

The early seminal works of Hollander (1970) and Waldman (1978) investigated retail international expansion, attempting to explore the relationships and differences that retail shared with more established research in international business and economic development theory. The work of Dunning (1981, 1988), a leading business theorist, was frequently referenced in the foundational retail research in an attempt to develop a theoretical structure to understand this phenomenon of retail international business. With few exceptions, these early studies raised more questions than answers about the validity of applying traditional international business theory to retail internationalization. In the progression of research, there has been a shift in focus away from attempting to explain the retail expansion process using existing international business-based theories: subsequent researchers formulated several independent representations of the retail internationalization process, providing a foundation for further discussion on international business theory that demonstrated its limited relevance to the understanding of retail internationalization (Dawson, 2007).

In the final chapter of Hollander (1970), he provides an important message for many of the research studies that would follow: “International retailing proved to be even greater in scope, magnitude, and diversity than was anticipated at the start of this study” (p. 181). The findings of subsequent researchers echoed the challenge that the diversity and complexity of retail internationalization patterns called for new theoretical development to replace established international business theories. Not enough research had been undertaken on what Hollander viewed as an impressive extent of internationalization, which reinforces many misperceptions of retailing that existed in the post-industrialization period. The prominent role of these researchers would lead to the development of common themes around innovation and the application of retail concepts to the internationalization process.

For the most part, this foundational research took the perspective of the internationalizing firm and its role in the foreign expansion process. This is understandable given the well-established role of the firm in the formulation of international business theory, as well as the fact that most researchers resided in the home country or region of the expanding firms. However, while the perspective of the firm has proven valuable to understanding the internationalization process, as early as Hollander’s study in 1970 researchers were able to recognize that foreign countries, whether developed or developing, would be impacted by these new entrants, giving credence to the need to consider more than the firm’s perspective in the retail internationalization process.

In addition, much of the early research in retail internationalization tended to focus on entry into developing countries. The work of Goldman (1974) exemplifies the perspective of retail foreign expansion as an opportunity for economic development in the host countries; a proposition also put forth by Hollander, but one that would prove challenging to support. As research advanced, the analysis of entry from a developed to a developing country has often become blurred in an absence of specific distinctions between these two types of host countries. Although broad demographic and social-economic data has been referenced to describe the differences between developed and developing countries, the early stages of international expansion research would render these differences secondary to the overall process. During the 1970s and 1980s, when most of the foundational research in retail foreign expansion was undertaken, the number of countries categorized as developed was generally limited to Western Europe and North America – considerably fewer than exist today. Thus, new research is necessary to renew the context of retail internationalization, which is crucial and important to understanding the foundational study of retail foreign expansion.

2.4 The Significance of Hollander, Waldman, Goldman and Martenson

Unlike the broader study of international business – which has a longer history and greater scope of research and theoretical development – the study of retail internationalization is comparatively recent, offering a narrower field of research from which to build a foundation of investigation.

Within the early studies of retail internationalization, four individuals and their primary work have been identified as laying the foundation for future study in this field: Stanley Hollander, Charles Waldman, Ariel Goldman, and Rita Martenson are considered the most influential researchers that framed subsequent research. While others contributed to the study of retailing prior to and during this period – which is well-documented in McNair's (1967) 'wheel of retail' and Martenson's (1981) comprehensive review of retail models – these four researchers in particular addressed the primary challenges and opportunities confronting international retailers.

Hollander's research explored the scope and diversity of the retail business and attempted to compare its complexity to the challenges of international business. Regarded as a seminal work on the nature of retail internationalization, Hollander's (1970) study provided an authoritative survey of international expansion activities, primarily between the post-World

War II period to the late 1960s. To define the scope of international expansion, the study documented the following: 1) the full spectrum of retail expansion topics from developed to developing countries, 2) the differences between retail formats and internationalization, 3) a discussion of European and North American expansion, 4) the motives for retail expansion, and 5) the successes and failures of expansion activities during this period. The Hollander work was the first to truly capture the complexity of retail foreign expansion by identifying several key components and outcomes of doing business outside of the home country.

Hollander's work spurred extensive study of the various components of retail internationalization. For the most part, these contributions have been well documented over the years. Of particular relevance to this author's research is the adaptation of Hollander's hypothesis on the economic impact of retail expansion, predominantly through observations on the standardization versus adaptation continuum, the impact of foreign expansion on the firm, and the impact of foreign expansion on the host country.

Waldman (1978) estimated that, between the early and mid 1970s, the number of companies entering the international market would increase by an additional 33%. It was within this context that Waldman's study advanced a more detailed investigation into the activities of the mass retailers engaged in foreign markets. Consistent with the research of the 1970s, Waldman's work had a foundation in the broader international business research, which viewed retailing as primarily a marketing activity. While this lens ultimately limited the perspective of retail expansion as an independent research pursuit, several significant findings in the Waldman study would provide the basis to advance understanding beyond this limitation. In particular, Goldman's (1974, 1981) study of supermarket expansion into less developed countries inspired other researchers to frame international retail expansion as the transfer of marketing technology.

The underlying premise of Goldman's perspective is that the supermarkets' innovations in the marketing distribution network could be easily replicated in multiple markets. Similar to Hollander's proposition on retail expanding into developing countries, Goldman proposed that the transfer of retail expertise from developed to developing countries would have economic benefit. However, the actual impact of the transfer of a retail formula, innovation, or technology into foreign markets was found to depart significantly from projected business theory outcomes. Thus, the Goldman study demonstrates the limitations of the traditional international business theory that asserts that successful replication of retail can be achieved consistently from market to market.

Amongst the early studies of retail internationalization, the Martenson study of IKEA (1981) provides one of the original efforts to develop a framework or theory that would explain retail foreign expansion. Taking a fairly exhaustive approach to the investigation of multiple business theories, Martenson provides arguments that challenged most existing theories at the time, claiming that they having limited or no application to the retail foreign expansion process as it related to IKEA. This study resulted in a combined dynamic model that Martenson believed addressed the primary issues of retail internationalization. Similar to Goldman, the underlying context of innovation and its diffusion is utilized to analyze the success of a retail concept and its potential for international expansion. As noted by Hollander and others, those companies that engage in retail internationalization are generally seen as innovators in their retailing category or format within their home country. It therefore made sense in these early studies to analyze international expansion through theories and models founded in innovation studies. Thus, Martenson's contributions further developed the knowledge of retail innovation in the internationalization process and identified the determinant forces of the retail market and its dynamic character.

2.5 The Four Perspectives of Foundational Retail Internationalization Research

2.5.1 Perspective One – The Retail Firm as the Dominant Viewpoint

From the vantage point of the 1970s, it is understandable that specific firms engaged in international expansion dominated the influential research perspectives. Since retail internationalization activity was still evolving and limited to relatively few numbers of companies, the ability to develop macro views of this activity would have been misguided without access to a broad spectrum of results. Each of the four researchers discussed in this section contributed distinct but converging views of the retail internationalization process: Hollander's broad survey of retailer activity, Waldman's narrower study of the firm's motivations and mechanisms, Goldman's perspective of retailer as part of a marketing technique, and Martenson's specific case of IKEA.

Hollander's findings focus predominately on the internationalizing firm, which he explored through case studies of each firm's activities and the interviews of management from these companies. While this study was initially tied to expansion in developing countries, Hollander concludes that the types of problems encountered by internationalizing firms were often similar in both developed and developing countries. As Hollander notes: "The really basic problems of site selection, of offsetting competition, of staffing and control, of supply, of adjusting to customer tastes and desires, and of living with regulatory controls are inherent in large-scale retailing everywhere, both indigenous and expatriate, and in both developed and developing countries" (p. 133).

The relationship between the home country business and the operations in foreign countries is also a significant contribution from Hollander. This research provides a first look at the confidence of these innovative retailers, which helped them expand internationally, as well as the role of managerial vision and risk-taking necessary to do so. This perspective demonstrates that most retail companies that internationalized their business are innovative and have first gained a level of success and dominance in their home country. However, Hollander accurately observed that, if operations at home become weak, there appears to be a direct impact on the foreign business. Since home market business still accounts for the major portion of revenues and profits, it becomes necessary to direct managerial, financial, and operational resources to the home firm, often at the expense of foreign operations. This is an important insight into the understanding of retail foreign expansion that would evolve during the next decades of study.

The broad scope of Hollander's study provides insight into the complexity of the retail internationalization activity leading up to the last quarter of the twentieth century. This research would provide the framework for subsequent study of retail foreign expansion, however, the dominant viewpoint of the internationalizing firm would overshadow and thus limit early research.

Almost a decade later, the work of Charles Waldman (1978) provides a more focused study of larger retail companies engaged in international expansion, offering a more in-depth study and analysis of retail internationalization activity and its outcomes. Waldman's study looked at specific mass retailers and further evolved the dominant view of the firm within the internationalization process. Waldman's study would conclude that the success or failure of retail internationalization would be predominately determined by the strategic decisions of the firm. For those firms that met with failure or unsatisfactory results in foreign expansion, Waldman determined three factors as an explanation: "inadequacy of the exported retailing formula with respect to host country consumers' expectations; difficulty in providing at a reasonable cost adequate operational support for the exported formula; and finally, insufficient attention given to the integration of geographically dispersed decision-making processes" (p. 144-5). Waldman supplied further interpretation of these negative outcomes in the study, identifying problems in the firm's marketing strategies and subsequent operational decisions.

For those mass retailers who were successful in their foreign expansion, Waldman identified the strategies that these companies used to overcome failure. Retailers who strategically found the proper adaptation of their formula, provided adequate operational support, and developed proper systems and personnel strategies were able to achieve acceptable performance results in foreign markets. Similar to Hollander's work, this research gives only passing recognition of the other perspectives in the retail internationalization process, such as the host country and its domestic retail sector.

In the study of IKEA's expansion into three foreign markets, Martenson's research is clearly dominated by the firm's viewpoint of the internationalization process. However, her work introduces the market perspective, taking into consideration the dynamics of differing market conditions in the success or failure of a retail business. Focusing on IKEA in its home and three foreign markets, Martenson's study is a significant departure from the other foundational research of the late twentieth century. Her work introduced the need to look at the business of retail through analytical tools that were developed specifically for that purpose, which opened up the potential for understanding more of the complexity of retail foreign expansion. Although still grounded in the perspective of the firm, Martenson's work initiated increased academic interest in the foreign market's role in international success.

2.5.2 Perspective Two – Transferability of the Retail Concept: Standardization versus Adaptation

The breadth of Hollander's study spanned across companies of different origins, expanding into diverse countries with varying formats and modes of entry, and providing a wealth of observational data on the complexity and diversity of retail internationalization. The factors contributing to success or failure proved somewhat inconclusive, but laid the foundation for studying one of the most significant strategic decisions in retail internationalization: the degree to which the firm implements a standardized or adaptive approach to its foreign business.

It was Hollander's observations that organizational structure and operational style in a firm's home country had considerable influence on customer orientation toward international operations. As such, retailers that were more experienced in operating diverse formats at home had an ability to adapt to foreign market conditions more easily, drawing upon prior experience to succeed. Hollander does not impose any evaluation or prediction on the retailer's choice of adaptive or standardized strategy, focusing more on the relationship between foreign and home operations, and eventually determining that the radial organizational structure of most international retailers was standard practice. It is worth noting that, in 1970, firms were less likely to be sourcing from global markets than is current practice, and vertical integration and private label development were far less evolved. Thus, entry into foreign markets came with limited prior experience on most levels.

Waldman's study furthers the understanding of the motivations and mechanisms for retailers to engage in foreign expansion. In addition to providing further insight into the issues of liberalized trade and economic unions, he identified the role that technology advancements would play in supporting foreign growth, particularly in the fields of communication and transportation. This was significant to Waldman's (1978) study of mass retailers because he was the first to truly investigate corporate acculturation, concluding this was necessary to successfully integrate geographically dispersed operations (p. 156). Waldman believed that "the role of foreign operations as a reservoir of ideas and experiences definitely is an aspect of international expansion that should be viewed as a positive one" (p. 159). These findings would provide the foundation for future research into retail internationalization as a process that must continually adjust to market and consumer conditions. In addition, Waldman provided some initial insights into the transfer of learning and knowledge that would be explored several years later.

This 1978 work may also be seen as the precursor to the concept of psychic distance. While this terminology was not yet defined, Waldman's work is clear in exploring the factors that influenced expansion decisions. The investigation of these firms provides meaningful insight into the relationships between the choice of entry mode, the level of managerial support (or lack thereof), and the success or failure of a foreign operation.

2.5.3 Perspective Three – Retail's Economic Impact and Developed versus Developing Host Countries

Further research advanced the view that retail internationalization was driven by an increasing homogeneity among developed countries, which was an implicit notion in the Hollander study. In particular, academic research in the late 1970s and early 1980s explored the potential that opening retail companies in developing countries would advance their progress toward the standard of living of developed countries, which was a popular theory amongst writers such as Levitt (1983) and others within the manufacturing sector. These researchers also asserted that a successful company in one developed country would be well received by other developed countries as part of an advancing global standard of living. Specific to retail internationalization, Hollander would be among the first of several researchers to advance the idea that the consumers in developed foreign countries would welcome the choice of new innovative retail formats, and to assert that local competition must embrace marketing advancements and other operational improvements to remain competitive. Overall, the impact of retail expansion was expected to be mutually beneficial to economic development.

The expectation within developing countries was that retail expansion would contribute to their international manufacturing business, which would stimulate economic growth and, by extension, their advancement toward a developed country's standard of living. Hollander's study was less conclusive on this hypothesis, providing early observations on both the positive and negative impacts of foreign expansion. Hollander's conclusions and observations provided important perspectives on what would become the focus of subsequent research in the field of retail internationalization. The work of Waldman (1978), Goldman (1974, 1981), and Martenson (1981) would build on this foundational knowledge of retail foreign activity, formulating frameworks and theories specific to retail internationalization in the later part of the twentieth century.

Waldman's study in 1978 would raise further discussion on the strategy of foreign entry across the standardization and adaptation continuum. Consistent with Hollander and other international business research of the 1970s, Waldman saw international expansion as playing a positive role in the modernization of host countries and in influencing local competition to improve quality of life. His work provided new perspectives on the importance of studying the macro impact on the host country and the need for foreign retailers to study the local competition and consumer markets as part of a successful market entry. Although he based these insights in the traditional perspective of retail as a distribution point in the marketing system, Waldman did much to advance the considerations of environmental influences on retail success. His findings on acculturation and efficient resource allocation explored both the internal needs of the firm and on the external pressures of the market environment.

2.5.4 Perspective Four – The Role of Retail Innovation in Foreign Expansion

Drawing from both the economic historian's framework and that of Rogers' (1995) diffusion of innovation theory, Goldman's research contributions recognized the role of the environment in transferring retail concepts from one country to another. Many of the early moves for international business development were motivated by the assumption that advanced technology or innovative business concepts would be transferable from one country to another. Goldman's research demonstrated the weakness in these assumptions. Specifically, he identified the role of the host country in the success of retail technology transfer: the importance of cultural, social, and economic norms must be taken into account because they have a significant influence on consumer behavior and form the basis of the marketplace for a successful retail entry.

Furthermore, Martenson's study significantly contributed to the understanding of what happens when a foreign retailer enters a market, in particular its impact on the current retailers within the host market. In referencing Hollander and Waldman's work, Martenson observes: "It has been found that when multinational retailers made their first foreign expansion, a number of these firms considered their retailing formulas internationally appealing" (p. 362). In order to assess this kind of 'internationally appealing firm', Martenson considered and subsequently discarded several theories, primarily because they did not address the dynamics and changes that the entry of a foreign retailer can have on the host market. Her research is significant because it marked the first serious consideration of the relationship between competitive retail companies: "The combined dynamic model does not describe how institutional retail innovations evolve; the model starts its descriptions and predictions when the innovating firm has entered the market" (p. 363). The model, presented in Figure 2.1, demonstrates Martenson's propositions of how this dynamic would unfold.

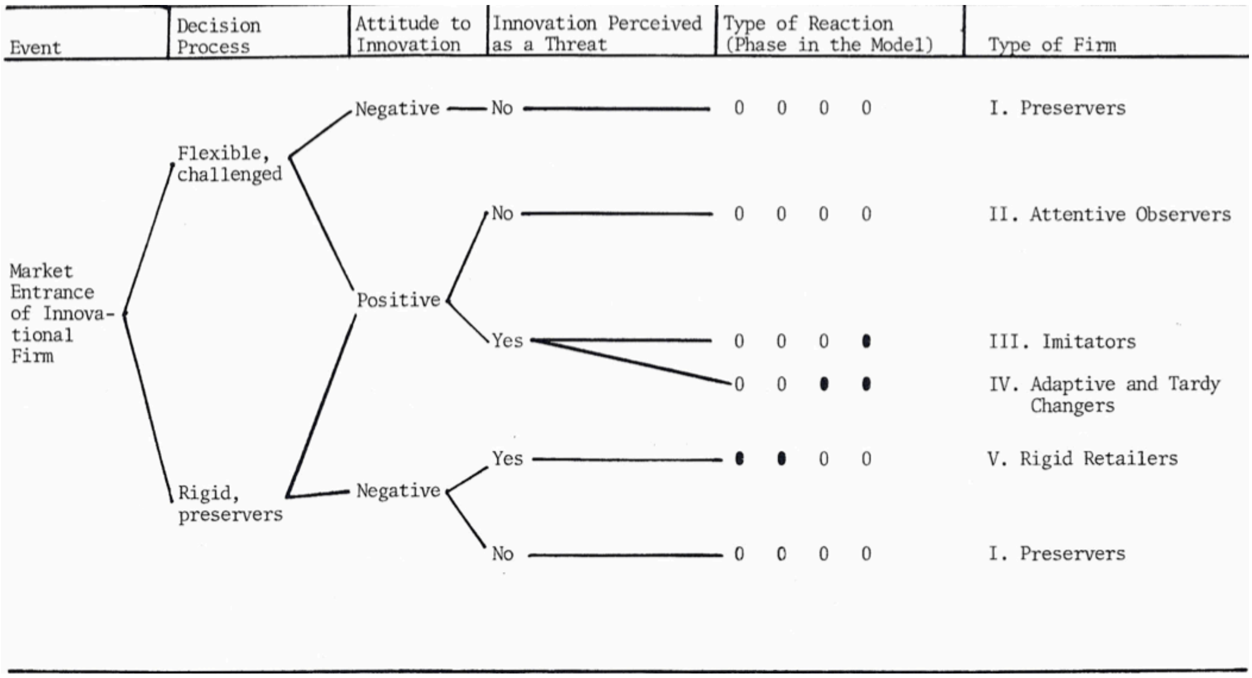

Figure 2.1 – Interpretation of the Combined Dynamic Model for Different Types of Firms (Martenson, 1981: p. 371)

Although the Martenson model is built using a specific company (IKEA) within a specific industry – which may limit the effectiveness of this model for other markets, companies, and retail categories – the underlying principles of the expansion process and competitive structures still have value when applied elsewhere. As noted, "This confirms the need for a model which considers both what the innovator does and what retailers and other parties on the market do: the combined dynamic model" (p. 374).

2.6 Foundational Research: Conclusion

The early stages of research on retail internationalization provided a rich foundation for the subsequent study of the patterns and processes involved in retail expansion outside of a firm's home market. Historically, retail has been viewed as a local or national business. Initially, the idea that a retail format could be exported successfully to foreign markets was viewed with skepticism by international business theorists. Although retail companies had been trading internationally through both sourcing activities and foreign operations, for most of the twentieth century these retailers were viewed as anomalies. Nevertheless, there was an implicit expectation in the writing of Hollander, Goldman and Waldman that retail expansion would result in greater profits, similar to the more established experience of manufacturing internationalization. Goldman’s view of economic impact and Waldman’s application of marketing theory exemplify these views. Ultimately, the lack of conformity to the international business experience would stimulate further research into the unique patterns and processes of retail internationalization. During this research period, retail continued to be construed as local business on an international scale; to advance, researchers required a new understanding of the impact that these developed companies would have on local competition, consumers, and the economy in the foreign market.

Following this foundational research, the focus of subsequent studies shifted to the themes of retail innovation in the host country and the role of transferability in internationalization. In particular, these two themes were of primary interest to researchers such as Salmon and Tordjman (1989), Treadgold (1990), Pellegrini (1994), Burt & Davies (2010), and Helfferich et al. (1997). The study of retail innovation and transferability furthered the understanding of the patterns of retail internationalization, which would enable researchers to differentiate and explain retail success outside of the home country. Researchers were also able to identify the roles of innovation and transferability as integral to creating typologies that could explain the retail internationalization process. This literature on retail internationalization innovation and transferability would lay the foundation for more in-depth study of the retailers involved in foreign expansion. Most of this research would take the view of the firm, leaving the understanding of impacts on the host country under-investigated – for the most part implicitly acknowledged but of little interest to these early researchers.

In addition, researchers supported another flawed perspective, assuming that most internationalization would take place in developing or less developed retail economies. This view appears to be based on the assumption that retailers capable of foreign expansion would come from more advanced retail economies. As a result, the study of retailers from developed countries expanding to other developed countries has received little attention from researchers. This study will address these under-explored areas of retail internationalization, specifically to understand the impact of foreign entry on the host market in developed countries.

2.7 Retail Internationalization Patterns and Typologies

The study of retail internationalization through the 1970s lay the foundation for an early examination of what retailer expansion into foreign markets looked like. As might be expected the studies were generally observational, focusing on activities of the various retail companies. These early forays into retail expansion only applied frameworks or theories from other disciplines, primarily the more developed work of international business in the manufacturing sector. Since the study of retailing was still a comparatively new area of research, it made sense to analyze activities that were seen as new and innovative through the lens of innovation diffusion theory. This theory proved useful in research focusing on the primary issues facing retailers entering foreign markets. Overall, these early studies predominately identified the need for further research that was unique to the retail internationalization experience.

By the late 1980s, the study of retail internationalization began to identify patterns in foreign expansion. Although international growth had continued to escalate during this decade, it still remained a relatively small percentage of total retail activity. As such, little advancement had been made in structuring specific theories around the activity and process of international expansion. This absence of research frameworks became the focus of several pivotal studies during the later years of the twentieth century.

The work of Salmon and Tordjman (1989) is generally recognized as seminal in identifying patterns and developing a typology for studying retail internationalization. Other significant contributions were made by Treadgold (1988, 1990), Dawson (1994), Pelligrini (1994), Burt (1993), and Helfferich (1997). By the late 1990s, the subject had become sufficiently important to researchers: McGoldrick and Davies (1995) dedicated a book to the broad range of international retailing topics, and Akehurst and Alexander (1995) released a special journal issue, which represented significant gains in the academic study of retail internationalization.

2.7.1 The Strategic View

Salmon and Tordjman (1989) drew upon the existing views of international business that had been established in studies of the manufacturing sector. Working from the perspective that retail internationalization would follow one of three strategies (foreign investment, global expansion, or multinational strategic growth), Salmon and Tordjman's work provided a typology for categorizing the retailers engaged in these activities. Although anchored in the perspective of retail as primarily a marketing activity, this seminal work established a preliminary typology for understanding key strategic issues in retail internationalization. Table 2.1 – *International Retail Strategies* – effectively structures the patterns that Salmon and Tordjman had identified and provided the framework for categorizing the internationalization strategies for specific retail companies.

	Global	**Multinational**	**Investment**
Definition	Replicate the same formula worldwide	Adapt the formula to local conditions	Transfer of money for buying partially or totally an existing retail company in a foreign country
Business formats	Specialty chains	Hypermarkets, department stores, variety stores	Retailers/non-retailers operations
Marketing	• Global segmentation and global positioning • Standardisation of marketing mix • Uniform assortment, price, store design, service, advertising	• Reproduction of the concept but adaptation of the content • Adaptation of marketing mix • Similar worldwide definition of store decor, price strategy, service strategy • Adjustment of assortment and advertising strategies	No real marketing implications
Organisational implications	Vertical integration of design function, production process, distribution system	Multidomestic approach	Portfolio of foreign operations
Management Implications	• Centralised management • Excellent information system • Rapid capacity to growth • Large economies of scale • Very little transfer of know-how	• Decentralised management • Frequent communications with HQ • Average capacity to growth • No economies of scale • Important transfer of know-how	• Partially controlled management • Fast international expansion • Lower risk • Transfer of skills

Table 2.1 – International Retail Strategies (Salmon & Tordjman, 1989: p. 12)

In 1989, retailers such as Toys R'Us and Benetton operated as global strategists, taking their strong retail format and opening a standardized version in foreign countries. By comparison, Carrefour and C&A, equally dominant retailers in their own right, implanted autonomous affiliates in foreign countries and are thus defined by Salmon and Tordjman as a multinational strategy. Within this typology, the international foreign investment strategy –

a practice drawn from manufacturing theory – was assigned to companies such as Vendex and Promodes, which suggested a turning point from traditional international business model structures. One might argue that international foreign investment by retailers is likely another form of multinational strategy within this typology, based on diversifying risk and acquiring knowledge on international markets.

Salmon and Tordjman (1989) advance certain strategies based on this typology, positioning them amongst the first researchers to provide a framework that could be applied to decision-making in foreign retail expansion.

2.7.2 The Temporal Dimension

Advances in understanding retail internationalization were furthered through the work of Treadgold (1988). International retailers were organized into types, or clusters, as visually demonstrated in Treadgold's typology (see Figure 2.3). Treadgold identified four distinctive clusters: The Cautious Internationalists, The Emboldened Internationalists, The Aggressive Internationalists, and The World Powers. Each of these categories were defined predominately based on the basis of their mode of entry and operational style.

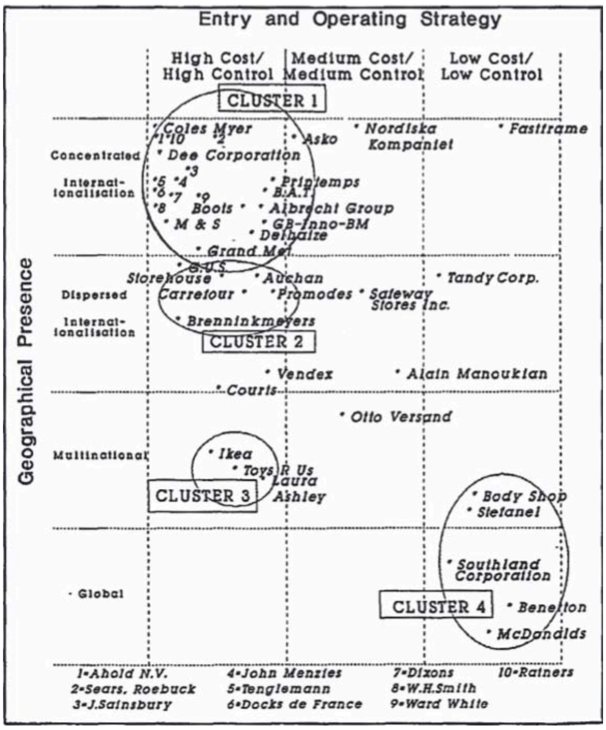

Figure 2.2 – A Typology of Transnational Retailers (Treadgold, 1988: p.10)

Treadgold's typology focuses on the temporal element to global expansion. Based on underlying assumptions that the global market was increasingly fluid with fewer barriers to market penetration and more convergence of consumers, innovative retailers would move from cautious to emboldened to aggressive over time. This provided Treadgold with a predictive structure to the model that build on international experience. Only the fourth cluster of *world power* retailers were seen as operating in a different realm, which would be investigated in-depth in future research.

2.7.3 The Managerial Perspective

The work of Pellegrini (1994) continued to form typologies for the patterns of retail internationalization. Focusing on retail foreign expansion as a strategic growth decision, Pellegrini identified a level of decision-making and resource allocation by the firm that had not been thoroughly investigated in prior typologies. Grounded in the view of the organization as having specific proprietary retail knowledge, Pellegrini proposes that retail internationalization is predominately a managerial decision process of advancing product diversification, geographical diversification, or some combination of both. As detailed in his typology, the paths to retail growth can be organized around the following diversification strategies:

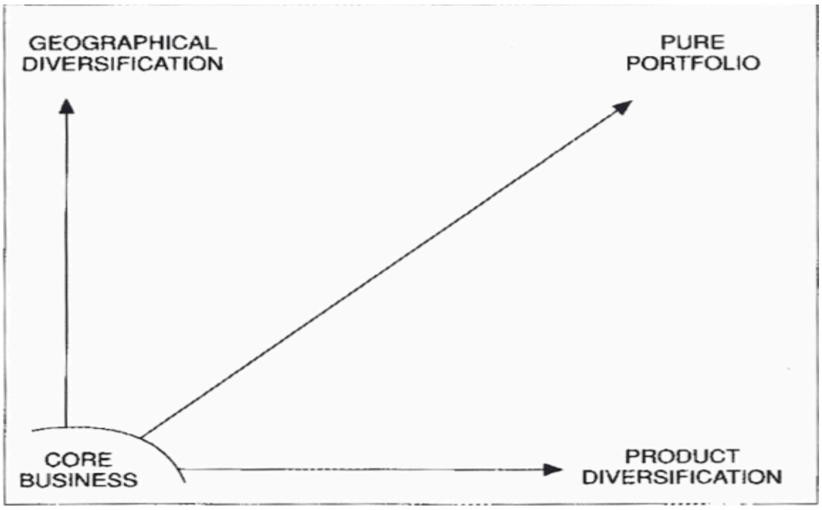

Figure 2.3 – Paths to growth (Pellegrini, 1994: p. 125)

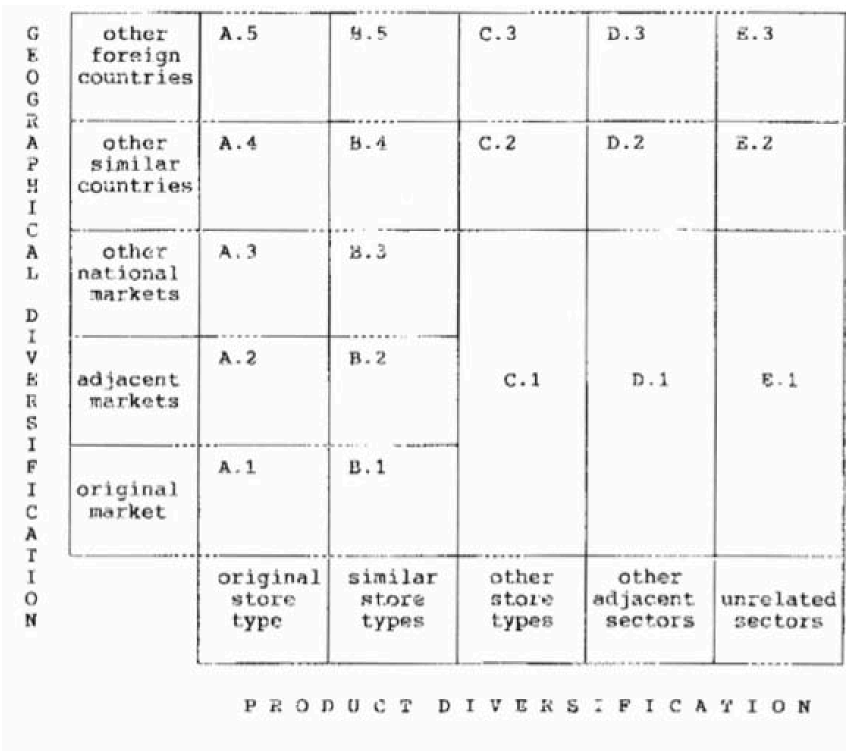

Figure 2.4 – Paths for growth in retailing (Pellegrini, 1994: p. 126)

Similar to previous studies, Pellegrini draws heavily on the role of innovation in explaining retail foreign expansion. His typology offers new insights in the types of decision-making processes that might be considered part of the internationalization strategy. In addition, the product/geographic options identify many more expansion alternatives than have been previously discussed. His research demonstrates that the totality of the international expansion strategy is proactive, taking into account the firm, its innovative advantages, as well as the opportunities in various markets. However, its foundation in marketing strategy creates some limitations to the broader issues of the international business of retailing.

2.7.4 A Combined Typology for Retail Internationalization

The final research to be discussed here is the work of Helfferich, Hinfelaar and Kasper (1997). Almost thirty years after the seminal work of Hollander (1970), the work of these three researchers marks an important point in the study of retail internationalization. While much of the research to date has built typologies drawn from international business theory, academic discussions have increasingly challenged the applicability of these models for understanding the retail experience. Dawson (1994), Sparks (1996), and Akehurst and Alexander (1995) are amongst the researchers that challenged the limitations of established business theory in analyzing the internationalization of retail.

Helfferich, Hinfelaar and Kasper (1997) set out to clarify the discussions that had taken place and proposed new definitions and classification system to move the study of retail internationalization forward. To this end, Helfferich et al. (1997) proposed a typology through Tables 2.2 and 2.3:

	International (in a narrow sense)	Global	Transnational	Multinational
Geographic scope	1 continent	2 or more continents	1 or more continents	1 or more continents
Cultural spread	1 cultural zone	2 or more cultural zones	2 or more cultural zones	2 or more cultural zones
Cultural orientation	Ethnocentric	Mixed	Geocentric	Polycentric
Marketing	Expansion of home format or int. alliances	Minimal adaptation, homogenous markets	Medium adaptation, heterogeneous markets	Major adaptation or diverse formats, heterogeneous markets
Management	Domestic HQ	Centralized control	Integrated network	Independent units

Table 2.2 – Five parameters of international retailing (Helfferich et al., 1997: p.303)

International: beginners or slow developers	Global: fast developers or inimitable niche	Transnational: accumulators of experience	Multinational: portfolio managers
• Free Record Shop • Blokker • Hunkemoller • Halfords • Hennes & Mauritz	• IKEA • McDonald's • Benetton • Toys 'R Us • Shell • Aldi • Louis Vitton	• C&A • The Body Shop • Marks and Spencer • Spar • Makro • Carrefour • BATA • Schlecker	• KBB • Vendex • Ahold • Tengelmann • Delhaize le Lion

Table 2.3 – Illustration of proposed new classification system (Helfferich et al., 1997: p.303)

Helfferich, Hinfelaar and Kasper (1997) attempted to encompass the full scope of investigations that had been undertaken to create a normative structure with the potential to advance the understanding of retail internationalization. This research included aspects of Treadgold's clusters, as well as the increasingly common usage of the terms global, transnational, multinational, and international. The study also looked to integrate the managerial, marketing and cultural considerations of the internationalization process. This classification system highlighted the complexity of the subject and stated the need to consider both the temporal and spatial aspects of retail internationalization.

2.8 Furthering the Discussion on Retail Internationalization

The study of retail internationalization had arrived at a new level of development by the mid-1990s. The publication of texts such as McGoldrick and Davies (1995) and special issues of academic journals devoted to the subject highlighted the interest and the importance of the debate and discussion. The McGoldrick and Davies (1995) book highlighted works by Burt (1995) on evolution of theory and practice, McGoldrick and Blair (1995) on market positioning, Sparks (1995) on reciprocal internationalization, and Davies (1995) on legislative environments – all of which pointed to the increasing complexity of the retail internationalization process. Akehurst and Alexander (1995) turned the discussion to the internationalization process and marked the threat of marginalization for those retailers that did not take on the international imperative. In particular, in the mid- to late-1990s, academic research identified two significant turning points in the research:

1. Retail internationalization had become the study of operational expansion into foreign markets
2. The relevance of traditional international business models had come under attack and the movement toward formalizing retail models was evolving

Leading up to the mid-1990s, the patterns of retail internationalization demonstrated some important changes in flow of international activity. There is general consensus from academics that United States retailers were the early entrants to internationalization, proving to be the more dynamic and innovative forces (Akehurst & Alexander, 1995). Sears Roebuck and Woolworths symbolized the early expansion into foreign markets. In addition, the innovation of self-service systems in grocery retailing was developed in the United States in the 1940s and translated to the UK by Sainsbury and to Japan by Kotobukiya in

1950. Later research would provide more substantial analysis of when and why the American retail companies became less engaged in international expansion. For example, studies by Vida, Reardon and Fairhurst (2000), Sternquist (1997), and Muniz-Martinez (1998) each contributed to the understanding of international activity between the U.S. and Europe. Yet perhaps no work is more comprehensive in reviewing the state of global retailing during this foundational period than Kacker (1986). His study bridged the perspectives of retailer as economic catalyst and the then-current trend of foreign entry into the U.S., providing thoughtful consideration of the complexity of 'Coming to Terms with Global Retailing' (Kacker, 1986).

Starting in the 1960s, the level of activity in foreign expansion from the UK and European retailers increased dramatically, which shifted the focus of academic study to European academics. By the time much of the research in the later part of the 1980s to mid-1990s was written, the balance of activity was clearly in the retail internationalization of European and UK retailers. Kacker (1985) study of Transatlantic trends in retailing was amongst the early works to investigate this trend in direction of foreign expansion. Subsequently it was noted by Salmon and Tordjman (1989): "In 1985, Europeans invested $5.55 billion in American retailing, in contrast to the $2.5 billion invested by Americans in European retailing" (p. 13). Dawson (2007) further substantiates this trend with data showing Europeans significantly outpacing U.S. retailers in the percentage of sales coming from foreign operations: 26.0% of European sales in 2004 compared to 10.4% for North American companies and 9.1% for Asia Pacific retailers (p. 379). A lack of knowledge and analysis of what was happening in this market coincided with the shift to European based activity, leaving a gap in how North

American retailers might vary from the European experience and perspective. This study looks to address this research gap.

By the 1980s, the study of retail foreign expansion had provided a foundation for understanding activities involved in establishing business outside of the home country. The research of retail internationalization was evolving with the growth of these activities and those involved in its study began to formulate important considerations for how foreign expansion might be defined. The main finding of the research reviewed in this chapter identified the shift away from utilizing traditional international business theory to study retail internationalization. The early formulation of new typologies and frameworks facilitated the advancement of new understandings of what happens in the processes and operations of retailers entering foreign markets, which ultimately distinguished it from other international business models. As noted by Salmon and Tordjman (1989): “the internationalization of retailing is not a new phenomenon, but it remains partial and marginal” (p. 3). The research that would progress from this early foundational work would significantly address this gap in knowledge. Chapter 3 will review this progression and lead to the potential for areas of study that require further exploration.

Chapter 3 – Literature Review of Retail Internationalization, Processes, and Operations

3.1 Overview

The pace and degree of retail internationalization continued to accelerate during the later part of the twentieth century and into the twenty-first century. The academic study of international business has closely followed this trend. Building on the foundational research reviewed in Chapter 2, this chapter will address more recent thinking on retail internationalization to investigate the question: what is the impact of retail internationalization?

In order to arrive at this point, Chapter 3 will consider more specific aspects of foreign retail expansion. The areas of review will include:

- **Motives for retail international expansion**: Drawing on research that generally views the motives for retail internationalization as either reactive or proactive, this chapter will investigate the driving force of growth and profits, supported by innovative retail concepts.
- **Processes for the selection of host countries**: The growth potential within a foreign market, as well as psychic and cultural distance, is an important factor in selecting a country for expansion, particularly in early internationalization moves.
- **Processes for determining the mode of entry**: Considerations of the level of risk and the degree of control dominate the study of entry mode, providing further insight into the standardization-adaptation strategies of foreign expanding retailers.
- **Knowledge and knowledge transfer**: Research found that the role of experience and the advancement of information and communication technologies supported the rapid evolution of retail internationalization transfer, facilitating improvements in both domestic and foreign operations.

- **Brand and brand transfer**: The study of brand transfer provides significant insight into the more complex issues of the standardization-adaptation decisions that retailers make, particularly as they apply to store image and market positioning.
- **Discontinuity and continuity**: As retail internationalization has grown and matured, the study of retailer's strategic decisions related to expansion and divestment of foreign operations has become important.

Collectively, these components have become viewed as the retail internationalization process. This is a significant departure from the foundational studies in foreign retail expansion, which generally limited its focus to the *activity* of international movement. In this study, construing retail internationalization as a *process* provides a more holistic perspective, which is necessary to build frameworks and theories that provide an understanding of the overall business strategy. To a large extent the process requires a temporal context: researchers have extensively examined multiple retailers over several decades, which has allowed the process to become more fully understood (Burt, 1993).

With researchers developing insights in the retail internationalization process, interest in conceptualizing this process has also grown. In much the same manner as the foundational research attempted to draw from the more established international business theories and concepts, academics proposing conceptualization of the retail internationalization process have engaged in similar discussions. A review of these considerations is presented here, as it is useful to provide a context for the more detailed review of the research on the retail internationalization process that will follow.

3.2 Conceptualizing the Retail Internationalization Process

As the study of retail internationalization proliferated in the 1990s, academic researchers attempted to explain the processes and mechanisms for foreign expansion. On two ends of the approach to this discussion are Vida and Fairhurst (1998) and Sternquist (1997), who advanced models to explain retail internationalization, drawing from the work of international business theorists such as Dunning's eclectic paradigm (1981, 1988) and Dawson (1994). Sternquist (1997) attempted to develop an approach for explaining the retail internationalization process through the integrated Strategic International Retail Expansion (SIRE) model, which provided some limited insight into retailers' strategic decision-making and the potential outcomes within the internationalizing process. Vida and Fairhurst (1998) attempted to conceptualize the retail internationalization process through their identification of promoters and inhibitors to retail foreign expansion. Alternatively, Dawson (1994) employs a more fundamental look at the retail business model to understand how the process will unfold in a unique retail context, warning researchers that manufacturing-based international business theory has it limitations in explaining retail and its international expansion.

It is significant that all three of these studies arrive at comparatively similar observations: retail internationalization is a complex and reiterative process with both internal firm and managerial forces as well as external environmental forces, all of which play important roles in the outcomes. These findings are repeated throughout the literature on retail internationalization processes. More recent research by Burt, Davies, Dawson and Sparks (2008) continues to reinforce the complexity and reiterative process of internationalization:

> There is an inherent assumption in most existing academic interpretations of business outcomes, that strategy is coherent, consistent, and linear, and that the observed patterns in activities are clear and pre-determined. These overviews of three European grocery chains show how contested, punctuated and complex the internationalisation process is (Burt et al., 2008: p. 91).

The work of Alexander and Myers (2000) can be seen as an attempt to bring the opposing views of Dawson (1994), Sternquist (1997), and Vida and Fairhurst (1998) into a conceptual synthesis of the retail internationalization process, which is exemplified in Figure 3.1 and Figure 3.2 from the Alexander and Myers study:

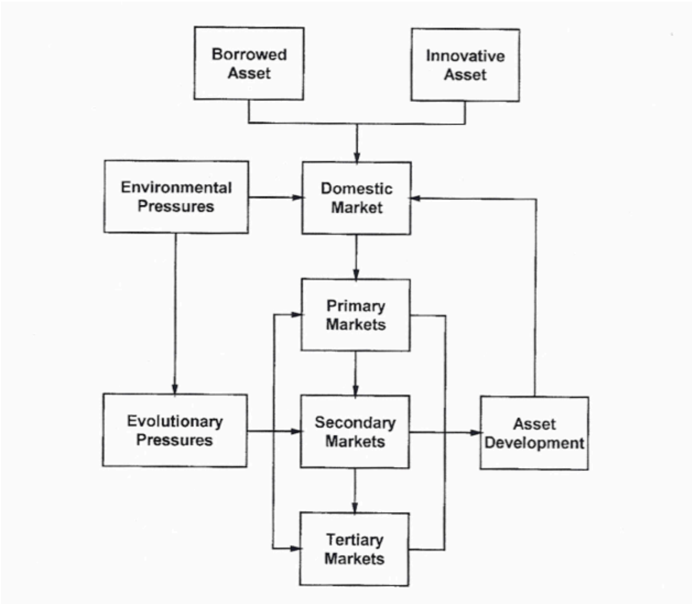

Figure 3.1 – Market Internationalization (Alexander & Myers, 2000: p. 343)

Alexander and Myers (2000) draw from both figures in an attempt to conceptualize the retail internationalization process. This research further develops the need to understand retail foreign expansion beyond the firm's perspective, as "the process of retail internationalisation has to be viewed not only as a company-based management process but as a market-based process" (Alexander & Myers, 2000: p. 341). Incorporating the market perspective into this conceptualization of internationalization, these researchers put out a call for more research on the impact on the host market, which must be considered to fully understand the retail internationalization process.

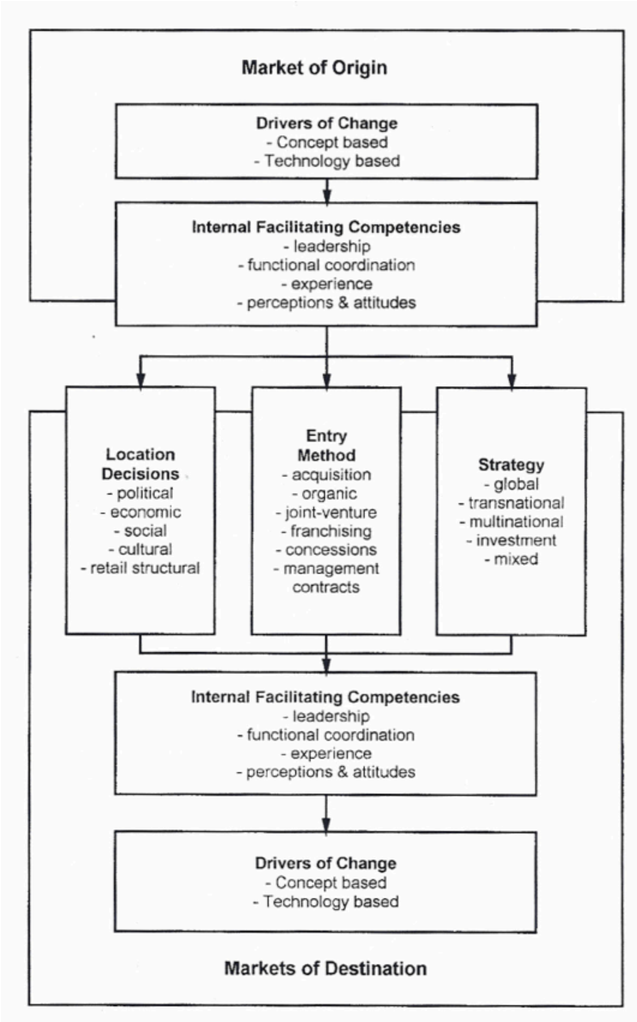

Figure 3.2 – Operational internationalization (Alexander & Myers, 2000: p. 345)

3.3 Motives for Retail Internationalization Expansion

As retail internationalization accelerated through recent decades, the study of the motives for expansion into foreign markets took on greater importance. There are several key studies that explored the underlying motives for retail internationalization, including the work of Pellegrini (1992), Treadgold and Davies (1988), Kacker (1985, 1988), Williams (1992), Alexander (1990), and Vida (2000). In addition to studying the activities of retail companies expanding into foreign markets, these studies explored the antecedents to international growth and attempted to interpret the motivational factors for expanding outside a company's domestic market.

In more recent retail internationalization research, the focus on motives for foreign expansion by retailers has tended to be less dominant, giving way to the evolving interest in aspects of the process (such as brand and knowledge transfer) or the experiences of companies that halt expansion after failing company expectations. It might be argued that the more relevant question at this point in the evolution of retail internationalization would be: why have some large retailers not been motivated to expand outside their domestic market?

While not directly addressing this question, the recent work of Evans, Bridson, Byrom and Medway (2008), and Dawson (2007) have focused on whether retailer motives for foreign expansion have changed. The answer appears to be that the desire for growth and profit are still the dominant motivators, however, there still are not any defined strategies that guarantee expansion to another country will produce profitable growth – a lesson that many retailers have learned over the years. Yet the research on motives for retail internationalization provides useful insights into what drives specific companies to believe they will succeed in foreign markets.

3.3.1 NAFTA, the EU and Other Factors Paving the Way for Retail Internationalization

The accelerated pace of retail internationalization in the second half of the twentieth century was enabled by the world advancing into a global marketplace. Notably, much of this academic research pointed to three factors that can be credited with developing an environment able to support this increase in global expansion:

1. The trade agreements between developed nations: in North America in 1989 and the European Union in 1992 (Alexander, 1996)
2. The pursuit of foreign markets for sourcing of production (Swoboda, Foscht & Cliquet, 2008)
3. The information and communication technologies (ICT) revolution (Dawson, 2000).

As summarized by Williams (1992):

> These activities have been fostered by the growing similarity of certain global market segments, trends and lifestyles; the emergence of international economic unions; a lessening of the traditional obstacles associated with RI; the increasing dominance, concentration and constraints on retailers in certain domestic markets; technological advances in communication, transport and distribution; the international flow of retail techniques, institutions and "know-how"; the globalization of suppliers; the rise of global sourcing by retailers; the increased professionalism of senior management; the enterprising individuals prepared to pursue international opportunities (p. 269).

The specific motivations would vary for each firm, but there were an increasing range of incentives for retail internationalization leading into the 1990s.

3.3.2 Proactive versus Reactive Retailers

In response to the push-pull arguments for international growth, which were common in academic literature in the 1990s, Williams' studies (1992) of UK retailers provided a structure for identifying and analyzing the relative significance of motivations for retail internationalization. Drawing from the earlier work of Alexander (1990), Williams provided empirical data to support the arguments that retail internationalization was primarily a proactive process, pursued as a strategic process for increased revenues and profits. Thus, driven by a business growth goal and the belief that they have developed an internationally appealing offering (Martenson, 1981; Waldman 1974; Hollander, 1970), retail internationalization has been predominately construed as a proactive decision for those companies involved.

Alexander's (1990) study of motives for UK expansion tends to diverge from the push-pull literature, particularly when studying the American market. There is general recognition that U.S. retailers have been, as Alexander states, "a hot house of retail innovation" (p. 75), however, they have been more content to stay at home and maximize the potential of the vast U.S. market for growth and profits. This tendency of American retail has been an important distinction between the perspectives of UK and European (EU) retail and American retail: UK and EU retailers are more global-oriented, while U.S. retailers have focused on home or nearby markets, often venturing no further than North American neighbours. This research challenged what had originally been considered a globally important motivator: academics determined that the push factor or *reactive decision-making*, which was caused by a saturated or declining domestic market, has a limited or no role in international expansion decision-making. The evidence of retailers continuing to expand within their domestic market and engaging in retail internationalization further supports the view that push factors play a secondary role in motivating retail foreign expansion.

3.3.3 Retail Know-How Transfer

Much of the research on retailers engaged in internationalization has identified the relationship between foreign expansion and innovative retail concepts. As discussed in Chapter 2, the early foundational assessment of retail internationalization, such as Martenson (1981), examined companies through the view of innovative business practice. On a certain level, most foreign expansion has been viewed as an innovative process, as the number of companies engaged in the activity is relatively few compared to the total number of retailers. Specifically, the early work of Kacker (1985, 1988) began research which advanced the understanding of retailing know-how and its role in the retail internationalization process.

Kacker (1988) has been recognized by many researchers as a milestone in understanding the motives for international expansion. Kacker (1988) notes: "new innovations in retailing tend to flow across nations as pressures build on both sides – the supplier country where the innovation starts and the user country. Pressures may be created from within or may come from the outside environment" (p. 58). Kacker's argument states that retailing know-how can be found in two forms (managerial and technical), can be either planned or unplanned, and is significantly influenced by the environment. Kacker also observed that a greater understanding of the criteria that determines a retail concept's transferability would prove to be relevant over twenty years later.

3.3.4 Motives for Retail Internationalization in the Twenty-first Century

A study by Evans, Bridson, Byrom and Medway (2008) examined 12 UK and U.S. retailers, which re-confirmed the motivating factors of growth and profitability as dominant in the retail internationalization process. Earlier, Dawson (2001) pursued the notion that prior expansion decisions had been quite *ad hoc* (without proper strategic analysis) in his study of Western European retailers entering Poland. Evans et al. (2008) formally stated that the twenty-first century required a "more strategic focus on the transferability of the firm's core competencies" (p. 276). Furthermore, Evans et al. (2008) also found that retailers were increasingly focused on the transferability of brand, an extension of the standardization-adaptation strategies discussed in earlier research such as Treadgold (1988) and Salmon & Tordjman (1994). Wigley, Moore and Birtwistle (2005) also provide support for this view based on their study of fashion retailers, which demonstrates a significant evolution in the retail internationalization process and will be addressed later in the discussion of brand transfer.

These researchers identified that the motivation for a retail company to enter into the internationalization process ultimately depends on the following decisions: where to expand, what mode of entry to employ, and how the brand will be transferred. This study will explore the extent to which these decisions have an impact on and also depend upon the host market, a perspective that has received little attention from researchers in the study of the retail internationalization process.

3.4 Processes for the selection of host countries

While the understanding of retail internationalization has become more refined through academic research, the issue of where retailers have expanded has been viewed as less strategic. Some early international retailers were seen to favour geographic proximity such as Sears Roebuck's entry into Mexico and Canada, or IKEA's early entries into the Swiss, Austrian, and German markets (Martenson, 1981). On the other hand, companies such as Hudson's Bay, Woolworths, and Marks & Spencer followed the path of British Commonwealth expansion, which assumed cultural similarities would lead to success. Academic research into the country-selection process for retail internationalization has attempted to bring structure and conceptual understanding to how retailers determine where to open foreign operations. Evans and Mavondo (2002) have contributed to the empirical assessment of the role of country selection in the internationalization process, however, there is considerable evidence to suggest that the process of where to expand has been lacking in strategy, which suggests that retail expansion is more opportunistic and managerial-driven.

3.4.1 Psychic, Cultural, and Business Distance

The most advanced of the theories related to country selection have drawn from well-established work to properly understand of cultural distance, specifically Evans, Treadgold and Mavondo (2000) and O'Grady and Lane (1997). In addition, Dupuis and Prime (1996) were early contributors to the consideration of business distance in their study of country selection. Founded in the broader context of international business studies, the work of these writers did much to advance a framework for understanding the country-selection process. The definition put forth by Evans et al. (2000) helped to explain psychic distance while taking into account cultural and business distance:

> On the basis of this review of existing definitions it is proposed that psychic distance be defined as the distance between the home market and a foreign market resulting from the perception and understanding of cultural and business differences. Such business differences may include the legal and political environment, economic environment, business practices, language and industry or market sector structure (p. 377/8).

Working from this concept of psychic distance, further studies by researchers expanded the understanding of the selection process in retail internationalization. In addition to explaining the importance of cultural and business compatibility and geographical proximity to country choice, psychic distance also revealed a paradox, as pointed out by O'Grady and Lane (1997): too much perceived similarity may result in failure, which was the case with Canadian and U.S. retailers entering each others' countries. In particular, with the expectation that shared language and perceived cultural characteristics would extend to the retail marketplace, Canadian retailers learned quickly that assuming a company could transfer standard operating practices from home to the American retail environment would result in failure; notable were the entry and exit of Canadian Tire; Dylex Ltd.; and People's Jewellers amongst others. American retailers were also confronted with unanticipated differences in the Canadian market, but proved more capable of adapting to the variances given their size, resources, and well developed competitive skills. It is important to note that these adjustments are not unique to the North American experience, as companies moving within the European Union have also needed to make adaptations for success.

3.4.2 Some Realities of the Country Selection Process

As one of the first stages in the retail internationalization process, it is evident from research and practice that the selection of country can be based on undeveloped strategies, often prompted by managerial enthusiasm for foreign expansion. As previously discussed, these decisions have at times been primarily based on *ad hoc* criteria or opportunism. Thus, it may be argued that retail decisions to expand to foreign countries have been subject to vague information. Dawson's study (2001) on western grocery retail entering into Poland supports this view, exploring the relationship between a retail companies' experience and a foreign market. Prior experience has a significant effect on the ability of a company to source for products and manufacturing, as well as the company's perceived understanding of the global retail market of those countries. Dawson (2004) noted that a familiarity with markets that seem attractive due to low cost production does not necessarily provide the knowledge necessary to develop a successful retail operation.

One must also look to several significant trade agreements – such as the Canada-United States Free Trade Agreement (CUFTA) in 1989, NAFTA in 1994, and the European Union trade agreement in 1992 – to identify retail internationalization opportunities opening between these developed countries. The movement of retail operations between Canada and the United States increased significantly after 1989. It has been well documented by

O'Grady and Lane (1997), Evans, Lane and O'Grady (1992), and Burns and Rayman (1995) that the Canadian retailers did not fare well in their expansion into the U.S.

3.4.3 Developed, Emerging and Developing Countries

Even in the earliest studies of retail internationalization, researchers documented expansion into both developed and developing countries. Hollander (1970) and Goldman (1974, 1981) supported the early assumption that the transfer of retail from one country to another had the potential to impact economic development. In developed countries, this would primarily manifest as positive development that allowed for more consumer choice, improving the operations of domestic retailers through the necessity of maintaining a competitive position. In contrast, entry into developing countries was considered by researchers as more idealistic, improving the broader economic well-being of the host country – particularly in the context of manufacturing and technology expansion into foreign markets.

Generally speaking, most early international expansion activity took place in developed countries; however, this is a research area that has received little explicit study by academic researchers. To fill this gap, this study will provide a more substantial understanding of the long-term impact of retail internationalization in developed countries.

3.5 Processes for determining the Mode of Entry

As previously discussed, retailers have been expanding internationally for many years, with significant expansion of retail stores starting in the 1980s. According to Dawson (1994), the opening of physical retail formats has had the greatest impact on the international retail market. Both Dawson (1994) and Alexander (1995) have documented the diverse and complex strategies that retailers have used as they expand globally. These companies have flourished through organic growth or acquisition, as well as increasingly less costly and risky entry modes such as franchising, joint ventures, concessions, licenses, distributors, and export agents. Specifically, recent research in the study of entry mode focuses on the physical entry of brick-and-mortar formats into the foreign markets, which is the area of interest in this study.

In addition, as the majority of retailers that trade in commodities have moved their product sourcing outside of the domestic market in search of lower costs, it might be argued that all retailers operate within an internationalized retail environment. This has afforded many retailers the opportunity to gain knowledge of foreign markets through their supply chain. To further understand how knowledge is transferred from host-country to the expanding retailer, it will be necessary to explore the broader context of retail internationalization and review several examples of entry strategies.

3.5.1 Non-operational Internationalization – Sourcing, Responsive Internationalization, and the Internet

Retail has always started as a local or national business, built on physical formats with direct interaction with the consumer. Thus, the study of retail internationalization has primarily focused on the expansion of retail operations, i.e., stores into foreign markets, as discussed in Chapter 2. However, various researchers, starting with the early work of Hollander (1970), have acknowledged that, in the broader context internationalization, the pursuit of a competitive edge has taken retailing into several different forms beyond the store transfer process. Dawson (1993) discusses strategies of retail internationalization; Treadgold (1990) examines the role of sourcing in retail; Salmon and Tordjman (1989) discuss international investment strategies as means to gain foreign retail know-how; and Kacker (1985, 1986) focuses on knowledge transfer from one country to another, both at the managerial and technical level.

In addition, the emerging role of the Internet must be considered when any future discussions of market entry are undertaken – as both an informational and commercial channel for retailers. In order to gain a thorough understanding of retail expansion, entry mode should be examined through both the processes and the know-how that led to the success of a particular retailer.

3.5.2 Mechanisms for Entry Mode and Operation Mode

Consistent with many aspects of retail internationalization, the study of entry mode mechanisms and processes has been evolving over the past several decades through Hollander (1970), Treadgold (1988), Burt (1993), Sternquist (1997), Vida and Fairhurst (1998), and Dawson (2001). Most of this discussion regarding retailer choice of entry mode was observational and positioned with the broader context of internationalization strategy. However, there have been more recent studies on specific entry modes by Quinn (1998) and Quinn and Alexander (2002), which discussed frameworks for international franchising, as well as Girod and Rugman (2005) who studied business networks. Studies by Sparks (1995), Burt (1993), Dawson (2001), and Moore, Fernie & Burt (2000) also looked at the unique entry experience of specific companies, sectors, or countries. In general, the research on entry mode has reflected the diversity of retailer decision-making and operational strategies, however, other studies have attempted to analyze the entry mode mechanisms through various international business theories. For example, contributions from Doherty (1999, 2000) have looked at the application of economics-based internationalization theory and agency theory to evaluate retail entry mode decisions. In addition, Gielens and Dekimpe

(2001) provide entry mode analysis within the broader assessment of successful retail internationalization strategies.

The most comprehensive research on entry mode to date has been the work of Picot-Coupey (2006), which provided a framework for operation mode choice. The conceptual model proposed by Picot-Coupey (2006) is noteworthy because the study addressed multiple theoretical models that have been applied to the study of entry mode within the context of the internationalization process, which include: the Uppsala internationalization model, Dunning's eclectic paradigm, transaction cost analysis, network theory, and retail research and strategic considerations (p. 217). The study also goes further, exploring the impact of global logics on the decision-making process. In addition, Picot-Coupey (2006) attempts to provide a set of internal and external variables relevant to the entry mode decision, finally developing a framework to consider both entry mode and operation mode. This study advanced the understanding of entry mode decisions, linking these processes to the temporal context of the internationalization process.

This final contribution from the Picot-Coupey study has become more significant as retail foreign expansion matures and, as previously discussed, knowledge transfer (through sourcing and web presence) have increased retail impact. The choice of entry mode at a specific point in time is influenced by multiple factors, such as the parent company's structure and financial position, the foreign market's legislative and economic environment, and the strategies of the business. Each of these factors is not static and may influence a change in operating mode for foreign operations.

3.6 Knowledge and Knowledge Transfer in Retail Internationalization

The understanding that knowledge creation; sharing; and, transfer take place between retailers and a host country is embedded in the study of retail internationalization. For the most part, this essential component of the internationalization process has been overlooked in favour of studies into the success and failure of international retailers. In general, retailers are seen to learn throughout the expansion process, generating skills and ideas based on experiences in either the domestic or foreign markets.

With few exceptions, the study of learning and knowledge transfer has taken place in the past twenty years. Earlier studies by Evans, Lane and O'Grady (1992), and O'Grady and Lane (1997) provided considerations to the role of knowledge in the successes and failures of American and Canadian retailers crossing their border. Similarly, the work of Sternquist (1997) and Treadgold (1990) identified the relationship of knowledge and learning to mode of entry and international growth. Yet more recent studies have benefitted from the improved understanding of the internationalization of retail processes, and as a result have explored the more relevant questions of the role of learning and knowledge transfer in foreign retail success.

The work of Palmer and Quinn (2005) is a significant contribution to the study of retail learning. Using well-established institutional learning theories, Palmer and Quinn (2005) propose an exploratory framework for analyzing international retail learning, providing an in-depth understanding of the retail learning process. The study explores several types of knowledge acquisition, the diffusion of knowledge within the organization, and multiple contexts for learning within the retail internationalization process.

Further development of knowledge transfer has primarily been through specific case-study research. In their study of IKEA expanding into Russia, Jonsson and Elg (2006) provide important insights into the multiple levels that international retailers must engage with. The study suggests that, at the individual store level, specific knowledge creation and transfer will be required for a successful transition. Additional understanding of knowledge transfer within the internationalization process has also been provided through Palmer's (2005) study of Tesco and Wrigley and Currah's (2003) investigation of Ahold.

3.6.1 The Early View

The dominant perspective of retail internationalization has been from the firm's viewpoint. It is therefore understandable that the study of knowledge has focused on the firm's internal learning during internationalization. The foundational research assumed that the home country would generate the knowledge necessary to conduct business in foreign markets. The work of Treadgold in the early 1990s, while discussed in detail in Chapter 2, is worth reiterating in the context of the early research on knowledge transfer in foreign retail expansion.

Fundamentally, Treadgold (1990) clustered retailers engaged in foreign business (or planning to engage in foreign expansion) from the perspective that experience creates learning, which affords the retailer the knowledge necessary to increase foreign expansion. His model further establishes that the pre-disposition to franchising by Treadgold's cluster of 'The World Powers' establishes access to host-market knowledge with greater speed and at less cost than other forms of market entry. In addition, those retailers who were engaged in Treadgold's 'Aggressive Internationalists' cluster, such as IKEA and Toys R'Us, are seen to enjoy the benefits of innovative propositions and first mover advantage. Using evidence from the 1970s and 1980s of international expansion, it is reasonable to argue that the firm's experience in foreign markets would be central to gain knowledge for future success in internationalization. Yet the mechanisms for knowledge transfer during the initial years were limited and managerial authority at the home office remained the dominant style of decision-making.

3.6.2 Information and Communication Advancement

Dawson (2007) asserts that the "latest stage of retailer internationalisation has been facilitated by the presence of the third major fundamental innovation in retailing since the 1950s – namely, the convergence of information and communication technologies that has provided tools and concepts enabling effective management of large networked retail firms" (p. 1). As retail internationalization progressed at an increasing pace through the later part of the twentieth century, the advancements in information and communication technologies (ICT) enabled this growth – predominately through the capacity to transfer data, intelligence, and general knowledge in a timely and detailed system. ICT facilitated advances in decision-making across all levels of the organization, from supply chain and store operations to more informed strategic retail internationalization decisions based on factual data (instead of anecdotal reporting). In the past, local retailers in foreign markets had a home-field advantage on local market knowledge, but the advancement of ICT allowed foreign home offices to increasingly reduce that competitive advantage through improved merchandising and service management.

While access to this information builds significant potential for retailers to elevate their impact on the host market, there is currently not enough research to suggest that retailers have taken full advantage of this opportunity. It is anticipated that this may be as much of a gap in the study of international retailers as it is a weakness in corporate knowledge transfer. Overall, the understanding of the role of knowledge transfer in the impact of foreign retailers on a host market is limited and requires further investigation.

3.7 Brand and Brand Transfer

The study and application of brand within the retail context is a relatively recent topic of research. Product brands have been considered integral to the marketing and advertising strategies of manufacturing companies. Initially focused on image and the creative expression of a product's packaging and messaging, more recently the concept of brand has encompassed the holistic elements of the product as a whole being. The work of Levitt (1983) has been widely referenced in the conceptual development of the brand as a more complex entity than originally conceived. As product branding evolved, the importance of brand position became a focus of study. Marketing specialists such as Ries and Trout (1981) have made significant contributions to this area, providing an analysis of product positioning within the broader brand concept.

During the development of product brand theory in the 1990s, researchers began to examine the application of brand theory and concepts, applying their studies to corporate entities. Researchers were increasingly interested in the implications of global brand strategies as products such as Coke and Nike expanded into international markets. The evolution of brand development to corporate image and identity, as well as corporate reputation and responsibility, opened the more complex issues of managing the elements of brand to include employees, business relationships, and less tangible aspects of the corporate business. The work of Burt and Sparks (2002), Hatch & Schultz (2003), Harris and de Chernatony (2001), and Ind (1997) explored the concept and application of corporate branding, which created a stable concept for understanding retail branding. While little reference is made to retailers in this research on corporate branding, Burt and Sparks (2002) draw from the discussion of corporate branding as an alignment of vision and culture to analyze corporate branding in retail.

3.7.1 Retail Brand

Research into retail brands at both the product and corporate level has been a recent area of interest amongst academics. As such, there are only a few studies that explore the concept of brand within the retail context. The work of Burt and Sparks (2002) provides an important analysis of the brand and corporate brand theory and its potential application for retailers. Their adaptation of prior work by Laaksonen & Reynolds (1994) and Dawson (2001) in the development of a typology of retail brands is exemplified in Table 3.1:

	1st generation	2nd generation	3rd generation	4th generation	5th generation
Branding form	Generic; No name; Brand free; unbranded	Own label; Unsupported own brand	Supported own brand	Extended retailer brand, i.e., segmented retail brands	Corporate brand
Strategy	Generic	Low price copy	Me-too copy of major brands	Value-added	Corporate positioning
Objective	Increase margins; Provide choice in pricing	Increase margins; Reduce manufacturers' power by setting the entry price; Provide better-value product (quality/price)	Enhance category margins; Expand product assortment, i.e., customer choice; Build retailer's image among consumers	Increase and retain the customer base; Enhance category margins; Improve image further; Differentiation	Produce strong positive identity and practice; First choice for consumers; Satisfy stakeholders
Product	Basic and functional products; Commodities	Staple or basic lines with a large volume	Big category products; Major sale items	Image-forming product groups; Large number of products with small volume (niche)	The corporation and its tangible and intangible attributes
Technology	Simple production process and basic technology	Technology lagging behind market leaders	Close to the brand leader	Innovative technology and processes	Stakeholder relationship management

Quality/Image	Lower quality and inferior image compared with the manufacturers' brands	Medium quality, but still perceived as lower than leading manufacturers' brands; Secondary brand alongside the leading manufacturer's brand	Comparable with the brand leaders	Same or better than brand leader; Innovative and different products from brand leaders	Quality and consistency throughout the organization
Price position	20% or more below the brand leader	10-20% below	5-10% below	Equal or higher than known brand	Focus on delivering value
Consumers' motivation to buy	Price is the main criterion for buying	Price is still important	Both quality and price, i.e., value for money	Better and unique products	Trust
Supplier	National, not specialized	National, partly specializing to own label manufacturing	National, mostly specializing for own brand manufacturing	International, manufacturing mostly own brands	Innovative partnerships

Table 3.1 – A typology of retail brands (Burt & Sparks, 2002: p. 198)

This table represents a significant advancement of hierarchy and evolution for the product and corporate brand. Burt and Sparks (2002) highlight the fundamental differences between retail operation and other business types, and demonstrate how retail companies can make brand identity far more complex. Two significant statements from the 2002 study support the importance of branding and identity in retail: "We believe that such differences complicate corporate branding, in particular, by placing pressure on the ability to maintain consistency and coherence of the brand" (p. 197), and "Retailers are reliant on employees at the store level to portray the requisite identity and values of the business" (p. 201). There are significant challenges when a domestic retailer expands the retail brand into foreign markets, which cannot be adequately conveyed through product brand and corporate brand strategies. Thus, this study will attempt to examine retail brand transfer in the context of the retail internationalization research.

3.7.2 Brand Transfer

The early academic studies on retail internationalization paid little attention to the idea of retailers transferring their brand identity into foreign markets, however, Waldman (1978) provides some preliminary observations based on his marketing theory approach to studying success and failure of internationalizing retailers. The process of brand transfer within the retail internationalization process was not properly understood until the studies by McGoldrick (1998) of Marks & Spencer's internationalization, followed by Burt & Carralero-Encinas (2000) study of Marks & Spencer into Spain, and Burt & Mavrommatis' (2006) research of Dia's entry into Greece. These studies demonstrate the principles of Salmon & Tordjman's (1989) standardization and adaptation strategic continuum: strategic decisions are evident in the overall process of internationalization, particularly in the transfer of brand from the home market to host markets.

In the twentieth century, there are relatively few retailers that could be viewed as global brands. IKEA is one of the few original brick-and-mortar retailers to retain a highly standardized international expansion. Luxury high-end designer labels – as well as dominant brands such as Nike and Apple that built their businesses as product brands but eventually become corporate brands – added retail operations to their brand mix, which have had relative success in retaining their global brands (Moore, Fernie & Burt, 2000). While retailers such as Benetton, Body Shop, McDonalds, and the GAP have attempted to maintain a standardized brand in foreign countries, they have all learned that adaptation is required to be successful in different cultures and competitive environments. Certainly the challenges of brand transfer have not been lost on large multi-national players such as Walmart in Germany, Home Depot in Chile, and more recently Uniqlo in the UK and Tesco in the USA.

Research into international retail brand transfer has tended to focus on the elements or dimensions that constitute the overall retail brand. Specifically, image and positioning are identified as key factors in understanding the retail brand within the home market, which has a significant effect on whether a brand successfully transfers to foreign host markets. This process of brand transfer has relevance to this thesis, as the entry of a new competitive entity has the potential to impact the overall positioning of competitors in the market, as well as the position of the foreign retailer. The work of Davies (2001) provides useful insights when analyzing the importance of positioning and image within a market category. Furthermore, Burt and Carralero-Encinas (2000) provide a strong argument for understanding the role of tangible and intangible dimensions in the formation of a retail image.

This study draws on the work of Lindquist (1974), which lists nine attributes of successful retail that comprise store image: merchandise, service, clientele, physical facilities, convenience, promotion, store atmosphere, institutional factors, and post-transaction satisfaction. In this early study, Lindquist was looking for gaps in public perceptions of these attributes, which pointed to differences between the home and host markets. Yet the significance of the brand transfer process would become more pronounced in the context of Burt & Carralero-Encinas (2000), which asserted that well executed retail image was a competitive advantage. As previously discussed, one of the primary motivators for retail internationalization is the firm’s belief that its innovative offering has a competitive advantage. Thus, successful brand transfer is necessary for successful internationalization.

3.7.3 Brand Image and Brand Positioning

The subsequent work of Burt & Mavrommatis (2006) offers much needed insight into the role of image and positioning in the transfer of brand. Burt & Mavrommatis (2006) argue that brand image is a consumer perspective, while brand position is a management perspective: both are distinct but related constructs within the brand transfer process. They also claim that the consumer perceptions of image are relative to the competition and will change over time with the introduction of new formats. These are extremely relevant factors in the brand transfer process, as they speak to the dynamics of the market and the relative nature of the retail brand to its home and foreign host markets. Of significance is the important distinction these authors made between image and position: “whether to seek standardization in store brand image or to standardize brand position” (Burt & Mavrommatis, 2006: p. 410).

Within the context of this study, this question of brand transfer has a direct role in the impact on the host market – a perspective not yet covered in the process of retail brand transfer research. To the extent that an international firm standardizes or adapts its brand to the host market, this research may have significant implications for the success of the firm and its impacts on the foreign host market.

3.8 Retail Continuity and Discontinuity

To advance research on the retail internationalization process, researchers began to examine more specific mechanisms and processes for decision-making, motives, market entry, mode of entry, knowledge transfer, and brand transfer. Burt, Dawson and Sparks (2003) state that there are obvious reasons why the study of retail foreign expansion, and in fact business internationalization in general, has focused on looking at success: “failure itself is difficult to ‘pin-down’” (p. 357). Often taking the form of divestment or the sale of foreign operations to other companies, the mechanisms that cause a company to divest, restructure, or ultimately exit an unsuccessful foreign market are as complex as the internationalization process itself.

Although early researchers such as Hollander (1970) and Goldman (1978) make reference to international retail failure, research tended to be more interested in understanding and predicting the contributors to success. By the beginning of the twenty-first century, several significant international retailers had either proactively or reactively reversed their foreign expansion – such as Ahold pulling out of China, Marks & Spencer closing their international stores, Toys R’ Us withdrawing from France, Walmart from Germany, and Home Depot from Chile – which resulted in research that focused on understanding the what, why, and how of these regressive moves.

An understanding of the process of continuity and discontinuity in retail internationalization has been advanced in the research of Burt, Dawson and Sparks (2003), Alexander, Quinn and Cairns (2005), Bianchi and Arnold (2004), Benito (1997), and Jackson, Mellahi and Sparks (2004) amongst others. Just as early studies of internationalization focused on describing, explaining, and eventually conceptualizing the mechanics and processes for foreign retail expansion, the more recent study of discontinuity has followed a similar trajectory: the challenges and threats that deter retail expansion can be recognized and addressed to achieve internationalization success, helping companies reassess the processes and strategies employed by retailers in initiating foreign expansion.

The complexity of activity during retail expansion – amplified by the lack of formal business structure and decision-making strategies – has been one of the major challenges to constructing theories and predictive models in the internationalization process. The potential weaknesses of these omissions are made apparent in the outcomes once foreign expansion has taken place. In their study of international divestment activity between 1987 and 2003, Alexander, Quinn and Cairns (2005) observed an accelerated rate of divestment by companies operating in a market for less than three years (from 34.9% to 65.1%) (p. 12). This study of divestment provides relevant data to the understanding of discontinuity, highlighting the variances across countries, size of business, and sector, as well as identifying some of the characteristics of the complex nature of failure.

3.8.1 Learning from Those Who Have Gone Before

During the past ten years, a few significant studies have attempted to provide insights into the cause for retail failure. In much the same way that early research focused on studying the activities of a group of retailers, the early research on failure has also tracked specific cases. Burt, Dawson and Sparks (2004) studied the European Grocery retailers and provided important insight into the extent of failure (44%), time frames for failure (4 to 6 years), and the relationship of failure to mode of entry, which was also examined in the work of Sternquist (1998), Gielens & Dekimpe (2001) and Palmer and Quinn (2007) in their investigation of Ahold. Specifically, the case-study example of Ahold helped identify the complexity of the international failure process and the role of market conditions on retail performance and managerial decision-making. Bianchi and Ostale (2006) add further insight into the role of market conditions, as well as supplier responses and pressures from domestic firms versus the foreign retailer.

As a case-study example, Marks & Spencer has received considerable attention by Jackson, Mellahi and Sparks (2004), Mellahi, Jackson and Sparks (2002), and Alexander and Quinn

(2002). As a high-profile participant in retail foreign expansion, Marks & Spencer's exit decisions, causes for failure, and pre- and post-withdrawal strategies have provided important perspectives on the study of international discontinuity. A comparatively aggressive and early mover into the internationalization game, Marks & Spencer's exit is particularly significant for the role that a struggling developed company played in decision-making on both the domestic and foreign fronts. Studied in depth by Mellahi, Jackson and Sparks (2002), the internal failure of the organization to meet external realities led to the ultimate divestment of much of Marks & Spencer's international operations. Mellahi, Jackson and Sparks (2002) summarized the failure succinctly in their study:

> We believe that the crisis was triggered by external factors, in particular the changed environment of the 1990s. Overall however, our findings provide evidence for the importance of the internal factors. The crisis was a result of the company's vulnerability, created both by management's misperceptions of their capabilities and the situation, and also their improper response to external forces. Management had neither the vision nor the will to respond to external forces and thus initially avoid decline or later to reverse the downward spiral. These findings lend credence to the OS perspective that the way management react to and manage external changes are key in understanding the causes of crisis (Mellahi et al., 2002: p. 25).

Alexander and Quinn (2002) provide further evidence of the Marks & Spencer failure of management in its strategy of retail foreign expansion. The expansion strategy of Marks & Spencer – first into Canada from 1972 to 1999, followed by the entry into Europe, the U.S., and Asia through the 1980s and 1990s – was too repetitive, creating similar outcomes and eventual divestment that are important lessons for any company engaged in retail internationalization. The inability of Marks & Spencer to understand their operations and brand as they related to the host markets is a textbook example of the standardization-adaptation strategy debate.

More recent examples of the challenges in foreign expansion continue to highlight the efforts by retailers to sustain foreign operations while weighing the options of discontinuity. Tesco's entry into the U.S., long anticipated and by most accounts strategically well considered, has not met the performance expectations set by the company. Tesco has since taken a period of reassessment to consider the viability of future expansion. In recent years, other well-established international retailers such as the GAP and Starbucks have undertaken renewal and repositioning of their brands and operations. While external economic factors have been in play, in both cases the relationship of these companies within their domestic markets and foreign markets have changed – and not necessarily in unison. The GAP and Starbucks represent the companies that are working through the issues of discontinuity in order to avoid exiting their foreign operations completely.

3.8.2 The Continuity-Discontinuity Continuum

Discontinuity in the retail internationalization process has been studied from a different perspective in Dawson's (2007) work on conceptualizing retail foreign expansion. While his focus is not directly on the issue of divestment, Dawson (2007) makes an effort to follow "the strategy of expansion into many countries [where] there is increasing evidence of the very large firms seeking to consolidate their positions and build market share in key markets" (p. 381-382). The strategic decision by some retailers to exit foreign countries where returns do not meet expectations represents a different type of divestment than previously observed. As retail internationalization continues to escalate and companies become more knowledgeable and experienced in the process, it is reasonable to anticipate greater attention to resource allocation decisions for return on investment. This would naturally lead to exiting less productive operations in much the same way as retailers now exit less productive domestic stores and markets.

3.8.3 The Process of Opportunity and Discontinuity

These insights into individual retailers and their divestment of foreign operations have led academics to better understand the processes of international opportunity and discontinuity. To date, there is relatively limited study of this topic due to the view of internationalization as a static event rather than a dynamic process, which was asserted by Jackson et al. (2004). However, other recent research has begun to define and conceptualize what failure in retail internationalization looks like as a process. The work of Burt, Dawson and Sparks (2003) represents a turning point in the academic research into retail failure. In an effort to bring stability to the subject matter and open the discussion for further study, Burt et al. (2003) laid the foundation for contributing studies by Alexander et al. (2005), Palmer and Quinn (2007), Bianchi and Ostale (2006), and Etgar and Rachman-Moore (2007, 2008).

Building from the work of Benito (1997), the research of Burt, Dawson and Sparks (2003) sets out a framework of the factors for failure in retail internationalization operations, as shown in Figure 3.3:

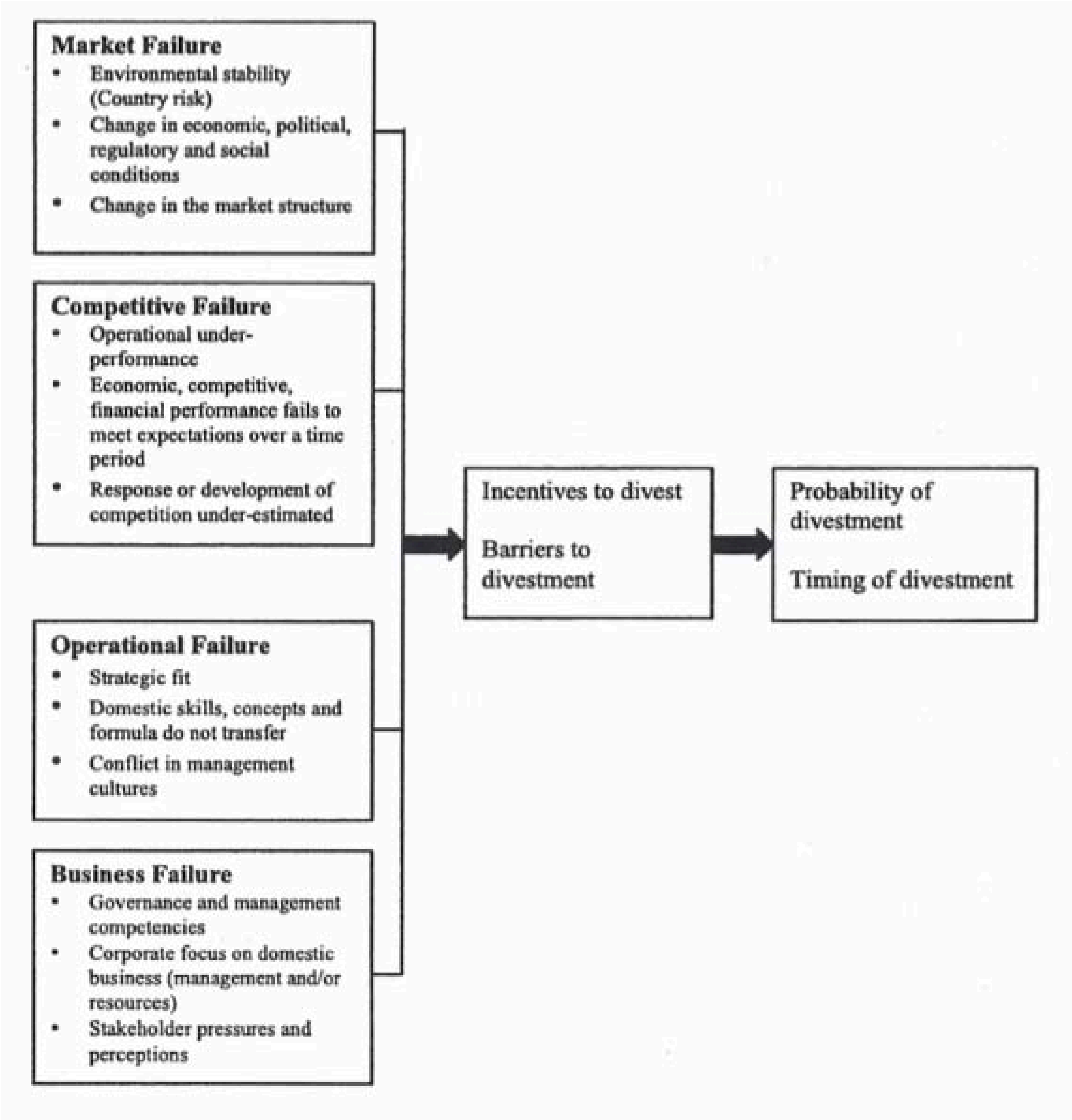

Figure 3.3 – Framework for failure in international retailing (Burt et al., 2003: p. 365)

This framework attempts to conceptualize the relevant factors of external, environmental, and macro causes for corporate failure, as well as the internal, organizational, and micro causes that may also contribute to failure. While the framework is designed as a platform for further research into these complex issues, it is able to synthesize the prior work of

Benito and Welch (1997) and the broader business perspective of research in the areas of Industrial Organization and Organizational Studies.

Two additional contributions from the Burt et al. (2003) study were the focus on failure as a non-linear process and the improvement of terminology to better define the process. The study provides definitions of failure, divestment, closure, organizational restructuring, and exit from the retail internationalization process. These definitions are important in understanding the complexity and iterative nature of retail foreign expansion success and failure: the definitions show that all failures, i.e., under-performance as defined by Burt et al. (2003), do not necessarily lead to exit, and all exits are not always as a result of failure, as shown in Figure 3.4:

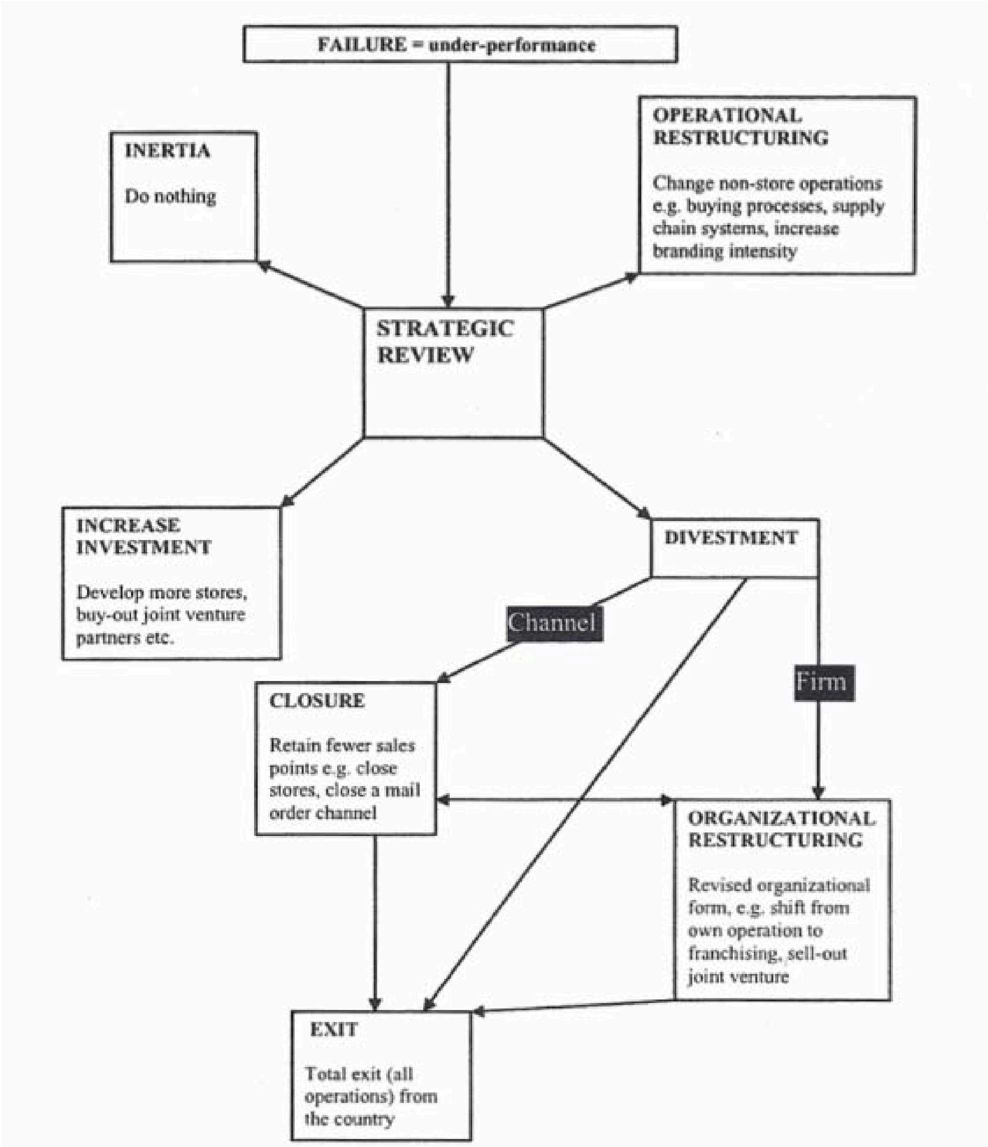

Figure 3.4 – Factors for exit in international retailing (Burt et al., 2003: p. 359).

Reflecting on the multiplicity within the failure process, Burt, Dawson and Sparks (2003) concluded: "We believe it is more useful to see failure and its constituent components, as a discontinuous and non-linear process. Timings of actions and relationships amongst actions will therefore be as important as identifying the actions themselves" (p. 361). This is a significant contribution to the study of the retail internationalization process over time, which will help researchers understand the complex and reiterative nature of retail continuity and discontinuity in the relationship between the retailer and the host markets.

Unlike most of the research into foreign expansion processes previously discussed, which take the dominant perspective of the firm, failure in foreign markets demonstrates the significance of the relationship between the firm, the host market, and the home market. Subsequent research has contributed to a more nuanced understanding of the host market perspective, but the extent of academic study is limited and leaves many questions that need to be researched further.

3.9 What is the Impact of Retail Internationalization?

At the start of this chapter, there was a discussion of the interest in and need for a conceptualization of the retail internationalization process, led by academics such as Alexander & Myers (2000), Dawson (1994), Sternquist (1997), and Vida & Fairhurst (1998). This work brought both debate and some consensus to the strategic issues in the internationalization process. A review of the academic study of this process and its many dimensions – from motives for retail foreign expansion to strategic decisions around continuity and discontinuity – further substantiates what the dominant strategic issues are in the internationalization of retail business. This study suggests that these dominant themes are:

1. Innovation (whether at the retail concept level or at the detail of execution) plays an integral role in the retail internationalization process. Generally speaking, successful retailers engaged in long-term international trade have demonstrated a consistent commitment to innovative strategies, such as IKEA, Zara, Body Shop, Aldi, and Metro.
2. The strategic decision for where a retailer positions itself on the standardization-adaptation continuum has also been identified as integral to the retail

internationalization process. Since the research of Salmon & Tordjman (1989), subsequent studies have only added to the recognition of the complexity of the global versus multi-national positioning. This is exemplified in the research on brand transfer where image and positioning of a retail company may be executed on different points of this continuum.

3. An understanding of what is being transferred in the retail internationalization process: with the benefit of a temporal perspective on retailers operating in foreign countries, it has become clear that not all internationalization processes are the same. In fact, this is one of the fundamental arguments for the distinction between retail and manufacturing internationalization. Recent studies by Dawson (2008) and Evans, Bridson, Byrom and Medway (2008) have addressed this issue to better understand the tangible and intangible aspects of what is transferred.

Overall, early research adopted the dominant perspective of the firm, which has remained consistent throughout the literature; however, with few exceptions, contemporary academics have attempted to extend their focus beyond the firm to take a different viewpoint in the research. The complexity and non-linear nature of retail internationalization and its economic impact implies that there are always active participants involved beyond the firm. Currently, a research gap still exists: there has been little study of the impact that expansion has had on the host country and the domestic retailers within those markets.

The early writing of Hollander (1970) and Goldman (1978) viewed economic impact from the perspective of developed countries entering developing countries, assuming that retail innovation and more advanced consumerism played a role in international economic and social development. Although this view became less important in the study of retail internationalization, there continues to be an underlying assertion that internationalizing retailers come from more developed and competitively advanced countries that will export their innovative successful concepts to less competitively evolved countries. Whether the host countries are classified as developed, emerging, or developing (i.e., under-developed) has tended to depend on the different styles of execution within the retail internationalization process. Academic research has tended to focus on retail internationalization into emerging or developing countries, even though much of the activity has been developed to developed, such as the U.S. retailers entering into Canada and the interplay of UK and Western European countries, as well as cross Atlantic expansion dominating much of the foreign expansion in the past thirty years. The more recent internationalization into Brazil, Russia, India, and China (BRIC countries) and the territorially related countries has revealed retail sectors that have developed differently but not necessarily less competitively, or with less innovation, or less willingness to adapt to protect their domestic market position and share. As previously noted, entry into these markets has not always guaranteed dominance or success by the retailer from the “more developed country”. It is within this context that Dawson (2003) and Coe and Wrigley (2007) put forth a call for further research into the impacts of retail internationalization on the host country.

3.9.1 From the Firm to the Market Perspective

As the study of retail internationalization evolved through the later part of the twentieth century, academic research had paid considerable attention to the why, where, and how of the internationalization process (Dawson, 2003). With this knowledge came understanding of the complexity of the process and, while research proved useful in explaining many of the dimensions of retailer foreign activity, it also identified a significant gap in the research. The dominant perspective of the firm in academic research had left little insight into what impact retail internationalization had on the host country.

In 2003, Dawson proposed a framework for the study of the impacts of retail internationalization. The model (shown in Figure 1, Chapter 1) proposes six broad categories which capture the types of impacts that a retailer expanding into a foreign country might experience. Dawson's model provides a tentative proposition of what types of impacts might exist within each of the six categories. He further demonstrates that "The different types of impact involve different processes of interaction between the foreign retailers and the host country" (Dawson, 2003: p. 199). Dawson also identifies a scale of intensity and impact within the model, suggesting that the degree of impact will be different depending upon the type of entry.

Dawson's framework is particularly valuable because it does not limit its conceptual grounding. It is neither focused on developed or developing countries; global, multi-national, or international retailers; or the retail category and varying strategies employed by retailers in foreign expansion. This structure makes it an extremely useful model for the study of impacts on the host country in both empirical and qualitative analysis.

Since 2003, there have been minimal contributions to the study of impacts on the host country in the retail internationalization process. Work by Uusitalo (2004) in the Finnish grocery industry and Bianchi & Ostale (2006) on Home Depot's failure in Chile have looked at the roles of the domestic retailers in responses to the entry of foreign retailers. The more recent study of Boyd and Bresser (2008) on delayed U.S. retail responses to foreign competition, and the work of Bhattacharya & Michael (2008) on the increasing sophistication of domestic retail champions, have both offered some new perspectives of the retail internationalization process beyond that of the internationalizing firm. Compared to the more longstanding studies from the firm's perspective, these studies are relatively few and provide limited insights into the domestic market impacts and responses to internationalizing retailers.

In 2007, Coe and Wrigley offered an application of the Dawson (2003) model in their study of Western European transnational retail companies (TNC) expanding into East Asia, Latin America, and Central and Eastern European markets. The entry of large grocery and general merchandise retailers from developed markets to these emerging markets is assessed in this study on a seven-dimension typology that adds some additional perspective to the impacts discussion, as shown in Figure 3.5:

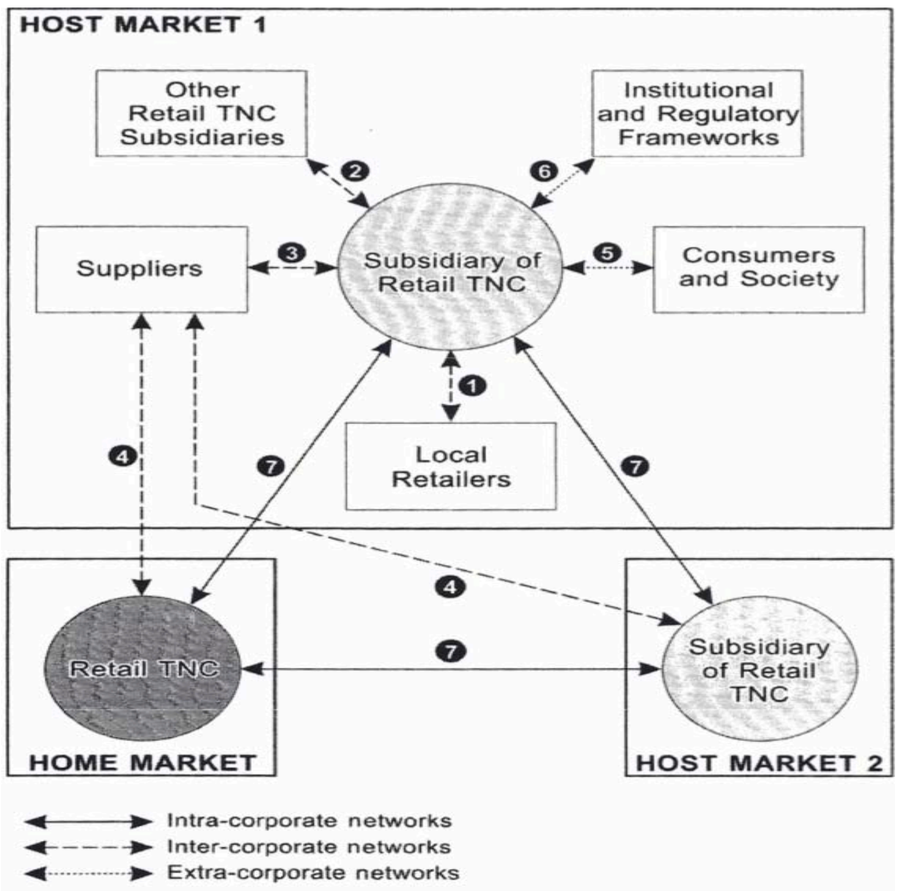

Figure 3.5 – Host market impacts (Coe & Wrigley, 2007: p. 348)

Coe and Wrigley (2007) include the role of the home country and other foreign markets as part of the retailer's impact on a specific host country. Their typology draws heavily on the importance of network relationships and on the expectation of knowledge transfer to be a contributing factor to the impact. Coe and Wrigley see the concept of embeddedness, both territorial and societal, as fundamental to retail internationalization success, factoring significantly in their view of how a firm impacts the host country. The remaining dimensions of this typology are built upon from the Dawson (2003) model: within the specific context of the companies and markets, Coe and Wrigley's study is seen to advance the work of Dawson. However, their focus continues to take the dominant perspective of the firm and seems potentially biased toward the situational issues of developing countries. For these reasons, this study utilizes the Dawson (2003) model – also taking into account some of the findings from Coe and Wrigley (2007), but not limited by their constraints.

3.9.2 The Dawson Model's Application in this Study

In recent research, the retail internationalization process is seen to be inherently complex, which Dawson's model attempts to capture through the proposed six categories of impacts. The ability to effectively apply the full model to an internationalization process and provide both adequate analysis of the impacts and assessment of the framework's applicability would be beyond the reasonable scope of one study. Therefore, the decision to focus on Dawson's category of changes in sectoral competitiveness is based on the view that it is fundamental to market theory that any new entry into a given market will have some impact on the competitive structure of the sector; change will result whether the new entry is foreign or domestic.

Since this study aims to contribute to both the understanding of the retail internationalization process and to the application of the Dawson model, it is considered important to focus on the more universal category of horizontal competitiveness. This study focuses on changes in sectoral competitiveness, excluding the other categories for the following reasons:

- **Changes in the effectiveness of demand chains**: This factor is viewed as still mostly firm-centric and developing-country-centric. Much of this impact may in fact occur well before a company actually enters the foreign market. For example, it is difficult to imagine that American clothing retailers were not aware of Zara's fast fashion strategy before Zara opened physical stores in the U.S. By contrast, many sophisticated supply chain retailers have had to modify their processes when entering developing countries in order to function within the different market structure. For these reasons, it was considered that the changes in the effectiveness of demand chains would be secondary to the assessment of the Dawson model and the broader retail internationalization process.
- **Performance of the firm**: Similar to demand chains, this also limits studying internationalization from the firm perspective and will not contribute to a better understanding of the market impacts.
- **Changes in socio-cultural values**: While not specifically stated, any analysis of changed values and transfer of culture implies that foreign retailers will influence (or impose itself on) the developing country perspective. There has been considerable research into this area with mixed findings on what degree of impact retail entry has on socio-cultural values. Given the aim of this study to look at developed-to-

developed expansion, it was considered that this had limited impact in this study of retail internationalization processes.

- **Public policy reaction of national and international agencies**: As discussed previously in this study, most developed countries were actively engaged in free trade agreements by the later part of the twentieth century, which again makes this category more applicable to the developing countries. Certainly there are countries still maintaining barriers to entry, but even by 2007 the global movement has built momentum in removing these limits. It is suggested that reactive policies will provide less relevance to subsequent studies of retail internationalization.
- **Increased consumer literacy**: This is potentially the most interesting of Dawson's six categories, but it is challenging to determine any direct correlation between retail foreign entry and literacy. This is an area that deserves study, but is less grounded in physical retailing and consumption than the rest of the Dawson framework.

In summary, the study of the changes in sectoral competitiveness provides the most relevant and universal impacts within the retail internationalization process, allowing research to advance beyond the firm perspective and to identify some form of market structure change. In addition, the other five impact categories have the potential to incorporate change that occurs through anticipation of foreign entry in advance of the brick-and-mortar entry, which makes the study of their impact from operational entry more difficult. Thus, this study will focus on what occurs post-entry to the host country and the domestic retailers and, through the process foreign expansion, what occurs to the expanding retailers over time.

Chapter 4 – Research Methodology

4.1 Overview

As the previous chapters have shown, the academic study of retail internationalization has progressed into investigations of the processes involved in foreign expansion. Given the accelerated pace of international expansion, recent research has shifted the focus from pre-entry considerations to the study of what happens post-entry; however, the dominant perspective in this research has continued to be that of the internationalizing firm, focusing on the impact that expansion has had on a retailer's home and foreign retail operations. To address this limitation, the study of post-entry retail internationalization must provide a greater understanding of what happens to the host country when foreign companies enter its territory – specifically the impact on the domestic retailers and their response to the new competition. Dawson (2003) proposed the need for this research and provided a framework to study what happens to host market sectoral competitiveness in the retail internationalization process. This framework will be tested in this study. This chapter outlines the theoretical framework, the research design and methodology, the research objectives, and the scope of this study.

4.2 Theoretical Framework

Dawson (2003) proposed a framework that categorized the impacts of retail internationalization on the host country. At the time of this study, only Coe and Wrigley (2007) have offered an alternative framework, but their model focuses on developing countries. Therefore, there was little guidance from existing academic research on how to measure the impacts of retail internationalization in developed countries. In the absence of existing research, it was important to pursue a research design and establish a methodology that would produce not only additional knowledge of the impacts, but also data that could validate both the types and degree of impact observed.

The internationalization process is inherently complex. Thus far, the multiplicity of the processes involved in retail foreign expansion has not been fully explained through traditional business theory or constructs. Researchers have therefore begun to specifically focus on retail processes to fill this gap. Given its broad context, the Dawson (2003) model provides the most relevant framework for the study of retail internationalization impacts. In Chapter 3, the Dawson framework was further refined for the purposes of this study, to focus on one of the six proposed categories of impact: change in sectoral competitiveness. Therefore, the aim of this study is to address the question: What is the impact of foreign retailers on sectoral competitiveness of the domestic sector of the host country? The impacts proposed by Dawson are specifically based on the foreign expansion of store operations, which is visible through competitive effects at the local level. This relationship between retail operations as a local business and companies expanding on an international level has guided the research design and methodology used to analyze both the cause and effect relationships between foreign and domestic retailers, and also to test the Dawson framework's propositions and perspectives on the internationalization process.

4.3 Research Design and Methodology

Using the Dawson model as the theoretical framework for this study, a two-stage approach was designed:

1) The first stage involved the collection and analysis of quantitative data to identify the changes that occur in sectoral competitiveness when foreign retailers enter a host country.

2) The second stage focuses on gathering qualitative data, primarily from industry experts, to further understand and explain the impact of foreign entry on the domestic retailers, and the response of domestic retailers to the changes.

With a limited number of existing empirical studies to draw from, it is important to establish a broad research framework to demonstrate the efficacy of the methodology of this study.

4.3.1 The Positivist School

This study is firmly grounded in the positivist tradition, combining both quantitative and qualitative data in an effort to describe and explain phenomenon. Blaikie (2010) asserts that "Positivism regards reality as consisting of discrete events that can be observed by the human senses. The only knowledge of this reality that is acceptable is that which is derived from experience" (p. 97). As set out in Burrell and Morgan's (1979) book *Sociological Paradigms and Organizational Analysis*, social research had been established around assumptions about the nature of social science, as evidenced in Figure 4.1:

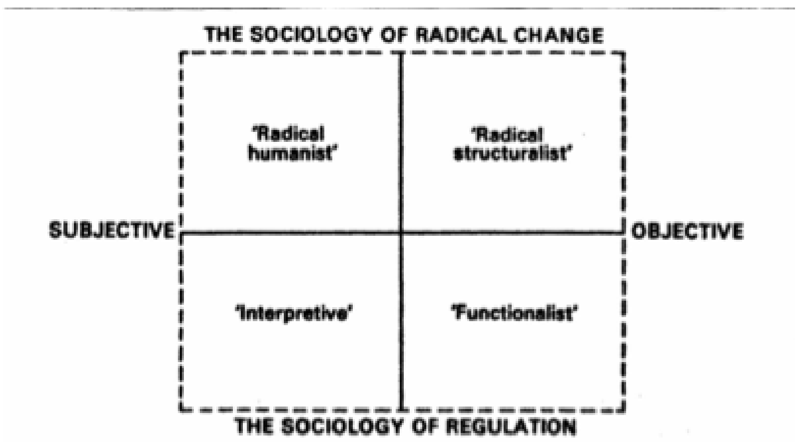

Figure 4.1 – Four assumptions on the nature of social theory (Burrell & Morgan, 1979)

While a two-by-two matrix invariably over-simplifies social research, the axes of the diagram allows the study to consider the assumptions about reality (objective versus subjective) and the purpose of the research (studying the status quo or effecting change). Given the utilization of the Dawson (2003) framework and the generation of quantitative data in the research design, the study is consistent with traditional positivist ideals of structured deductive approaches to empirical research. Although the qualitative data of the second stage might generally be characterized as following the interpretivist tradition of constructing reality from the perspective of different stakeholders, the utilization of the Dawson framework is consistent with the positivist approach as it provides a more detailed exploration of the causal factors. While stage one may have adequately identified and categorized the phenomenon occurring in the retail internationalization process, the qualitative approach helps address the managerial decisions during the process of retail expansion. Traditional social science research design would view these two stages as separate studies, however, the use of both qualitative and quantitative data in a single study has become more common recently, e.g., the technique that Creswell and Plano Cook (2007) presented as mixed methods.

4.3.2 Mixed Methods

In what Blaikie (2010) and others refer to as the paradigm wars of the 1960s and 1970s between positivism and interpretivism (or the quantitative versus qualitative approach), the opposing sides are distinctive and incompatible in their ontological and epistemological assumptions, research strategies, and ultimately methodology. With such entrenched worldviews, the possibility of combining methods in a single study or series of studies was deemed impossible; however, by the mid 1960s the concept of triangulation had been introduced into the social sciences by Webb et al. (1966) in order to effectively validate theoretical concepts. Sieber (1973) furthered the development of multiple methods as a way of building upon data collection in a staged process. Blaikie (2010) provides an important review of the mixed methods approach, listing the four major types in Creswell and Plano Clark's (2007) classification of mixed research: triangulation, embedded, explanatory, and exploratory. For the purposes of this study, the *explanatory* mixed method has been applied, which means that a quantitative phase produces results that need to be elaborated upon or explained through a follow-up qualitative phase (p. 225). Blaikie (2010) is a strong proponent of mixed methods research, but cautions researchers that combine deductive and abductive strategies for different methods in the same study. Thus, the consistency of the deductive method in both the quantitative and qualitative stages has allowed an integrated and progressive analysis of the two sets of data in order to meet the research objective.

4.4 Research Aim and Objective

The aim of this research is to contribute to the understanding of the impacts of the retail internationalization process on the domestic sector of the host country when foreign retailers enter the market – specifically related to changes in sectoral competitiveness. Utilizing the Dawson (2003) framework, there are specific research questions that must be addressed to accomplish this aim, namely:

1) What are the impacts of foreign retailer entry and how can they be measured over time and by degree of impact?

2) What are the changes in sectoral competitiveness that can be measured and interpreted?

3) What processes are used when responding to the changes in sectoral competitiveness?

4) What gaps in the Dawson model are identified from this application?

In summary, this study will contribute to the understanding of the retail internationalization process and to the further development of the Dawson host market impact model as a framework for the study of these processes.

4.5 Defining the Scope of the Research

In order to meet the principal aim of this research, the study was limited to the apparel sector in Canada during the period of 1989 to 2007. The Canadian market context at this time was discussed in Chapter 1 and will be built upon in this chapter.

4.5.1 Country and Retail Sector Selection

It is essential to study the impacts model in a context that will allow for the isolation of identified changes in sectoral competitiveness. Therefore, it is necessary to identify a market where significant foreign entry has occurred in a defined retail category that has multiple domestic and foreign companies engaged in competition. In addition, reliable data must be available for an extended period of time.

To address the research requirements, the following market characteristics were considered necessary for the study:

1. The pre-entry market structure should be sufficiently stable to provide a basis from which to measure change.
2. The other impact categories identified in the Dawson model should be isolated, or be considered to have limited influence upon the observed change.
3. The retail sector should have a sufficient volume of domestic and foreign activity to observe numerous impacts and responses over a reasonable period of time.
4. Reliable performance data should be available for stage one of the study and knowledgeable industry experts for stage two to help explain the data.

In summary, the Canadian apparel sector was selected because it met these criteria. The market structure is described in Chapter 1 and the level of retail internationalization activity illustrated in Appendix 2. These features meet the conditions stated above.

In addition, the selection of the Canadian market will add to our understanding of the impact of companies from developed countries entering other developed countries. As previously discussed in Chapters 2 and 3, it is developed-to-developed expansion where most of the foreign internationalization activity has occurred, yet much of the research has tended to focus on the expansion of companies into the large emerging markets such as Brazil, Russia, India, and China (BRIC) (Bianchi & Arnold, 2004; Burt, Johansson & Thelander, 2011; Goldman, 1974; Jonsson & Elg, 2006). While much has been learned about the challenges of expansion into emerging and developing markets, the future of retail internationalization will predominately consist of expansion into developed markets; given the rapid development of retail in these 'BRIC' countries, it is likely that they will be re-classified to developed status in the not-too-distant future.

The apparel sector was selected for this study after a thorough review of all retail categories. For many categories, it was found that one or two retailers dominated the sector: for example, the Canadian consolidation of Indigo was well underway in the book retail market, and in the office supply market, Business Depot, Staples, and Grand & Toy had captured most of the market. By comparison, the clothing categories provide a diverse collection of formats and formulas, both domestic and foreign, to incorporate into the study. Initially the focus was to be solely on women's apparel, however, the structure of the market and the available data guided the research to a broader scope that includes women's wear, menswear, and unisex. Given the number of foreign retailers reported in the unisex category, it was essential to the data collection and analysis that they be added to the study. The term *unisex* applies to those retailers that offer both women's and menswear in the same physical store location; it does not imply that all merchandise sold is appropriate for both sexes to wear, which was the original meaning of the term when it came into prominence in the 1960s. Men's apparel was added to explore all of the categories in the apparel sector.

4.5.2 Time frame

In Chapter 1, the Canadian retail sector was presented as a relevant context to study the impacts of foreign entry into a host market. The activities leading up to 1989 were considered not only in the specifics of the retail sector, but also in the broader context of free trade, democratization, and rapidly changing technology and communication networks. Once the decision to study the apparel sector was made, 1989 was demonstrated as the beginning of a significant change in the North American retail market, starting with the entry of the Gap into the Canadian market.

The level of foreign entry activity into Canada has experienced peaks and lows since 1989, variously the subject of macro and micro factors affecting the economies and the retail companies. Unlike the start date of 1989, there has been a less self-evident end year for the study; however, two inter-woven factors of a generally pragmatic nature guided the decision to stop at the end of 2007.

1. Once the research proposal had been developed and a research methodology was established, the collection of data was initiated in 2008. This established the original gathering of data to the end of 2007.
2. The recession of 2008 had a universal affect on all economies, particularly in the developed markets. Specific to this study, 2008 marked a point where decisions were delayed, deferred, or cancelled for both businesses and consumers. The pervasiveness of the recession through 2008, 2009, and 2010 would have contributed to anomalies in all retail data during that time, making cause and effect analysis of foreign retail impact difficult if not impossible. There is also evidence that the sources of the quantitative data had little interest in continuing to share information during this difficult trading period.

For these two reasons, the 2007 end date for the study provided a clear end date to a period of retail internationalization activity that was unprecedented in Canada.

4.5.3 Unit of analysis

One of the acknowledged facts about the retail industry is that it operates at the local level, particularly in regard to the bricks-and-mortar component of the business. Thus, in early research on foreign expansion, internationalization was often seen as a contradiction to the local business nature of retail competition. Other forms of internationalization – such as knowledge and management transfer, foreign sourcing and licensing, and more recently e-commerce – were not considered in retail expansion, as experts thought these factors were more relevant to other industries involved in global expansion. The study of retail impacts as proposed by Dawson is specifically based on the foreign expansion of store operations through competition at the local level. From a quantitative analysis perspective, collecting data that will reflect the impact at the local level can be challenging for an academic study, recognizing that the data typically generated at the national level by entities such as Statistics Canada will not capture the detail of localized competitive activity. It was therefore determined that an alternative source for the data should be found at the local level.

Since most retail expansion occurs over a long period of time, there would be very few scenarios in which the impact of a foreign retail entry could be measured on the aggregate level for the total host country market. For example, a company such as the Gap opened three stores during its first entry point into Canada: one in Vancouver, one in Toronto, and one in Montreal. The retail revenue data collected by Statistics Canada would potentially capture the revenues of those three stores, but supply no statistics that measure the impact on the total retail sales of the country. This study acknowledges that by the late 1980s the apparel business in Canada was primarily conducted in the major malls by either specialty chains or department stores. Based on this feature of the market structure, it was decided that the study of foreign entry impacts could be most effectively studied at the mall level.

It is important to declare the limitations of using mall data as a microcosm for the marketplace. However, the richness of the data and its contribution to understanding the changes in the sectoral competitiveness for the apparel categories is considered to offset the limitations. For clarification, these limitations are stated here:

1. Department store data within the mall is unavailable. Under the leasing agreements between department stores and mall landlords, the role of shopping centre anchor generally assumed a rent-free operation with little formal requirement to report on business performance to the mall owners. This limits the measurement of the total mall market size and the analysis of the specific impact of foreign entry on the department store apparel categories. While there is general consensus that their share of market declined between 1989 and 2007, it would have been useful to evidence the degree of impact..
2. As not all apparel business is accounted for in shopping centres, it must be recognized that totality of activity in the market is not captured. During the period of this study, Walmart's entry had a dramatic effect on the total retail market structure, which affected the apparel categories over time. According to Trendex by 2000 Walmart accounted for 4.7% of the apparel market and 10% by 2007. This leaves a gap in the understanding of the non-mall competitive changes in the market.
3. The changes in the mall format due to competitive re-structuring should be considered as reflecting the impact of foreign entry on the domestic sector at its most intense. It is therefore likely to provide an over-statement of the degree of impact on sectoral competitiveness that may be experienced elsewhere. For example, many of the foreign retailers will not enter secondary malls or markets, so the impact would not be the same on these formats.
4. There is no attempt in this study to stretch the impact that is identified in these malls to any other markets. Although the research method could certainly be applied elsewhere – as this addition to the knowledge about the change to sectoral competitiveness due to foreign entry could be most beneficial – the types and

degree of change that would occur elsewhere cannot be predicted from this study due to the specifics of each individual host market.

4.5.4. Site selection

In order to study the impact of foreign store entry, it was important to select malls that have significant populations of both domestic and foreign apparel retailers. Since most foreign retail entrants wish to locate in top performing shopping districts, it is realistic to select major shopping centres that would be high on the priority list for store locations. On this basis, two major shopping malls in the Greater Toronto Area (GTA) of Ontario, Canada were selected. Both malls have been early entry points for foreign apparel retailers and have reliable data available for the time period under consideration. By 2007, both malls had over 100 apparel stores in operation, representing a mix of domestic and foreign operators that was consistent with the overall market.

For the purpose of this study, some additional decisions were made regarding inclusion and exclusion of retailers that sell apparel:

1. All retailers reporting in the three categories of women's or ladies wear, menswear, and unisex were included in the analysis.
2. Apparel sales in department stores were not included because they do not report their sales to mall landlords. Other sources for department store sales trends are utilized to provide comparisons.
3. Children's wear was not included, as sales data is reported in a separate category. It is recognized that some unisex retailers would encompass children's wear as well as women's and menswear. Since it is impossible to gather a breakdown of these revenues within a store, this study acknowledges that a relatively small portion of

children’s wear revenue (compared to women’s and men’s categories) will be captured in this analysis.

4. The category of sports stores was not included. Even though there are apparel sales in their merchandise mix, it was impossible to isolate this category from equipment and other product sales.
5. Categories such as accessories, jewellery, and shoes were not included, even though some of the retailers included would have sales in these categories. It was decided that the overall percentage of such sales would be small relative to the clothing assortments and these additional categories may have unique characteristics that could distort the findings.

As a result of these exclusions, total gross sales and square footage for the total apparel category in each mall will be understated. However, the parameters are consistent in both malls so that comparisons are considered to have sufficient validity for the purposes of this study.

4.6 The Quantitative Study

Major shopping centres collect performance data on an on-going basis for internal usage. Therefore, the data analyzed in this study is strictly limited by confidentiality restrictions. Throughout the study, the malls will be referred to as Mall 1 and Mall 2, and individual retail companies will not be identified. The performance data on the overall apparel market and the domestic retailers within each shopping centre was collected from the two malls in hard copy versions only and was manually transferred to electronic spreadsheets for purposes of analysis.

Performance data for Mall 1 was available from 1991, and data for Mall 2 from 1995. For comparative purposes, the period of 1995 to 2007 has been taken as the targeted time frame for the quantitative analysis, however, where it is relevant to the analysis, the period from 1991 to 1995 has been referenced for Mall 1. It will be seen that the majority of foreign entry into these malls occurred from 1995 onward – the obvious exception being the entry of the Gap to Canada in 1989. The mall reports are detailed and comprehensive of the performance measures for retail activity, providing not only the specific categories studied here, but also all other categories and services within the mall.

The mall reports provide both monthly and annual performance data for each individual retail store, which are then grouped by category. As previously noted, the three categories analyzed are:

- Women's wear (or ladies wear)
- Menswear
- Unisex

The specific performance data analyzed for each store and category in each mall included:

1. Number of stores
2. Square footage
3. Sales
4. Sales per square foot

This data was entered in spreadsheets and analyzed based on annual performance over the scope of the time period. In addition to the category groupings, the retail companies were clustered by domestic and foreign, and a further sub-group was created for sales volume.

Given the large number of retailers involved across multiple formats and over several years, the sub-groupings provided more meaningful comparative analysis of the data. For example, it is more relevant to compare the performance of stores of a similar size than comparing a 15,000 square foot store to another that is 1,500 square feet.

Given the structure of the reports, it was also possible to track movement of retailers in terms of date of entry and, in some cases, date of exit from the mall and changes in store size. However, it was not possible from the performance data alone to determine if a retailer's change in store size was also a change in location in the mall, which required further investigation.

The data analysis was intended to measure the impact of foreign retail entry on the overall size of the market, and the effects of market share on foreign and domestic retailers' competitiveness over time. Market share was measured on the basis of number of stores, square footage, and sales. The results of the Quantitative Study are presented in Chapter 5.

4.7 The Qualitative Study

In the second stage of the study, interviews were conducted with a cross section of industry experts in order to gain further insight into the impact of foreign entry on the apparel sector. The results of these interviews were coded and analyzed, and are presented in Chapter 6.

4.7.1. Industry Expert Interviews

While the quantitative analysis provided evidence of trends and impacts, it does not explain the reasons for these patterns. As previously discussed, the mixed method approach to this study allowed for both the study of *what* happened to the host country in the internationalization process and also *why* the impacts occurred and *how* the domestic responses affected this expansion**.** The industry expert interviews facilitate an understanding of the underlying issues for the outcomes observed in the malls. They also provide insight in matters that the shopping centre data does not reveal, such as the impact on department stores and the retail activity outside of the mall environment, which helps the study to address some of the gaps in the quantitative data as discussed earlier.

4.7.2 Interview Methodology

Applying the traditional method of in-depth interviews, the researcher conducted twenty-one interviews during a four month period between July and October 2011. The interviewees were selected on the basis of their industry expertise and knowledge, specifically during the period of study: 1989 to 2007. Two broad criteria were utilized to form a list of potential interviewees:

1. The individual was engaged in the Canadian retail apparel sector during the time frame of 1989 to 2007.
2. The individual has a balance of industry involvement between those directly involved in the apparel business, those who served as retail-related industry partners, and those who consulted to or researched the industry.

A list of 25 people was selected based on these two criteria and were contacted by e-mail requesting their participation in the study. Appendix 4 includes a copy of the e-mail and the letter. Twenty-one of the prospective interviewees agreed to participate. The final make-up of the industry experts was as follows:

- Seven retail executives: all active in the Canadian apparel sector during some portion of the period of study (three of the seven had experience with both domestic and foreign retailers)
- Eight executives in retail-related businesses: landlords, marketing executives, analysts, and accountants
- Six retail researchers and consultants: academics and professionals

This balanced cross-section of industry experience and knowledge facilitated the opportunity to explore the full range of proposed impacts and processes identified in the Dawson model. Interviewees were assured anonymity and are referenced as Industry Expert A through U in the results of the Qualitative Study. Appendix 5 provides brief profiles for each of the industry experts to add context to their comments. The findings from these interviews will be presented in Chapter 6.

4.7.3 Interview Guide and Interviews

Once a participant agreed to the interview, they were sent the Interview Guide (see Appendix 6) as well as a confirmation of the date, time, and location of the interview. Eighteen of the interviews were conducted in person – primarily at the offices of the participant – and three interviews were conducted by telephone due to the location of the participant outside of Toronto. The in-person interviews were audio taped with the agreement of the participant. A third party transcribing service was used to prepare the written interview reports, and the telephone interviews were not recorded for technical reasons. All participants accepted the confidentiality agreements for the study and all interviews were conducted by the author.

Interview Guide

When conducting interviews that ask participants to recall and reflect on a specific period in the past, the interview must be structured in a manner that will facilitate accurate recollections. Therefore, the interview guide was designed to prompt recollection of the time being studied without using leading questions. At the same time, the interview guide was structured to test the proposed impacts and processes from the Dawson model. Please see Appendix 6 for a copy of the Interview Guide.

Since the Qualitative Study was intended to both utilize and test the Dawson framework, the Interview Guide was developed from both the framework and the mall analysis results. The first five questions in the interview guide are drawn directly from the Dawson model, providing a general statement and then prompting the interviewee for an interpretation. The sixth question was generated from the results of the quantitative analysis in order to identify some specific impacts that required further understanding than found in the empirical data alone. Finally, a general open-ended question was presented to capture any further thoughts that the interviewee's unique perspective might add to the study and the model.

In Dawson's model, he proposes the following five types of impacts related to the broader category of change in sectoral competitiveness:

1. Catalyst for sectoral restructuring
2. New competitive behaviours
3. Improved productivity of assets
4. Additional investment

5. Innovation in competitive activity

The first five interview questions were structured to specifically address each of these proposed impacts in order to gather expert insight into their legitimacy, potential impact on the domestic retailers, and the response of the host country. Since Dawson (2003) presented his framework as a proposed model for further investigation, the interview questions were presented through the use of the wording 'may be or may cause' in order to avoid attributing cause and effect that may not exist. Reference to the time frame under study was built into the Interview Guide to maintain as controlled a discussion as possible.

The sixth question addressed specific impacts and responses that had been identified in the Quantitative Study, however, the actual data from the two malls was not presented in detail to the interviewees because it may have influenced their insight into the findings. There was also an opportunity for the interviewee to add points that they considered important to the subject, which had the potential to add different perspectives on the impacts of retail internationalization beyond those proposed by Dawson's model. The Interview Guide was submitted as part of the Ethics Review process at Ryerson University and approved in June 2011. See Appendix 7 for the letter of approval from the Research Ethics Committee.

4.7.4 Analysis of Interviews

In addition to the relatively recent acceptance of qualitative research methods in social research, there has also been a considerable expansion in the study of methodology. Blaikie (2010) summarizes the extent of this literature and the advent of software such as Ethnograph and NVivo, which gives many examples of the advances in qualitative data analysis, and notes that "there is no one dominant method" (p. 210). Contributions by Turner (1981) to offer a nine stage system for qualitative data analysis is one amongst many, all of which state the need for special kinds of coding to facilitate description and enhance analysis. Dey (1993) formulated a process comprised of three activities: describing, classifying, and connecting. Within the context of this study, the principles of a structured methodology for the analysis of the qualitative research were applied, but were modified to allow for the utilization of the Dawson model as the structure for the analysis. Similar to the Dey (1993) process, a three step approach was used: 1) cluster the data based on the interview questions, which followed the Dawson framework proposed impacts, 2) coding for continuity and dis-continuity of themes within each of the impacts, and 3) an analysis of connectivity across the impacts, generally driven by the retailers involved in the process. The three steps in the coding of the industry expert interviews are described in more detail below.

The transcribed interviews were first coded utilizing the five types of impacts that the Dawson model proposed. Within each impact, the interviews were coded for common themes that were repeated by multiple interviewees. These themes were organized as sub-sets of the five impacts and analyzed for evidence of foreign impact and the domestic sector response to the impact. The five types of impacts and the sub-themes have formed the basis for the model used for analysis (presented in Chapter 6).

The second step in coding was to identify industry expert content that did not fit into the five types of impacts or was inconsistent with the majority view of the interviewees. This content was analyzed for its relevance to the change in sectoral competitiveness, as well as its potential to either add new perspectives to the Dawson model or challenge the types of impacts and processes proposed in the model. Discussion of these findings is presented in Chapter 6.

A final stage of coding was conducted to assess the retailers, both foreign and domestic, who were referenced by the industry experts. This was done to capture the dominant companies involved in the process of change to the market structure. The result of these three stages of analysis of the interviews provides a significant degree of insight into the what and why of retail internationalization, identifying specific impacts on the sectoral competitiveness in the apparel industry in Canada between 1989 and 2007.

4.7.5 Limitations of the Industry Expert Interviews

While adding a significant contribution to the study of retail internationalization, there are some limitations to this method of research that have been taken into consideration in the analysis:

1. As with any research requiring the participants to recall events from a prior time, there is the potential for some level of over-statement or under-statement of the events. Thus, the analysis attempted to reflect the general norm of recollection.
2. The stop date of 2007 proved somewhat challenging, since considerable foreign entry has taken place in the subsequent years and is more readily recalled. The interviewer attempted to keep these events out of the interviews and, where more recent expansion did form part of the interviewees' responses, these references were eliminated from the analysis.
3. Given the diverse orientations of the interviewees, some topics had variation in the scope of knowledge. For example, not all interviewees would have had access to productivity data and so were limited in their observations on such matters.
4. The very nature of interview studies must assume that there will be some personal bias in the perspectives and recollections of the industry experts. For example, it has

been well documented in trade publications and the general media that landlords and domestic retailers have been opposed over the role that landlords played in bringing foreign retailers into the market. Generally speaking, the interviewees were quite open in declaring their biases on this and other topics; thus, the analysis looked to isolate bias or find the majority consensus on key points.

Even with these limitations, the insights from industry experts were invaluable to understanding the impact of foreign retailers on the host country, enhancing and challenging the Dawson model propositions and elaborating on the mall performance analysis. The full results of the Qualitative Study are presented in Chapter 6.

4.8 Summary of Research Methodology

In order to fully test the Dawson model and meet the research objective for this study, a two-stage mixed strategy was employed. The first stage was the Quantitative Study conducted on two major shopping malls data, which helped to identify the impact of foreign entry on the domestic market. This Quantitative Study is an important contribution given the limited empirical studies in this area of academic research. The second stage was the Qualitative Study, which elaborated on the findings of the first stage, providing further understanding of the propositions in the Dawson model and identifying gaps in the proposed impacts. While each method would have independently advanced the understanding of this topic, this study uses the combined findings from the two methods to provide a significant contribution to the understanding of the process of retail internationalization from the change in sectoral competitiveness in the host country.

Chapter 5 – Analysis of Shopping Centre Data

5.1 Overview

As established in Chapter 1, the Canadian market had become increasingly accessible and vulnerable to foreign retail entry by the early 1990s. Prior to this time, there had been a comparatively small number of foreign retailers setting up business in Canada – specifically, companies such as Sears, Levis, Benetton, and C&A were amongst the early entrants into the clothing sector. It was during the 1980s that the pace of foreign entry escalated with the expansion of big box retailing and the establishment of power centres in the suburban markets; however, most of these new retailers operated in business categories other than apparel and had little direct impact on the domestic clothing sector. It was not until the purchase of Woolco by Walmart in 1994 that a significant share of foreign-owned clothing retail would begin to grow outside of the traditional domains of apparel retail, specializing in the suburban shopping centre and urban high street. The importance of Walmart as a competitor in apparel retail in Canada grew consistently however in 2007 it remained second to Sears Canada for market share in clothing (Trendex, 2007). Despite Walmart's growing market share, the timeline of retail activity in Appendix 2 illustrates that the majority of foreign entry of clothing retailers was taking place in the shopping centres and on the high streets, which had a direct impact on sectoral competition between 1989 and 2007. Even within the process of retail internationalization, the operational competitiveness of retail continues at the local level which in Canada would be the newly established suburban shopping centres.

5.2 The Shopping Centre as a Microcosm of the Competitive Structure of the Retail Clothing Sector

The competitive structure of the apparel market within a mall provides a dynamic environment to analyze the cause and effect relationship in retailer activity. In contrast, the typical macro aggregation of data at the national level makes the impact of a specific cause and effect practically unobservable. As proposed in Chapter 4, there is justification for conducting the empirical analysis of the Dawson model at the micro level, as Dawson's framework recognizes both the value of studying specific impacts in a mall and the limitations of the shopping centre data. Despite the individuality of each shopping centre's tenant mix and customer base, the expansion of malls that occurred in Canada leading up to the 1990s generated a fairly homogenous profile of a shopping centre.

A portrait of a typical major shopping centre is useful to demonstrate how the competitive environment looked during the early 1990s. The Centre for the Study of Commercial Activities' (CSCA) annual reports from 1994 through to 2009 provide an appropriate framework for defining the various types of malls. Within this lexicon, the two malls in this study would qualify as Super-Regional, i.e., larger than 750,000 square feet by 2006. Given the growth and expansion of existing malls through the 1990s and early 2000s, these two malls would have been ranked in the top tier based on size, sales performance, and quality of tenants throughout this time frame.

Consistent with the North American model for major malls, the portrait of a Super-Regional Mall consists of two or more major store anchors and multiple in-line stores with specialized offerings across most retail categories. In 1989/90, the retail tenants would look something like the following, as based on Mall 1 of this study:

Mall Anchors

- 2 Department Stores, occasionally 3 in the largest of the Super-Regionals
- Some combination of Eatons, Simpsons, The Bay, Sears, Woodwards (in Western Canada), Olgivys, or Simons (in Quebec)
- In a few locations, a major discounter such as Zellers or K-Mart would hold an anchor location, generally as a result of a long-standing lease

In-line Retail Tenants by Category and Percentage of In-line Square Footage for Mall 1

- Apparel, Footwear, and Accessories 62%
- Food 10%
- Gifts, Cards, and Stationary 10%
- Health and Beauty 7%
- Electronics and Music 6%
- Other 5%

Canadian and Foreign Clothing Retailers

Within Mall 1 apparel categories in 1989/90, 100% of the women's wear retail stores and 100% of the menswear retail stores were Canadian owned. Within the unisex clothing category, 63.5% of the square footage was Canadian owned, and the foreign ownership was held by Marks & Spencer out of the UK and Levis from the US. Given the comparatively large size of the Marks & Spencer store, the percentage of foreign square footage is over-stated compared to the number and volume of foreign stores in the early 1990s.

Canadian Clothing Retail Oligopoly

Within the apparel categories in Mall 1, one Canadian company named Dylex Limited – operating under banners such as Fairweather, Tip Top Tailors, Suzy Shier, Braemar, Town & Country, Harry Rosen and Thrifty's – comprised 48.5% of the total square footage. It has been well documented in the studies from CSCA and other research on Canadian retail that once a new mall location and the department store anchors were established, the next leasing discussion would be with Dylex Limited. Once its retail banners were signed for leases with prime spaces allocated in the mall, the remaining Canadian clothing retailers would be able follow into the mall. Companies such as the Reitman's group of women's wear chains, Laura's banners, and the tightly held smaller chains from Montreal and western Canada would constitute the remaining apparel store tenant mix. By 1989/90, with most new mall development completed, the mall floor plan of the major shopping centre tenants was well established and fairly predictable in most major malls.

In summary, the portrait of a major shopping centre in Canada in 1989/90 can be characterized as the following:

1. Significantly skewed to apparel both in-line and within the department stores
2. Predominately Canadian owned retail
3. Anchored by increasingly weakened department stores
4. An oligopoly of Canadian clothing retailers dominated by Dylex Limited

5.2.1 Analyzing the Mall Data

This chapter will analyze the performance data from the two malls, illustrating how the market structure in these malls changed between the early 1990s and 2007. Given the extensive data available from standard mall performance reports (see Appendix 4), it was necessary to create a structure for analysis that would:

1. Track both foreign and domestic apparel retailers over the reporting time to isolate impact points such as entry/exit to the mall, changes in square footage, temporal relationships between foreign retail entry and domestic changes, and the key performance measures.

2. Structure the analysis so that relevant comparisons could be isolated. After reviewing the data, it was evident that stores should be clustered by domestic versus

foreign and by large sales volume versus lower sales volume, which would enable the researcher to isolate top performers and performance change over time. In addition, stores that exited the mall prior to 2007 were also categorized separately in order to analyze this activity relative to foreign entry. Appendix 10 provides examples of the detailed and summary analysis structure for the analysis of the data.

3. Monitor changes in market share for number of stores, square footage, and sales between domestic and foreign retailers. As previously noted, the data for Mall 1 was available from 1991 and these earlier years are included in analysis for that shopping centre when there are relevant findings.

4. Identify any significant competitive changes in the shopping malls.

The empirical evidence within this chapter will identify the impact that foreign clothing retailers have had on domestic retailers and the competitive re-structuring of the apparel retail market at the specialty store level. The final analysis, which looks at a measurement of productivity in sales per square foot for both foreign and domestic retailers, demonstrates a further aspect of impact: how successful domestic retailers have strategically positioned themselves to compete against the best of foreign apparel retailers.

5.3 Summary of the Changes to Market Structure in Mall One and Mall Two

It is important to provide an overview of the changes that occurred between 1995 and 2007 in the competitive market structure in each mall to assess the degree of foreign retailer impact. Changes to market structure are presented in Figures 5.1 to 5.6 for Mall 1 and Figures 5.7 to 5.12 for Mall 2, providing the number of foreign and domestic stores, as well as square footage and sales. Each figure presents the total percentage of Canadian retail and the percentage of foreign retailers, which are categorized by format. Note that the menswear category does not apply to foreign retailers because there were no pure foreign menswear retailers entering Canada during this time; however, the domestic menswear retailers are included in the Canadian percentage numbers.

This summary shows that foreign retailers were extremely successful in Canada between 1995 and 2007, increasing their share of stores, square footage, and sales by over 200%. Although a degree of foreign entry had occurred prior to 1995 in each mall – such as the entry of Marks & Spencer, Levis, Benetton, and more recently the entry of the Gap, Banana Republic, and Guess during the early 1990's – the overall percentage of stores, square footage, and sales escalated throughout the seventeen years of this study. This is particularly true for Mall 1, a mall that expanded and transitioned its tenant mix in the 1990s, compared to the expansion and transitioning that occurred later in Mall 2 during the mid-2000s. This is believed to account for the smaller increase in sales in Mall 2 since many of the new foreign entries were just prior to 2007 and in the early stages of growth.

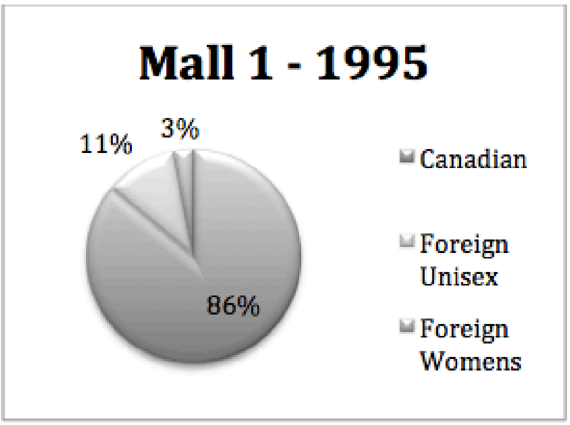

Figure 5.1 –Percentage of Stores for Total Canadian and Foreign by Format

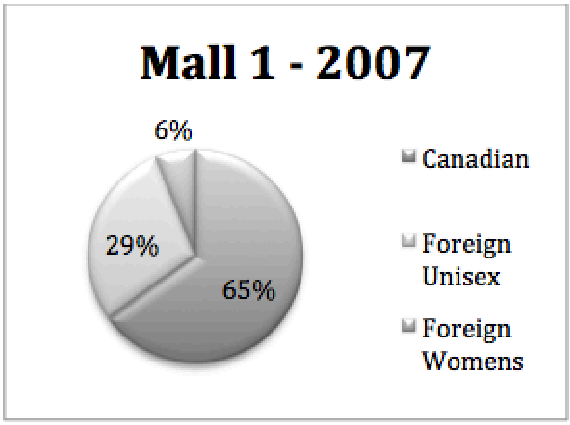

Figure 5.2 – Percentage of Stores for Total Canadian and Foreign by Format

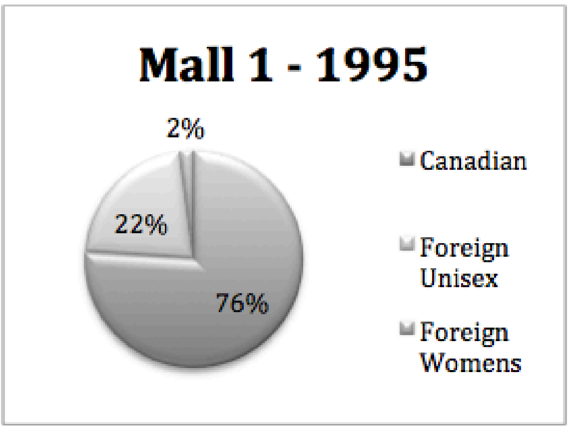

Figure 5.3 – Percentage of Square Footage for Total Canadian and Foreign by Format

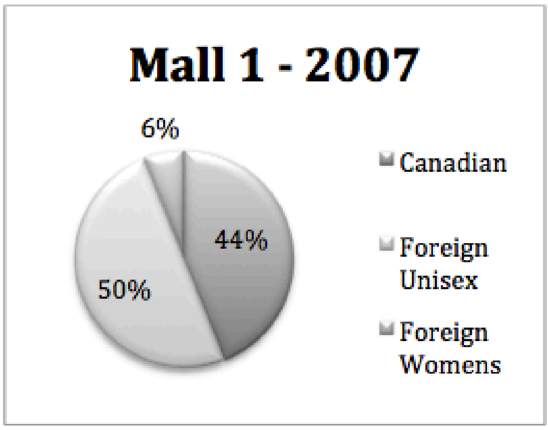

Figure 5.4 – Percentage of Square Footage for Total Canadian and Foreign by Format

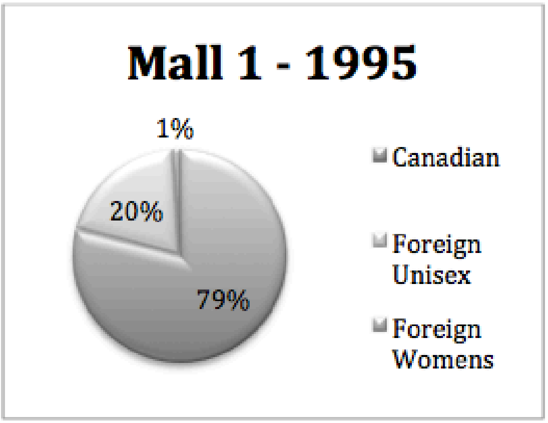

Figure 5.5 – Percentage of Sales for Total Canadian and Foreign by Format

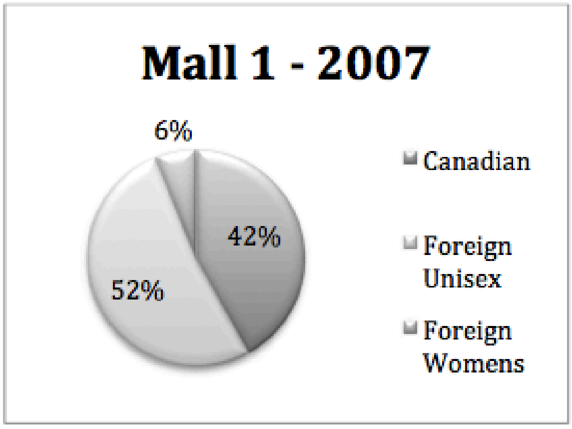

Figure 5.6 – Percentage of Sales for Total Canadian and Foreign by Format

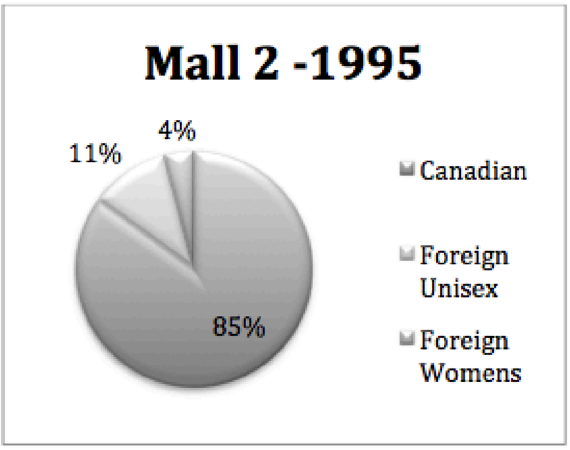

Figure 5.7 – Percentage of Stores for Total Canadian and Foreign Format

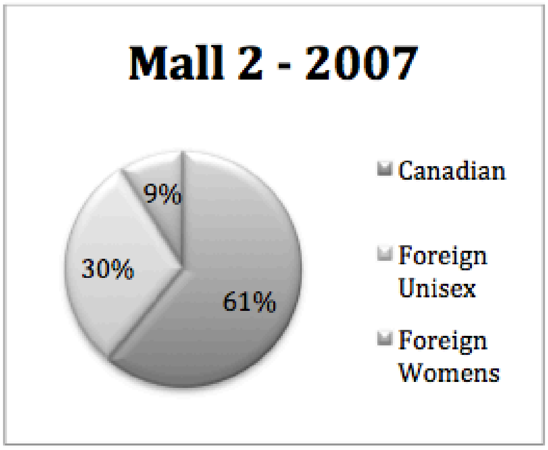

Figure 5.8 – Percentage of Stores for Total Canadian and Foreign Format

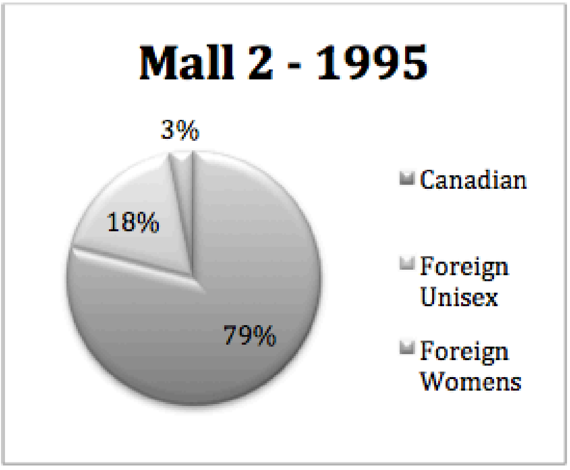

Figure 5.9 – Percentage of Square Footage for Total Canadian and Foreign by Format

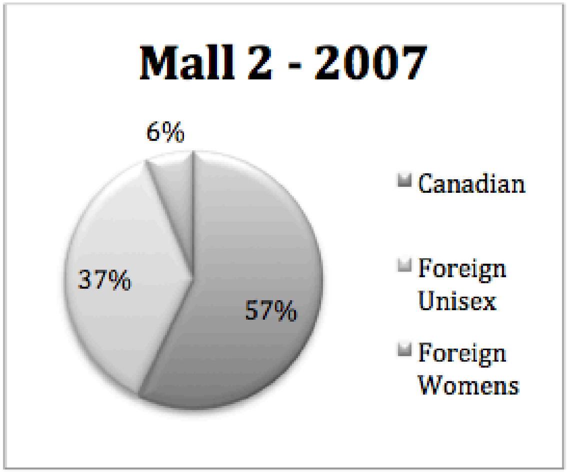

Figure 5.10 – Percentage of Square Footage for Total Canadian and Foreign by Format

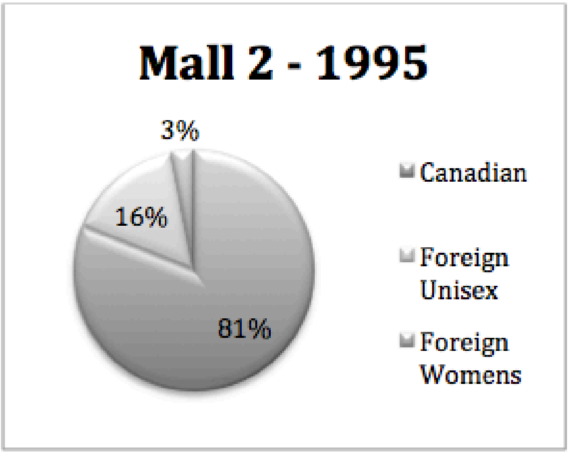

Figure 5.11 – Percentage of Sales for Total Canadian and Foreign by Format

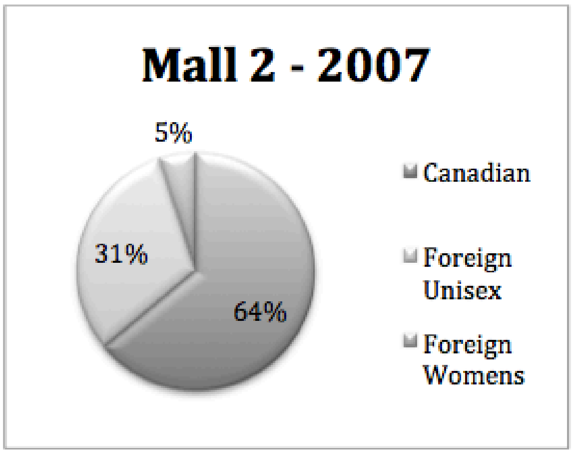

Figure 5.12 – Percentage of Sales for Total Canadian and Foreign by Format

A detailed analysis of the mall data revealed that this increase in foreign growth came at the expense of a portion of the domestic apparel retailers. However, it should be noted that this has not been a zero-sum game, as both malls experienced significant growth in their apparel retail categories. Mall 1 expanded its clothing retail sales by nearly 150% over this period and Mall 2 had a slightly higher increase of 157% in sales from 1995 to 2007. For both malls, this growth can be attributed to square footage expansion and productivity performance improvement in the apparel categories. Statistics Canada trade data for clothing retail illustrates that the two malls experienced significantly greater rates of growth during this time period, as illustrated in Table 5.1.

	Canadian Apparel Market		**Mall 1**	**Mall 2**
Year	Total $ (in thousands)	Annual growth (%)	Annual growth (%)	Annual growth (%)
1991	12,810.00	N/A	Base Year	N/A
1995	15,156.60	4.6%	63.4%	Base Year
2001	18,783.70	4.0%	8.7%	10.0%
2007	23,846.80	4.5%	10.1%	10.1%

Table 5.1 – Growth in apparel for total Canadian Market, Mall 1 and Mall 2

Prior to 2004, trade data for Statistics Canada combined clothing and accessories, which is a significant limitation when making a direct comparison to the mall data. To clarify these statistics, Appendix 11 gives data on clothing sales as reported by Trendex, a North American company that tracks trends as well as the performance of retailers. However, while both the Statistics Canada and Trendex data contribute to an understanding of the macro clothing market, their methodologies demonstrate the challenges of gathering relevant data at a national level, which highlights the benefit of analyzing retailers at the micro level in the immediate or local market. Notably, both Statistics Canada and Trendex show a comparatively slower growth in clothing than reports from the two major shopping centres.

The micro perspective of mall apparel retailing shows that the foreign retail companies have had a direct impact on the growth of the market and have also contributed to a change in the sectoral competitiveness of the market, diminishing the domestic share. The impact of this development and the response from domestic retailers will be examined in the remainder of this chapter.

5.4 Foreign Apparel Retail Entry as a Catalyst for Market Growth and Changes in Market Share

In analyzing the two shopping centres, this study assessed the impact of foreign retail entry, evaluating their capture of Canadian market share. As previously discussed, the total size of the market for apparel business in the two malls grew significantly between 1995 and 2007, providing opportunity for all retailers, domestic and foreign, to potentially share in this growth. The following discussion will identify how market share was analyzed, what the outcome was for domestic and foreign retailers, and what this meant for the re-structuring of competition in the clothing sector.

Market share has been traditionally calculated on the basis of dollar share of the total relevant market. Established initially as a key performance measure for brand manufacturers and tracked by third party firms such as A.C. Neilsen, a product such as Colgate toothpaste would be monitored for share of the total toothpaste market, both in dollar and unit sales. Historically, retailers have been less concerned with tracking market share, instead focusing on their own revenue growth based on the key performance measure of comparable store sales growth, which is defined as the change in sales for the current year compared to the sales in the same stores last year. This performance measure factors out revenue growth from new store openings at a chain level and provides an important measure of productivity improvement for existing assets, which will be analyzed in more detail later in this chapter. Generally speaking, domestic retailers were less concerned about what percentage of market share they captured as long as they were achieving annual profitable growth. As previously discussed, the oligopolistic nature of the Canadian apparel sector was built on continuous chain growth through the rapid expansion of new shopping centres in the 1970s and 1980s in a generally stable and healthy economic environment. At the time, there was limited foreign threat to create disruption in the market, place, however, this would change from 1989 onward and the increasingly competitive marketplace forced domestic retailers to keep pace with increased market expansion, particularly when the total market growth slowed or declined during recessionary periods. Therefore, one of the fundamental impacts of the foreign retailers on the host country was to disrupt the oligopoly.

From a retail perspective, assessing the impact of foreign retailers on domestic retailer market share essentially has three available measurements: number of stores as a percentage of the total number of competitive stores, square footage as a percentage of the total competitor store square footage, and the store's sales as a percentage of the total competitive market sales. The share of sales is an important measure of the percentage of consumer dollars that the retailer is able to capture, yet if average sale information were available it would provide a more accurate calculation of the share of customers being captured in the market. The share of customers should be considered the most important market share measurement, as it is most relevant in the financial performance of the firm, however, the other two measures also have significance in reflecting the overall shift in the marketplace from domestic to foreign retailers. As the number of stores in a mall owned by foreign retailers increases and the number of domestic retailers deceases, the stories of Canadian retailers that are displaced are important to help understand the impact of foreign entry on the sectoral competitiveness of existing retailers. In addition, the square footage owned by foreign or domestic retailers helps researchers measure the potential decline of Canadian retail presence in the mall. In much the same way that shelf facings are a critical factor for product presence, mall frontage for a store plays a key role in market presence of the retailer. The fact that retailers operate in different formats and with differing formulae also makes square footage a relevant measure of market share. The following analysis of the three values of market share will clarify the impact that foreign apparel retailers had on the host (Canadian) market.

5.4.1 Number of Stores

Change in the market share of stores can be an indication of overall growth in the number of stores and/or the cannibalization of store locations from competitors. The change in the market structure of foreign and Canadian stores can be seen in the increase of the number of foreign stores both through growth and through a decrease in the number of domestic locations. The overall change in the two malls can be summarized as follows:

- Mall 1: the total number of clothing stores decreased by 10% from 1995 to 2007, which allowed the number of foreign stores to increase by 130% as the number of Canadian stores decreased by 32%.

- Mall 2: the total number of clothing stores increased by 32% between 1995 and 2007, which allowed the number of foreign stores to increase by 320% as the number of Canadian stores decreased by 20%.

Within this context, as shown in Table 5.2, the percentage of foreign apparel stores in both Mall 1 and 2 increased significantly between 1995 and 2007.

	Mall 1		**Mall 2**	
Year	Total Stores	Foreign	Total Stores	Foreign
1995	72	14%	66	15%
2001	67	21%	57	25%
2007	65	35%	74	48%

Table 5.2 – Percentage of foreign stores for Mall 1 and Mall 2

One of the underlying factors to consider in analyzing changes in a mall's tenant configuration is the mall renovation and expansion that took place: in the case of both Mall 1 and 2, major renovation projects were undertaken during this time period. These renovations included both the addition of new mall space and the re-configuration of existing space, such as reducing department store space and converting it into in-line space. The variances in how new space was utilized in malls will have an impact on how the number of stores changed during this period. Figure 5.13 illustrates the year by year change in number of stores in Mall 1 and Figure 5.14 provides the same data for Mall 2.

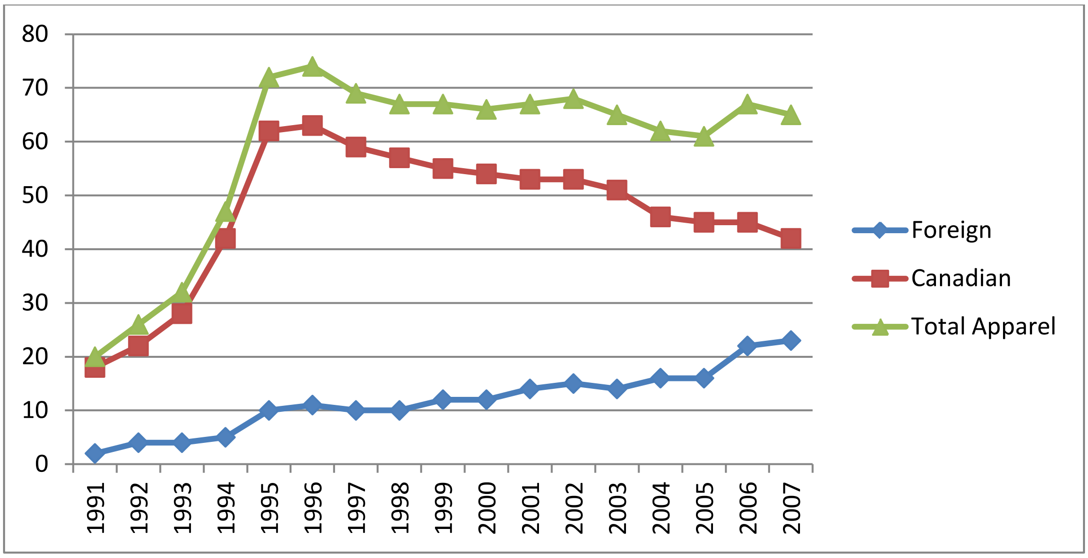

Figure 5.13 – Mall 1 Number of Foreign and Canadian Apparel Stores by Year 1991 to 2007

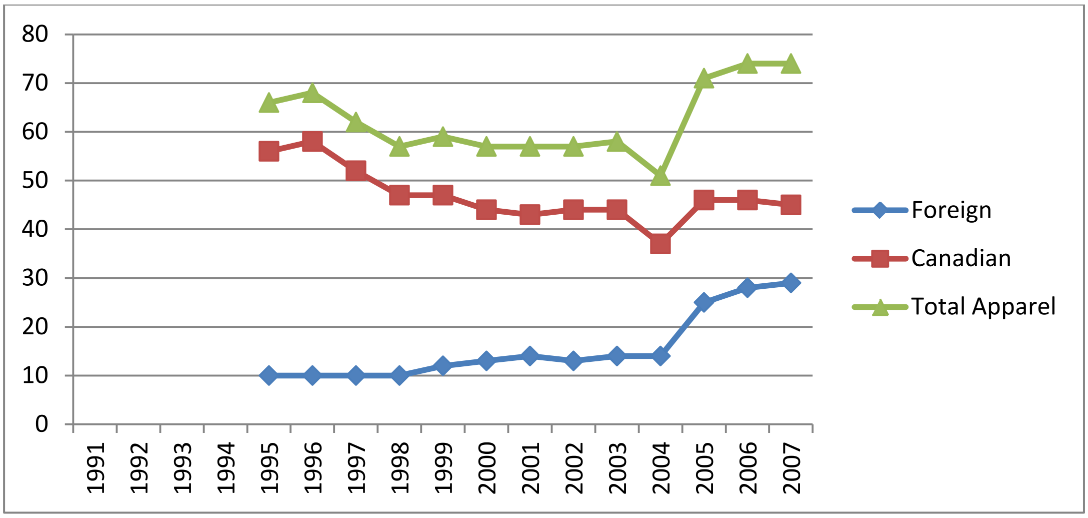

Figure 5.14: Mall 2 Number of Foreign and Canadian Stores by Year 1995 to 2007

Both malls underwent accelerated growth during the period of 1995 to 2007. In the case of Mall 2, this is reflected not only in increased square footage, but also in the total number of apparel stores in the mall. The growth in total number of apparel stores was 12% between 1995 and 2007. Therefore, the foreign retailer share of market can be seen as growing as the Canadian apparel market was renovating. In Mall 1, the total number of apparel stores actually declined between 1995 and 2007 by 10%. This is consistent with the findings of the CSCA 2009-07 report *Tracking the Evolution of the Canadian Mall*, which demonstrates the switch to fewer but larger stores. The growth in Mall 2 is primarily a function of a larger increase in the total mall footprint.

The number of Canadian apparel stores peaked in both malls in 1996: in Mall 1, 63 of 74 apparel stores were Canadian, which declined to 42 of the 65 apparel stores in 2007. In Mall 2, the peak number of Canadian stores in 1996 was 58 of 68, which declined to 45 of 74 in 2007. The churn of Canadian retailers exiting these malls will be examined more closely later in this chapter as it represents an important understanding of the re-structuring that occurred in the clothing sector during this period. There were also a small number of foreign retailers that exited the market during this period (most notably Marks & Spencer).

Analysis of the specific retailers entering the market in the two shopping centres revealed that the 1990s were dominated by the Gap Inc. group of companies, which include the Gap, Banana Republic, and Old Navy. A succession of other American retailers would follow, as well as the major European multi-nationals such as Zara and H&M in the first decade of the twenty first century. Most of the entry would be done through organic store growth, with foreign companies taking prime locations from domestic retailers as their lease terms were expiring, or as part of a larger mall expansion project. In a few cases, the foreign retailer would purchase assets of a domestic retailer, allowing them to gain immediate access to prime locations in multiple shopping centres. These methods of entry will be discussed later in this chapter to detail the impact that each foreign entry had on the competitive structure in the two malls.

5.4.2 Square Footage

In analyzing the shift in market share of square footage, it can be seen that the foreign retailers contributed to and benefited from the overall growth of clothing retail space in the two malls. This can be summarized as follows:

- In Mall 1, the total clothing square footage grew by 55% between 1995 and 2007: during this time, the foreign square footage grew by 270% and the Canadian apparel square footage decreased by 11%.
- In Mall 2, the total clothing square footage grew by 69% between 1995 and 2007: during this time, the foreign square footage grew by 248% and the Canadian apparel square footage increased by 22%, which represented less than one-third of the new foreign square footage.

Within this context (and consistent with the increase in number of foreign apparel stores, see Table 5.3), foreign retailers significantly increased their market share of square footage in the apparel market in the two Malls.

	Mall 1		**Mall 2**	
Year	Total Sq. Ft.	Foreign	Total Sq. Ft.	Foreign
1995	220,174	24%	236,073	21%
2001	282,068	38%	262,183	25%
2007	342,161	56%	399,553	43%

Table 5.3 – Percentage of foreign square footage for Mall 1 and Mall 2

By 2007, the share of square footage in both Mall 1 and Mall 2 had more than doubled since 1995, with foreign clothing retailers in Mall 1 surpassing 50% share of square footage in 2006. A review of the data illustrates that Mall 1 started the escalation of foreign store expansion in the second half of the 1990s, doubling the square footage between 1995 and

2001. This is consistent with the time lines for mall renovation and re-configuration of space, which started earlier in Mall 1 than Mall 2. Canadian apparel store square footage peaked in 1999 in Mall 1, which then declined or remained constant. Between 2004 and 2005, foreign retail square footage surpassed total Canadian square footage for apparel stores in Mall 1.

With Mall 2’s major expansion and renovation occurring in the mid-2000s, the accelerated growth of foreign clothing retailers can be linked to this time frame: although foreign retail entered Mall 2 later than Mall 1, the foreign retailers nearly tripled their square footage between 2001 and 2007. By 2007, foreign apparel stores accounted for 43% of the square footage in Mall 2. Figures 5.15 and 5.16 show the yearly change in square footage for each mall, highlighting the accelerated growth of foreign space domination in the 2000 to 2007 period.

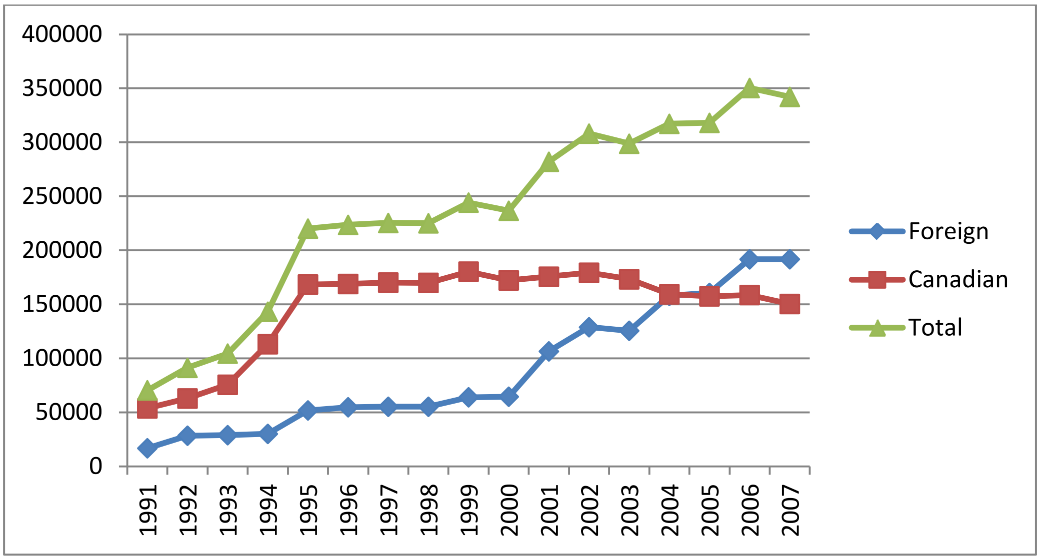

Figure 5.15 – Mall 1 Square Footage for Foreign and Canadian Apparel Stores by Year 1991 to 2007

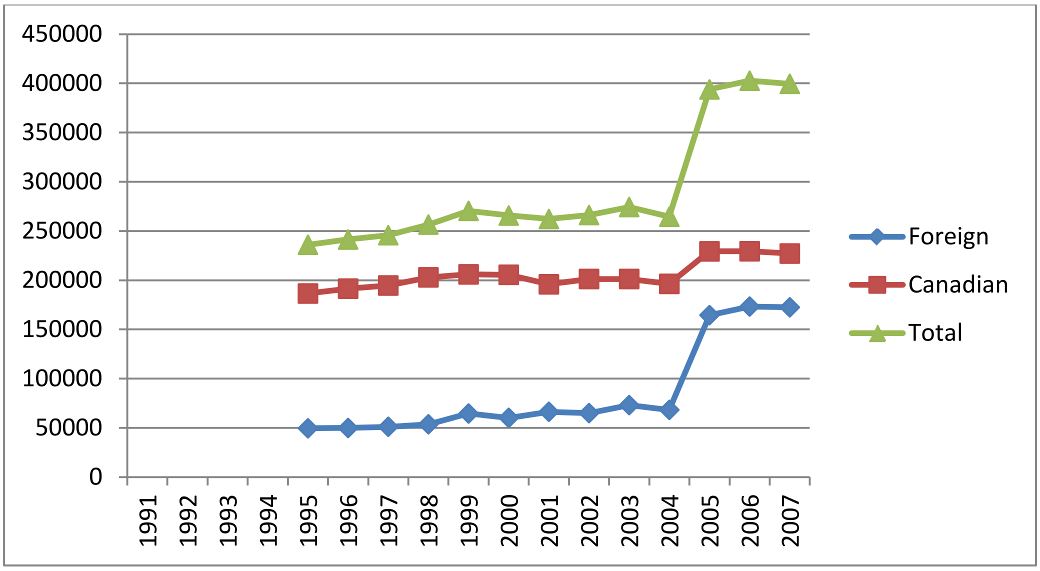

Figure 5.16 – Mall 2 Square Footage for Foreign and Canadian Apparel Retailers by Year, 1995 to 2007

To a large extent, the profiles of Mall 1 and Mall 2 provided earlier in this chapter will explain some of the difference between these locations. Mall 1 allocated more space for foreign expansion based on the re-configuration of department store space. On average, foreign clothing retail space is 133% larger per store than Canadian stores, and there has been 61% growth in the size of the foreign store average in Mall 1 from 1995 to 2007. During the same period, Canadian clothing stores also increased their average size, but only at a 31% increase in average store size. The entry of H&M, Zara, Abercrombie & Fitch, Hollister, and the Gap in Mall 1 were significant contributors to foreign retailers capturing a significant share of the mall square footage.

By comparison, the Mall 2 had a different trajectory for growth in foreign store square footage. Although similar foreign apparel brands entered Mall 2, they were allotted less square footage on average. In addition, there were several foreign brands such as Miss Sixty and Under the Belt that entered Mall 2 with significantly smaller footprints in the mid-2000s, which lowered the average store size for foreign retailers. It should also be noted that the foreign retailer average store size did not escalate in Mall 2 as it did in Mall 1, with the average store size only increasing by 20% between 1995 and 2007.

	Mall 1		**Mall 2**	
Year	Foreign	Canadian	Foreign	Canadian
1995	5,177	2,716	4,957	3,330
2001	7,605	3,313	4,740	4,554
2007	8,339	3,578	5,947	5,047

Table 5.4 – Average size of store comparing foreign and Canadian retailers

As seen in Table 5.4, the average Canadian apparel store size was larger in Mall 2 than Mall 1 – closer to the size of foreign retailers. In fact, two stores in Mall 2 distort the average store size: if factored out of the comparison, the average store size for Canadian clothing retailers would be 3,824 square feet in 2007, which is still 7% larger than the average in Mall 1 but overall more reflective of the typical clothing store in Mall 2. In summary, large footprints in and of themselves do not necessarily guarantee proportionately larger share of retail sales, which has been demonstrated through the deteriorating performance of the Gap and Old Navy through the 2000s. The impact of the store size would be a significant point of discussion in the interviews with the industry experts and would certainly become a factor in the role of the larger stores in mall renovation and expansion in the later years of this study.

5.4.3 Sales

With new store openings and the additional square footage in apparel stores the impact on distribution of sales across new competitors is the natural extension of changing sectoral competitiveness. The analysis of the two malls provides an understanding of the impact on the overall size of the market and on the individual retailer's share. To provide a context for analyzing the change in market share of domestic and foreign clothes retailers, it is useful to summarize the overall changes in the apparel market in each mall:

- In Mall 1 the total clothing sales increased by 144% between 1995 and 2007: during that time, foreign apparel sales increased by 568% and domestic retail sales increased by 30.4% at a dollar growth rate of one-fifth that of the foreign retailers.
- In Mall 2 the total clothing sales increased by 157% between 1995 and 2007: during that time, foreign apparel sales increased by 391% and domestic retail sales increased by 102% at a nearly identical dollar growth rate.

With significant growth in number of foreign apparel stores entering the two malls and the increase in the foreign share of square footage, the share of clothing sales captured by foreign retailers would have dramatic growth between 1995 and 2007, as shown in Table 5.5:

	Mall 1	**Mall 2**
Year	Foreign	Foreign
1995	21%	19%
2001	41%	26%
2007	58%	36%

Table 5.5 – Sales of foreign apparel retailers as a percentage of total apparel sales

Major malls are ideal sites for studying the impact of foreign clothing retailers on the domestic retail sector because malls demonstrate what has happened to the total apparel market in major shopping centres and how the share of this market has been divided between foreign and Canadian retailers. The following performance measures highlight this growth:

- In Mall 1, Total Apparel Sales have increased 144.5% between 1995 and 2007, averaging more than 10% annual growth over 13 years. This is substantially better than the Canadian average growth rate of 4.0% as reported by Statistics Canada (see Table 5.1 for comparisons).
- Foreign retailers have accounted for 83.1% of that growth, increasing sales by 567.9% from 1995 to 2007. Canadian retailers also grew during the same period but at a much slower rate of 30.4%, which is an average of 2% annual growth over twelve years, accounting for the remaining 16.9% of total market growth in apparel sales in Mall 1.
- By comparison, Mall 2 has seen similar total clothing sales growth of 157.2% from 1995 to 2007, averaging just slightly better than the annual growth at Mall 1.
- At Mall 2, foreign retailers also out-paced their Canadian competition in growth, increasing sales by 390.5% from the 1995 foreign store base. However, this growth only accounts for 47.2% of the total Mall 2 sales increase in apparel over twelve years: Canadian clothing stores retained a significantly greater share of market and market growth in Mall 2 than in Mall 1. Canadian retailers realized growth of 102.4% from their 1995 base, which accounted for 52.8% overall growth in the Mall 2 apparel sales.

These results show a significant capture of market share by foreign retailers, accumulating a 58% share of Mall 1 and a 36% share of Mall 2 by 2007. As illustrated in Figure 5.17, the amount of square footage allocated to foreign retailers in Mall 1 allowed them to dominate market share in sales. This is consistent with the finding that foreign retailers overtook Canadian retailers in both share of square footage and sales in 2004/05. The situation in Mall 2, shown in Figure 5.18, reflects a more gradual increase of foreign retailer market share, however, foreign retail share accelerated in the more recent six-year period (from 26% in 2001 to 36% in 2007).

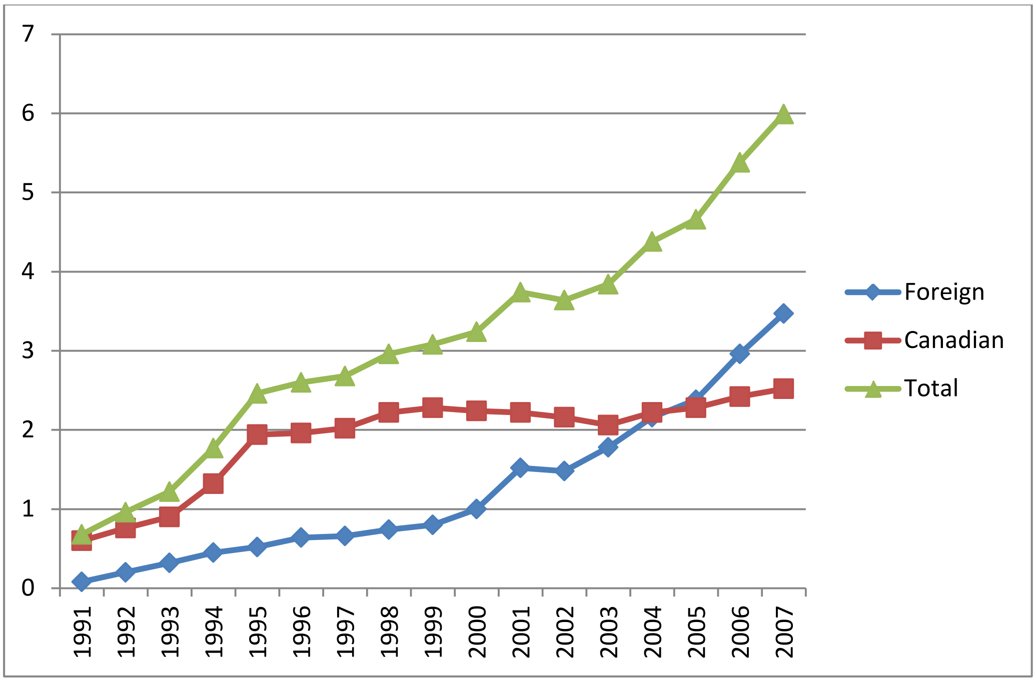

Figure 5.17 – Mall 1 Sales (normalized) by Foreign and Canadian Apparel Stores by Year, 1991 to 2007

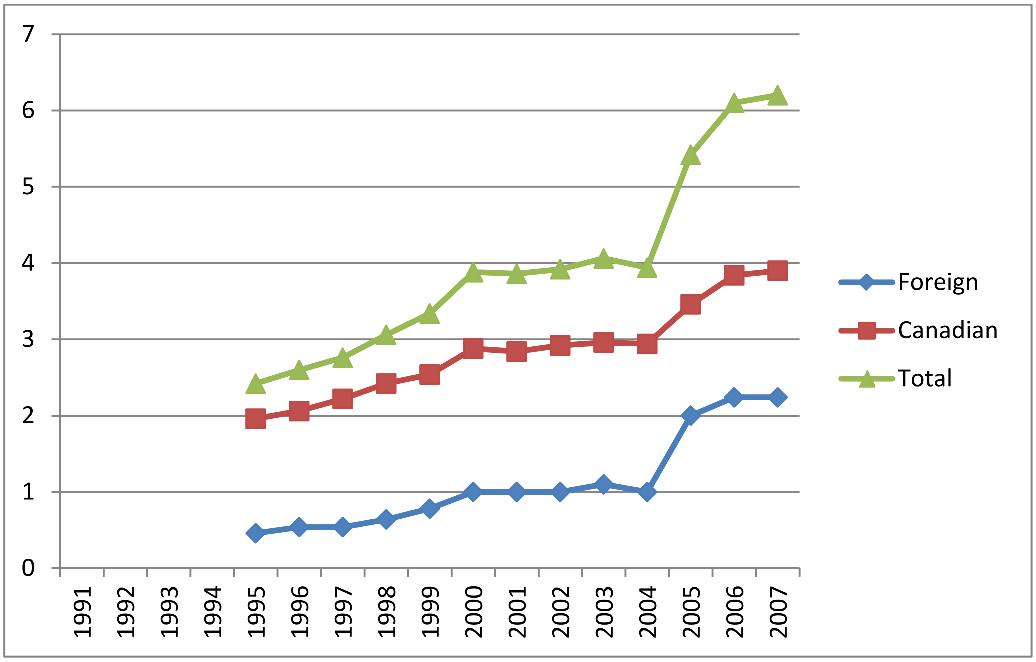

Figure 5.18 – Mall 2 Sales (normalized) for Foreign and Canadian Apparel Stores by Year, 1995 to 2007

5.4.4 Summary of Change in Market Structure

In summary, the entry of foreign retailers has been significant in the re-structuring of the apparel market. Through the study of two major malls as a microcosm for the apparel market, it can be demonstrated that the entry of foreign apparel retailers has had the following impact on the domestic clothing retailers:

1. The total market for clothing in major malls has grown significantly faster than the total apparel market in Canada.
2. The addition of square footage devoted to apparel in these malls has contributed to this growth.
3. The foreign retailer's share of market has grown substantially and at significantly greater rates than Canadian clothing retailers in measurements of number of stores, square footage, and overall sales.
4. Although Canadian retailers have also experienced sales growth, it has happened at a slower rate than the foreign retailers. As a result, the total market has been re-structured to reduce the percentage share of domestic retailers in these two malls, allowing a continuous trend toward foreign dominance in the major malls.

At the beginning of this chapter, the apparel sector in a "typical" top tier Canadian mall was described to set the context for the changes that would occur through the 1990s up to 2007. The performance data from two major shopping centres has been analyzed and can be summarized to show how the apparel sector has changed during this time:

<u>Mall Anchors</u>

- 2 Department Stores: in 2007, only Sears Canada and The Bay remain (both under US controlling ownership)
- Mass Merchandisers such as Walmart and Zellers are typically located near but not in the major shopping centre as an anchor

In-line Retail Tenants by Category and Percentage of In-line Square Footage for Mall 1 with comparison to 1989/90

	2007	1989
• Apparel, Footwear, and Accessories	65%	62%
• Food	10%	8%
• Gifts, Cards and Stationary	2%	10%
• Health and Beauty	6%	7%
• Electronics, Music	5%	6%
• Sporting Goods and Toys	5%	3%
• Household Goods	3%	2%
• Other	4%	2%

By contrast to the decline in most other major product categories in the mall, the 3% increase in total square footage for apparel and related products reflects the importance that landlords have placed on the clothing sector to generate traffic and revenues. The mall's overall square footage for in-line retail has more than quadrupled between 1989 and 2007 and, in addition to this substantial growth, the apparel and related categories have experienced further expansion. With the exception of menswear-only retail, which remains 100% Canadian owned, the foreign square footage has exceeded the growth of the market and now dominates the mall with 56% of the total apparel square footage. This has come at the expense of Canadian retail square footage, which has also grown but not at the same pace as foreign retailers.

5.5 Competitive Changes in the Shopping Centre

The entry of foreign retailers affected significant competitive changes in the Canadian apparel sector, re-structuring the market share for apparel retail in the two malls under study. From the data analyzed for the shopping centres, there are three major competitive changes that can be identified:

1. The growth of Unisex apparel formats
2. The re-configuration of major shopping centre space allocations

3. The churn of domestic retailers

These competitive changes represent the causes for much of the shift in market share from domestic to foreign, as well as the effects on the Canadian clothing retailers that would unfold over the 1989 to 2007 period. Having established that retail internationalization had a direct impact on the sectoral competitiveness in the two malls, the remainder of this chapter will address the processes that led to this change.

5.5.1 The Growth of Unisex Apparel Formats – Foreign Apparel Retail Entry as a Catalyst for Change in Format Dominance

The entry of foreign apparel retailers has been marked by one dominant characteristic: they arrived in a unisex format. This is particularly the case among the early entrants: companies such as the Gap, Banana Republic, Eddie Bauer, Levis, Benetton, Mexx, Old Navy, and American Eagle all entered the market by 2001 and all catered to more than one gender. Talbots and Bebe proved to be the only women's wear foreign retailers to enter during the same period with a lasting impact, and no pure foreign menswear retailers have entered Canada at any time during this study. Toward the latter part of this study, companies such as Mango and BCBG have entered the market, but with limited success. Therefore one can conclude that the entry of foreign apparel retailers has been a catalyst for change in market positioning through an increased dominance of unisex retailers.

The unisex format is predominately an offering to both female and male customer segments, with a heavier emphasis on the female merchandise in keeping with the proportionately larger market for women's apparel than men's apparel. In some cases, children's wear is also part of the offering to target the full range of family apparel within their consumer segments – most notably in H&M and Old Navy. American retailers in particular often began with merchandise focused on denim. The Gap was an early adaptor of this model and developed a unisex product line to serve both female and male consumers. In contrast, European retailers can be seen to have evolved from a specialty department store mentality. In both scenarios, the evolution and growth of unisex retail formats in the later part of the twentieth century was further embedded in significant shifts in consumer attitudes and behaviours, such as the acceptance of more casual dress in the workplace and the increasing role of the female as the dominant and influential consumer. Both the European and American apparel retailers are seen to have seized on these consumer and competitive changes to their advantage. Further rationale for the predominance of the unisex format was extrapolated in the interview questions for industry experts and will be addressed in Chapter 6.

In Table 5.6, the growth of the unisex format in the two major malls is clearly demonstrated. From this table, it can be concluded that the performance of the unisex stores has clearly out-paced that of either women's wear or menswear stores. Since sales growth has exceeded the growth in square footage, the unisex retailers are more productive in revenue generation from their stores. In addition, the physical dominance of the unisex format is evidenced by the significantly greater growth in square footage.

	Mall 1		**Mall 2**	
Year	1995	2007	1995	2007
Unisex % of apparel stores	37.5%	46.2%	32.3%	47.9%
Foreign % of unisex stores	29.6%	56.7%	33.0%	62.9%
Unisex % of apparel sq. ft.	45.1%	64.9%	46.0%	63.6%
Foreign % of unisex sq. ft.	47.0%	76.1%	39.8%	59.0%
Unisex % of apparel sales	47.2%	69.5%	46.3%	67.6%
Foreign % of unisex sales	42.0%	76.4%	34.7%	45.9%

Table 5.6 – Growth in unisex retail and foreign share of unisex retail

By all measures – number of stores, square footage and sales – the period from 1995 to 2007 marked the growth and eventual dominance of the unisex format within the apparel sector. In both malls, the share of market by unisex format rose from less than 50% of the square footage and sales in 1995 to over two-thirds of the square footage and sales by 2007. The rise of unisex among specialty chains would facilitate a further re-structuring of the market by landlords through the redistribution of space away from traditional anchor stores to a new form of mini-anchor.

Canadian apparel retailers have also operated in a unisex format, however, as clearly demonstrated in Table 5.7, the domestic retailers have not been able to hold their market share in the unisex category. The number of Canadian unisex stores peaked in 1995 in both malls: 19 in Mall 1 and 14 in Mall 2. In 2006, the number of foreign unisex stores had surpassed the number of domestic stores in Mall 1 – in Mall 2, this transition occurred earlier in 2003. As of 2007, both malls had 13 Canadian unisex retail stores still operating. Of the 19 domestic unisex retailers operating in Mall 1 in 1995, nine stores had closed by 2007. In Mall 2, the mix of domestic retailers was slightly less at 38% of the 1995 domestic unisex stores.

	Mall 1		**Mall 2**	
Year	Canadian	Foreign	Canadian	Foreign
1995	70%	30%	67%	33%
2001	59%	41%	48%	52%
2007	43%	57%	37%	63%

Table 5.7 – Percentage of unisex stores, Canadian and Foreign

As the impact of the foreign entries shifted the market to a dominant unisex format, the number of domestic retailers exiting the malls the Canadian increased, although not always in a hasty desperate manner. Instead, Canadian retailers have proven to be successful by creating well-defined niche unisex concepts. Three very successful Canadian unisex operators are:

1. Lululemon: the concept originated as a yoga apparel specialist for women and has evolved into a unisex niche specialist. Stores are typically 5000 square feet or smaller, with a focus on service and consumer loyalty. In 2006, a private US equity firm acquired the company and eventually took it public. Lululemon is now expanding internationally with stores in the US and Australia. Their unisex formula is based on a lifestyle segmentation, which differs from the more demographic- and fashion-profiled American and European unisex formulas of Zara, H&M, and the Gap.
2. Danier Leather: a specialty leather apparel retailer operating in mall stores and power centres. The company is publicly traded on the TSX. The formula is built on a niche, highly specialized market; in this case, targeting dominance in a narrow category of leather goods across a range of fashion and price points. Leather products have not been a focus of any of the foreign entries.
3. Roots: started in 1974, Roots has adapted over the years to the changing competitive market and, while wandering occasionally from its strong Canadian heritage, it has returned to that niche and services a loyal customer segment. Privately held, the company has still managed to expand internationally with stores in Taiwan.

These three companies have been the most successful Canadian unisex retailers. They have remained competitive because they chose not to compete on size, preferring to optimize their store footprint and focus on productivity to generate profitability.

Other domestic retailers have chosen to compete on a fashion-value offering comparable to some of the foreign unisex retailers, but the challenges have been greater and the results mixed. A retailer such as Le Chateau, often considered the ‘Canadian H&M’, has continued to compete directly with foreign retailers as they enter the market, but with erratic results. Le Chateau and many others have attempted to chase the larger store size of the foreign entries, but eventually to retreat to smaller square footage and focus on profitability through productivity. For example, RW&Co is a new format (introduced by Reitmans in 2001) that markets itself as a value-based product to carve out a share of the market, keeping itself distinct from the fashion-forward unisex formula. However, it is difficult to judge the success of this approach, as the profitability of RW&Co is not public information.

Alternatively, many Canadian retailers have taken a different competitive strategy and stayed either pure women’s wear or menswear. Choosing not to compete directly in the unisex formulae, retailers such as Aritzia and LaSenza have proven to be highly successful competitors in the Canadian market. LaSenza has also experienced dramatic growth internationally, representing one of the few Canadian retailers to achieve success outside of the domestic market. In menswear retail, the domestic market has been dominated by the Harry Rosen chain of stores at the upper end and chains such as Tip Top and Grafton Fraser in the middle market. External to the mall environment, Moore’s was purchased by the American company The Men’s Wearhouse Inc. in 1999 and continues to dominate the domestic value position in menswear. Given the high cost of occupancy in Canada, many women’s apparel retailers have decided not to expand into menswear, which is relatively easy to understand as menswear has historically lower margins and a much smaller total market. In addition, despite the dominance of the unisex format, the ladies market continued to grow in the two malls studied. The entry of foreign women's wear competitors has been minimal and proven to be much weaker competition than the foreign unisex retailers.

For Canadian menswear retailers, the structure of the market has looked somewhat different. There have been no foreign stand-alone menswear entries into these two major malls, yet there has been considerable expansion in the number of competitors in menswear due to the unisex format expansion. This has put competitive pressure on the younger-focused menswear retailers, which causes considerable churn in this category. By contrast, men's retailers see the women's category as appealing due to higher margins and faster turnover, however, attempts by market leader Harry Rosen and long-established Grafton Group to enter the women's wear category have been hugely unsuccessful. As a result, the re-structuring of the Canadian market between 1989 and 2007 forced menswear retailers to focus on strengthening their category position, leaving the women's category to other competitors. The domestic success that came with focusing solely on women's wear or menswear would suggest that business acumen for one format does not necessarily transfer to another – in this market, it is better to focus on one or the other.

5.5.2 Major Shopping Centre Re-configuration of Space Allows Entry of Large Format Foreign Apparel Chains as Mini-Anchors

Traditionally, the position of 'anchor' in a major mall was the domain of the department store. As previously discussed, the demise of Canadian department stores such as Eaton's, Simpsons, and other regional stores in the 1990s accelerated the need to find alternatives for the retail space to draw customers to malls. As a result, a further re-structuring of the apparel market took place in Canada between 1989 and 2007: mall landlords reconfigured large spaces and created mini-anchors with the foreign unisex apparel stores. This new role for a specialty chain had advantages in both market positioning and financial impact on the domestic clothing sector.

There has been much debate whether the landlords of retail spaces enticed foreign retailers with preferential leasing offers or if foreign retailers negotiated deals. Regardless, the impact of foreign retailers on the configuration of the major malls and the response of Canadian retailers portray a significant re-structuring of the mall landscape. In both Mall 1 and Mall 2, what was once prime department store space was given to H&M, Zara, the Gap, and Old Navy. With square footage exceeding 15,000 per unit the landlords created a new category of lease that didn't quite meet the no-rent clauses of the department stores, giving preferential rental rates and reduced ancillary costs to large foreign retailers. The only Canadian retailers that could compete in the mini-anchor role are Holt Renfrew and Harry Rosen, however, both of these companies target the high end of the market and are located in relatively few malls and high streets across the country.

From a Canadian retailer perspective, the creation of these mini-anchors with foreign unisex retailers completely changed the competitive structure of the mall market. The Canadian clothing retailers were no longer in-line stores between two weakened department stores: previously favourable mall locations held by the legacy Canadian clothing retailers were weakened depending upon how the mall re-structured its layout to accommodate the new mini-anchors. Of greatest significance was the impact on leasing structures: with large square footage being leased to the foreign retailers at reduced rents and landlords incurring significant costs to renovate space, the renewal leases for existing domestic retailers were priced at much higher costs. As many domestic leases had been originally negotiated in the

1970s and 1980s and were well under prevailing market value, this made the shock of the new competitive market even more difficult for many legacy Canadian clothing retailers. Many Canadian retailers were faced with the task of generating large sales increases to maintain their current space at higher rents, or down-sizing their space and moving to less prime locations in the mall. As noted in several retail expert interviews, the relationship between landlord and retailer was now tougher to negotiate, as it became clear that many mall owners were pro-foreign and anti-domestic.

The creation of the mini-anchor brought a new pecking order to the apparel industry, even for the foreign retailers. The Gap, Old Navy, H&M, and Zara were used to operating in large format stores either in malls or on street locations. These companies were also used to strong competition from other specialty retailers and department stores: their business model was based on lower occupancy costs – typical in the US and European markets – as well as the ability to establish a brand position. The foreign retail entry into Canada created a unique positioning in the market, as the dominant apparel retailers had experience and were courted by the mall landlords to draw consumer traffic. The creation of the mini-anchor elevated their market positioning and created a multi-tiered structure within the apparel sector. Due to smaller store footprints and different financials, Canadian clothing retailers would need to find new ways to compete in this tiered structure.

5.5.3 Attrition/Churn – The Impact of Foreign Retail Entry on Domestic Retailers

Between 1989 and 2007, the attrition of Canadian retailers in the two malls was 50%. During the same period, the attrition for foreign retailers who entered and exited the two malls was 14%. This degree of turnover in the malls highlights the impact that competitive change can have on a domestic sector as foreign companies enter the market. Although foreign retailers became dominant in these two malls, these numbers highlight that not all foreign retailers were successful, at least in specific mall locations –the discussion section of this chapter will identify who were the foreign casualties in the competitive battle. The attrition that followed foreign retail expansion takes on several different outcomes and scenarios, not only resulting from another retailer closing shop and going out of business. For this reason, the term *churn* is considered more appropriate for expressing the effects that competitive change had on these two malls.

Within the context of business, the churn rate measures the movement of various elements of the business – often used to assess the turnover of employees or customers by a company, it is generally viewed as synonymous with the term *attrition*. To analyze the degree of change in retail stores in the two malls, a churn rate was calculated for each mall to compare the Canadian rate to the rate of comparable foreign retailers. The results of this analysis are shown in below:

	Mall 1		**Mall 2**	
Formula	Canadian	Foreign	Canadian	Foreign
Unisex	14 of 28	3 of 19	10 of 23	1 of 20
Women's	25 of 49	1 of 7	27 of 51	3 of 10
Men's	6 of 11	N/A	5 of 11	N/A
Total	45 of 88	4 of 26	42 of 85	4 of 30
Percentage	51%	15%	49%	13%

Table 5.8 – Total stores by formula and number of churn between 1989 and 2007

Table 5.8 illustrates the period 1989 to 2007, demonstrating each formulae for the number of retail stores operating in the mall and the number of stores remaining. For example, in Mall 1 there were 28 different unisex Canadian apparel retailers that operated for some portion (or the entirety) of that time period. Of those 28, 14 retailers were not operating as Canadian unisex retailers by 2007; therefore, the attrition was 50%, or a churn rate of 1:2.

For Canadian retailers, there is not a wide variation between formulae: unisex, women's and men's domestic retailers have all been susceptible to attrition. As a result, the largest numbers for attrition have been in the women's apparel category where the largest number of Canadian retailers operated, but menswear has also undergone churn at a similar rate. Appendix 12 provides an examination of the movements for all retailers tracked in Mall 1 and Mall 2. This clearly demonstrates the overall degree of churn among domestic retailers and the increasing entry of foreign retailers in the final years of this study.

Foreign attrition can be summarized as one major foreign retailer (Marks & Spencer) exiting the market in 1999 and a few small designer and brand retailers – such as Laura Ashley, Mondi and Acquascutum – opening and exiting in a short time frame. It is not surprising that there has been some churn in the foreign retailers, however, the low ratio of 1:7 compared to the domestic 1:2 demonstrates that internationalizing foreign retailers have been successful against previously more established competition.

For domestic retailers, there are three different types of churn that have been identified and a fourth type of movement that, although separate from the ratio of attrition, reflects the impact of re-structuring in the mall. The three types of churn and the fourth movement are:

- Closing of the Business
- Re-formulating the Business
- Proactively Selling the Business
- Re-location within the Mall

Closing the Business

A large percentage of the churn in both Mall 1 and Mall 2 resulted from small companies going out of business, forcing them to close their stores. Some of these companies were independents attempting to succeed in the mall environment, e.g., Robin Kay. Others would be second or third banners of a retailer operating under a different concept in the mall, e.g., Sirens as a separate banner from the primary banner Stitches. And some were concepts that had too many players, such as maternity or lingerie stores. In most cases, these companies were only able to stay in major malls a relatively short period of time, usually less than 5 years.

Between 1989 and 2007 the re-structuring of the apparel market would have one particularly high-profile victim: Dylex Limited, which was once the dominant specialty chain company in Canada. Unfortunately, this corporation would divest of its various retail banners during bankruptcy proceedings: divisions such as Fairweather and Tip Top Tailors would be sold to other Canadian retail companies and continue to operate under these banners. Two other divisions, Braemar and Thrifty's, would not survive the divestment and their real estate leases were sold to American Eagle Outfitters (AOE) in 2000, opening the door for another American retailer to enter the market with quality real estate locations. It should be noted that part of this transaction would see AEO sell some of these locations to Canadian retailer YM Inc., resulting in the creation of the Bluenotes chain. While the demise of Dylex Limited was certainly the most high-profile re-structuring in the apparel sector in Canada, other consolidation would occur: Reitman's was an active purchaser of smaller chains such as Dalmy's, and YM Inc. would purchase Suzy Shier as part of the Dylex break-up. It should be noted that not all churn was amongst domestic retailers. During the period of 1995 to 2007, foreign retailers such as Esprit would enter, exit, and re-enter. In addition, Mondi, Dockers, Benetton, and Marks & Spencer would all exit during this time frame.

Re-formulating the Business

Churn can also be seen in retailers that re-formulated their concept by exiting the major malls for alternative locations. Domestic companies such as Dalmy's, Northern Reflections, and Tabi are examples of such legacy retailers who expanded aggressively through the 1970s and 80s and then exited major shopping centres as the competitive environment changed. These domestic retailers abandoned the escalating rents and internationalizing competition of the major malls for the lower-cost power centres and second tier malls.

The typical path of re-formulation was initiated in the late 1980s as new mall development slowed and power centre development ramped up. These retailers developed strategies to operate in these new centres and for a period of time operated two formulas that often became blurred in their differentiation. As leases came due in the major malls, domestic retailers were faced with dramatically higher rents and the prospect of being moved to less desirable locations in the major malls. These increasingly discount-driven companies started to prefer the power centre locations, as the re-structuring of the competitive environment in the major malls forced out many domestic retailers that had previously been mainstays of the major mall competitive set. Notably, only a select few domestic apparel retailers were able to take advantage of the new power centre expansion and simultaneously sustain successful operations in major shopping centres. For example, Roots launched Roots '74 as its off-price offering and Danier Leather opened stores with merchandise skewed to the value end of its merchandise offering. As previously noted, these are two Canadian retailers that have found their competitive niches in the changed market structure of malls and have also built well-defined chains for the secondary and discount markets. Their success is considered unique in the market, with only a small number of other domestic retailers (such as LaSenza) able to sustain their primary business and re-formulate a second business.

Proactively Selling the Business

As the re-structuring of the apparel sector in Canada continued through the period 1989 to 2007, some domestic retailers seized the opportunity to sell their business. Unlike those domestic retailers discussed previously, these were not always companies facing closure, but were sometimes successful companies who determined that they either required additional investment to compete or would benefit from new ownership. Most notable of these companies are:

- Club Monaco: sold to American retailer Polo Ralph Lauren in 1999 and continues to operate under the Club Monaco banner in Canada
- Aritzia: entered into a partnership with American private equity firm Berkshire Partners LLC in 2005 to attain sufficient capital for international expansion
- LaSenza: sold in 2006 to The Limited Brands, owner of the Victoria Secret chain of lingerie stores. LaSenza had successfully expanded internationally through the 2000s and was seen as a effective acquisition for Limited Brands to gain foreign retail experience.
- Lululemon: sold 48% in 2005 to Advent International, in partnership with American private equity firm Highland Capital. In 2007, Lululemon became a publicly traded company with plans for international expansion.
- Hudson's Bay Company: sold in 2006 to American businessman Jerry Zucker and his company The InterTech Group. With little challenge from the Canadian government

or public, the oldest Canadian (and North American) retailer moved into foreign ownership.

Research has demonstrated that these retailers represent some of the very best of Canadian apparel retail companies. The fact that their ownership no longer resides in Canada poses the question: what constitutes a domestic or foreign retailer? For the purposes of this study, the following decisions were made to distinguish domestic and foreign status for these specific retailers:

- Club Monaco was classified as Canadian until the end of 1999 and then included in the foreign data from 2000 to 2007. After 2000, the company was deemed American because the management of the company was closed in Canada and transferred to the US.
- Aritzia and Lululemon were classified as Canadian throughout the analysis because their management remained in Canada and they continued to operate solely as Canadian operations throughout the time frame of this study.
- HBC and La Senza are outside the scope of the data used for this study and were not part of the direct analysis.

The domestic-foreign debate is complex, raising important considerations of the international and local nature of the retail business. However, the location of a company's origin, financial ownership, and primary management decision-making seems relatively straightforward to establish home country, regardless of how many other countries have stores. H&M would be a prime example of such retailers. On the other hand, although Inditex's banner Zara is very similar, during the time of this study its licensing agreements in foreign countries, including Canada, makes it less clear on whether Zara is a foreign or domestic retailer. For purposes of this analysis it was deemed foreign, as Reitman's took little active involvement in the business. The Lululemon and Aritzia examples are perhaps the most complex, as financial ownership imply governance and control, suggesting that these retailers became foreign in 2005; however, the operations themselves did not change, which suggests that they are still fundamentally domestic retailers. If operational processes or the local nature of the retail business were considered to be most relevant to this debate, then Hess' (2004) study of embeddedness would raise the contrary view: he believes that once a company becomes part of the market structure, its origin is of less relevance to the competitive environment. The need to clarify the issue of foreign and domestic will become increasingly important as the rate of retail internationalization progresses. Within the context of studying the impacts of foreign entry on the domestic retailers, this factor will be discussed further in Chapter 6, as it has significant implications for how one interprets the internationalization process.

Re-location within the Mall

Tracking the activity of domestic and foreign retailers in the two major malls between 1989 and 2007 revealed considerable changes in the square footage of stores as well as intra-mall movement of stores. This was primarily identified through reports showing stores increasing or decreasing the store footprint from one year to another. Although the specific details of the moves within the mall could not be tracked by the data available, it is possible to conclude that the profile of a Canadian mall as defined at the beginning of this chapter changed dramatically during this time period. Early in the Canadian retail market, prime locations were once the domain of Dylex Limited, however, the prime locations in renovated malls would eventually be reserved for new foreign entrants. At the same time, top performing stores, including Canadian retailers, would be given the adjacent prime spots, which began the 'in mall shuffle' that sees on-going churn within the 'prime-location ladder'.

There are many examples of this movement within major malls, but the re-location story of Fairweather in one of the major malls best illustrates the changing fortunes of a formerly best-in-class Canadian clothing retailer. When the mall opened in a prime location in Toronto, Dylex Limited (parent of Fairweather) was still the leading chain operator of clothing stores. Through its dominance, Dylex acquired a lease for Fairweather immediately outside of the Eaton's department store at the main hub of the new mall. With approximately 7500 square feet, the store was considered a flagship for the Fairweather chain and a top performer. However, by the 1990s the competitive position of Fairweather had begun to decline and, due to a re-configuration of space in the mall, it would be re-located from the top floor hub location to a second floor in-line space of 9,000 square feet. Fairweather remained a pure women's wear operation, but was caught in the financial demise of Dylex Limited and eventually sold to International Clothiers Inc. During this period, the women's wear chain continued to lose its share in the market. The final move for Fairweather came after years of deteriorating performance, exiting from the mall in late 2007. For all retailers, this internal churn can become a self-fulfilling prophecy: the better a company performs, the better the location it receives, which allows it to keep performing well. Yet when a retailer starts struggling, the churn rates show that Canadian retailers move down the ladder to less prime locations, which is often the first step toward exiting the major mall.

5.6 Key Performance Indicators – Market Share and Asset Productivity

As important as market share may be to a retailer, productivity of mall space is the primary measure for landlord's to gauge success, reflecting the ability of the developer to manage their space to maximize the total revenue output of the mall. The pressure to increase the return on investment for the Canadian mall owners would escalate as the major developers were purchased by large pension and investment funds. The fund managers were solely focused on ROI and would set standards for mall performance accordingly, increasing the pressure on the mall management to focus on productivity. The data from these two malls clearly show the importance placed by the majority of foreign retailers on maximizing market share through large productive stores. In most cases, this has proven to be a successful strategy, although by 2007 the burden of large square footage was beginning to show its impact on the Gap. As the company struggled to find its position against new European competition, the productivity of its large stores was declining, negatively affecting measures of sales per square foot. Other companies such as Club Monaco and the Canadian retailer Roots had chased the larger store concept during the time frame of this study, but also struggled with the burden of profitability. By the mid-2000s, these companies would re-structure, returning to smaller yet more productive square footage models.

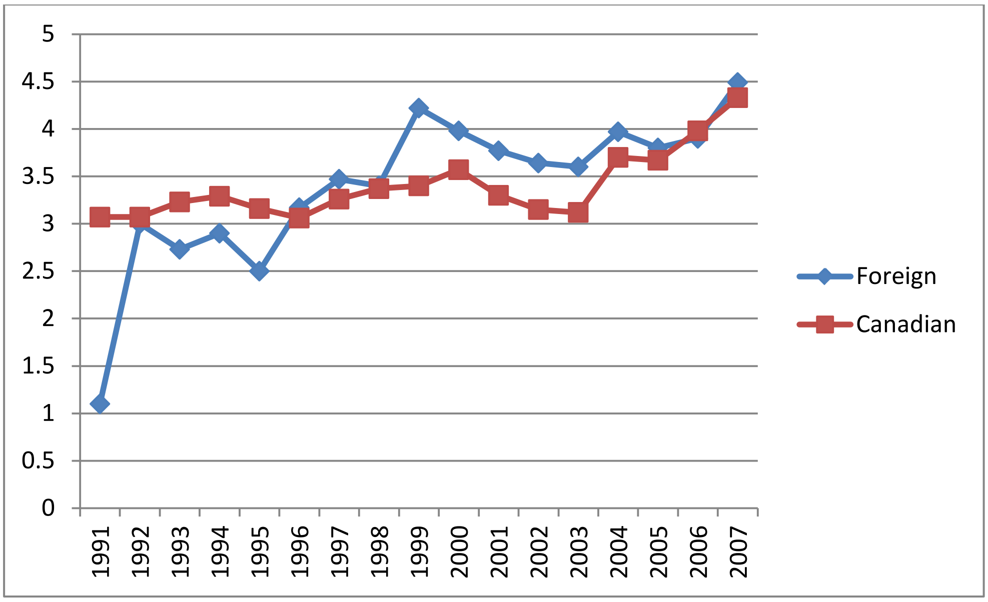

Figure 5.19 – Mall 1 Comparative Sales per Square Foot (normalized) for Foreign and Canadian Apparel Retailers by Year, 1991 to 2007

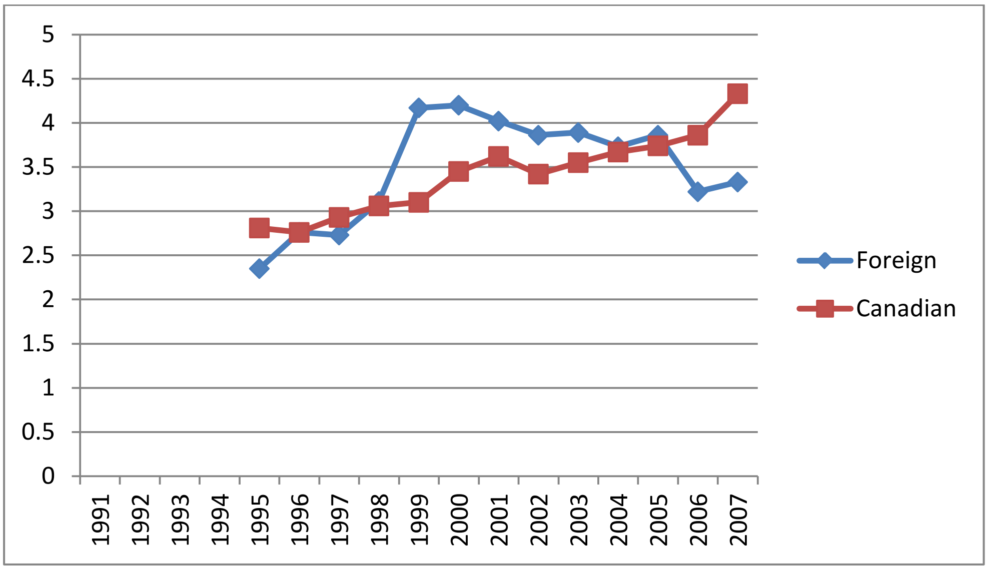

Figure 5.20 – Mall 2 Comparative Sales per Square Foot (normalized) for Foreign and Canadian Apparel Stores by Year, 1995 to 2007

Figures 5.19 and 5.20 illustrate the relative performance of the foreign and domestic retailers in the two malls. In particular, the domestic companies would find it difficult to competitively position their retailers in this changing market, and would expand almost exclusively on a model of smaller and highly productive store formulas: by 2007, using this strategy, the top performing stores in the two malls based on productivity would be

Canadian retailers. Although their total market share was nowhere near the larger foreign retailers, strong sales per square foot would make these domestic clothing retailers the darlings of the landlords and provide them with access to centre court and high traffic hub locations in the major shopping centres. As previously discussed, these Canadian retailers would be niche formulas with a well-developed focus on their consumer. Based on the empirical evidence from the two malls, the period of 1995 to 2007 would see a re-structuring of the domestic clothing market into a group of highly productive niche retailers who fought to stay competitive in good mall locations.

5.7 Summary – The Empirical Evidence of Foreign Retailer Role as Catalyst for Re-structuring of the Apparel Sector

The analysis of the two major malls has illustrated that the entry of foreign apparel retailers was a catalyst for re-structuring of the competitive environment. In this time period, market share has shifted to the foreign retailers, traditional mall anchor structures have changed, and the dominance of unisex over pure women's wear and menswear retailers has prevailed. Notably, each of these changes can be directly linked to the role of the foreign retailer's entry into Canada. Foreign retailers have purchased many of the prime real estate locations in Canada, as well as purchasing failing companies and investing in successful domestic retailers, which has resulted in a re-structured apparel retail market with much greater foreign market share. The empirical data from the two malls have consistently supported these findings, however, foreign retailers cannot be held fully accountable for the full extent of the churn in the domestic portion of the market. From the broader perspective of the underperformance associated with much of the churn amongst domestic retailers, it is equally attributable to the vulnerability and accessibility of the Canadian retail apparel sector, which allowed a relatively easy entry for these foreign retailers.

This study has begun to address Dawson's appeal for empirical data to assess the impact of foreign retailers on the host country. The mall data has provided measurable change in both market share and the types of competitive activity that contributed to and resulted from the change in sectoral competitiveness. The study of the two malls has also identified points of impact that contribute to an understanding of what occurs when foreign retailers entry a host market, however, the data alone cannot fully explain many qualitative points, such as why the impact occurs, when it occurs, and where and to whom. Yet the quantitative analysis does provide a solid picture from which interpretation of what happened and when can be further examined. It is this deeper understanding that is sought through the interview of industry experts and reported on in the next chapter.

Chapter 6 – Analysis of Industry Expert Interviews

6.1 Overview

As defined in the Dawson framework, the change in sectoral competitiveness will be used to examine the impact of international retailers on the Canadian retail market. In order to identify and analyze the types of impacts that occurred between 1989 and 2007, interviews were conducted with twenty-one retail industry experts. Their experience and insights into the competitive behaviours of both the foreign entrants and the domestic incumbents are reported here. This Qualitative Study will support many of the findings presented in Chapter 5 and elaborate on why the entry of foreign retailers into the Canadian clothing sector was able to change the competitive structure of the market. The industry experts also provide evidence that the domestic retailers were a contributing factor in these structural changes, both as positive forces and as victims of their own complacency.

The structure of this chapter will provide an overview and discussion of each of Dawson's (2003) five impacts, as well as sub-factors that are exemplified in the quotes drawn from the twenty-one interviews. This analysis of twenty-one interviews will result in the identification of significant sub-factors within each of Dawson's (2003) model. The interview analysis will also integrate expert insights into the structural changes identified in the Quantitative Study (addressed in the question six of the interview). Collectively, the industry expert perspectives offer significant insights into the impact of foreign entry on the domestic clothing sector between 1989 and 2007. With few exceptions, which will be noted throughout, the experts were in agreement on: 1) the impacts that foreign retailers made in Canada, 2) what effect these had on the domestic clothing retailers, and 3) the responses of the Canadian retailers to the changing competitive environment. By 2007, the structure of the retail clothing sector was dramatically different than 1989. As one interviewee stated: “Frankly, I don’t think a lot of people know who’s Canadian and who’s not anyway.” (Interview L: p. 19)

6.2 The Dawson Model of the impacts of retail internationalisation in host country – Change in sectoral competitiveness

The Dawson model proposes that there are five types of impacts within the broad category of Change in Sectoral Competitiveness, which detail the ways that foreign retailers might affect institutions and structures within the host country. Interviews with industry experts sought to demonstrate the legitimacy of the Dawson framework in an interpretation of foreign retailers entering the Canadian market. Specifically, the interviews provided insight into:

a) Understanding what the impacts of foreign retailers were;

b) Understanding what effect the impacts had on the competitiveness of retailers in the domestic market; and

c) Understanding what the responses of the domestic retailers were to these new forces in the marketplace.

The outcome of the interview analysis can be best illustrated through the following diagram (see Figure 6.1), which extrapolates the five impacts identified by Dawson and the significant sub-factors that were identified in the industry expert interviews:

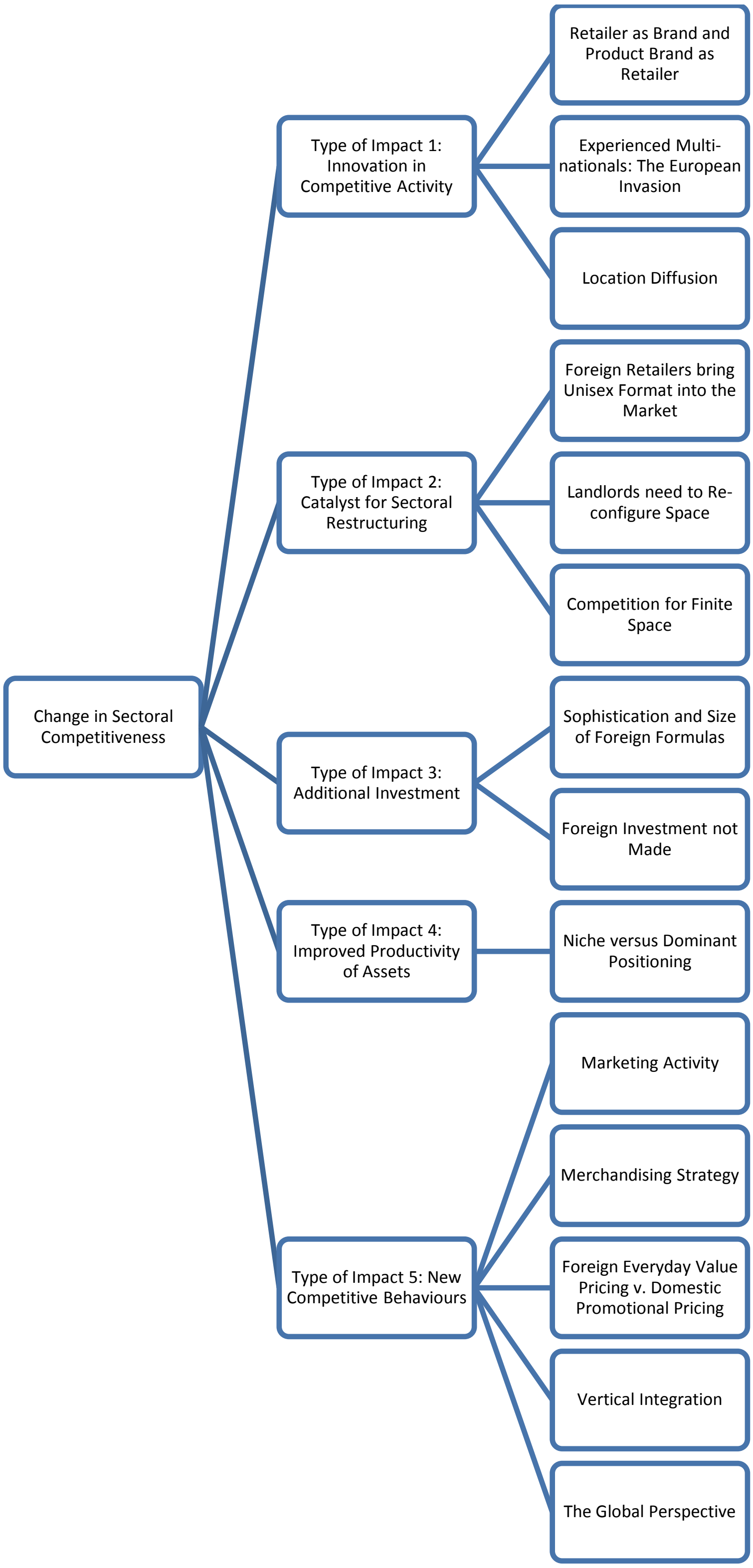

Figure 6.1: The 5 Types of Impacts and their Sub-Factors in Sectoral Competitiveness

The remainder of this chapter will expand upon this framework, addressing the processes and intensity of impact that Dawson identifies in his paper.

6.3 Type of Impact 1 – Innovation in Competitive Activity

The Dawson framework proposed that the establishment of a foreign retailer in the market would result in the "introduction and diffusion through the existing retail structure of new retail formats or retail formulae" (Dawson, 2003: p. 195). In other words, any new entrant into a market, whether foreign or domestic, will impact the existing competitive structure. However, the interviews clearly illustrate that the retail innovation from foreign retailers was particularly different and disruptive, which caused an impact throughout the entire apparel market structure. As prior research has identified, companies engaged in retail internationalization have been highly successful in their home market and therefore bring a proven best-in-class business concept to the host market (Williams, 1992; Alexander, 1990; Wigley, Moore & Birtwistle, 2005). Regardless of target demographic – such as Walmart at the low end, a luxury brand such as Hugo Boss on the high end, or the majority of foreign clothing retailers, such as the Gap and Old Navy, that compete in the middle segment of the market – these companies arrive with a formula that is new to the host market and will disrupt the competitive structure.

6.3.1 Defining Retail Innovation in the context of Retail Internationalization

Industry Expert S provided a perspective on what constitutes innovation in retail: "A whole set of levers and dials makes retail innovation more interesting… allowing for a richer set of possibilities". For context, this comment compared the limitations of purely commercial and consumer product innovation to the range of innovation 'levers' that are possible within retail, such as: format, formula, presentation, design, service, product, on-line, etc. The consensus across interviews was that foreign retailers brought retailing to a new level of business sophistication and the resulting competitiveness increased their performance across the multiple ‘levers’ of their business. This manifests most prominently when a consumer physically meets the retailer, described as follows:

> I think whenever you are in an environment that speaks to you, that to me is innovation... understanding your customer, understanding your brand, ensuring that all of that gets communicated very clearly so that when the consumer gets in they have the full experience. When they have the full experience they’ll reward you by buying from you. That’s innovation. That’s true innovation. That’s really hard to do. That’s way harder to do than people [can] even imagine (Interviewee H: p. 11/12).

In general, the industry experts defined retail innovation as a complex process in terms of the number of levers that can and must be managed through continuous improvement. The sources of innovation and motivation, however, were seen to come from different places at different times, as expressed in these comments:

> “Retail innovation is stepping outside of your comfort zone and what you’re known for” (Interviewee J: p.15).
>
> “Sometimes you fall on innovation. Sometimes you’re forced to innovate and sometimes it’s a thought process” (Interviewee G: p. 15).

As will be evident in the analysis within this chapter, innovation was never considered solely the domain of foreign retailers, however, foreign companies tended to do it better and more consistently.

Industry Expert L brings these thoughts about retail innovation together on a more pragmatic note:

> A brand new look, a brand new style, a brand new fit, that’s very hard to do because most retail is derivative... innovation is how to better service a customer, how to really understand what the customer is looking for, get the right product on the shelf at the right time, knowing their customer (p. 10).

All of the industry experts agreed that better service for consumers is an essential factor to successful innovation in retail. As the process of retail internationalization would introduce innovative foreign retail to new consumers with more success than many embedded domestic retailers, this factor is at the core of understanding the changes in sectoral competitiveness.

From the discussions with experts, three over-arching innovations surfaced that help determine the impact of foreign retailers on the Canadian retail sector. These three innovations in competitive activity have been identified as follows:

1) Retailer as Brand and Product Brand as Retailer

2) Experienced Multi-nationals: The European Invasion

3) Location Diffusion

These three innovations in competitive activity provide the overarching structural impacts of foreign entry. This relationship between each individual innovation and the relevant effects will be clarified through this discussion.

6.3.2 Innovation in Competitive Activity – Retailer as Brand and Product Brand as Retailer

The entry of foreign retailers between 1989 and 2007 would see the evolution of retailers as brands and product brands as retailers. Based on the discussion with the industry experts, the impact and response to these innovations can be categorized as follows:

<u>6.3.2a The impact of the Gap on the concept of retail brand</u>

- The impact of the Gap on the Competitive Structure of the Canadian Apparel Sector
- The Domestic Response to the Gap – Trajectory of Success or Trajectory of Complacency

6.3.2b The Sustained Waves of U.S. Retailers as Brand Entrants

- Gap Inc.
- U.S. Followers
- The U.S. Radicals
- The Domestic Response to Foreign Retailers as Brands - Proactive or Reactive

6.3.2c The Product Brands as Retailers

- The Domestic Response - Decline of the Canadian Department Store and beginning of Churn among Specialty Stores

6.3.2a The Impact of the GAP on the concept of retail branding

The entry of the Gap in 1989 marked the first foreign impact on the clothing sector that came, stayed, and forever changed the way that clothing retail would operate in Canada.

Throughout the 1980s, the Gap was on the radar of every major Canadian clothing retailer, monitored closely through store visits and periodic exchanges at industry conferences. Despite the familiarity with its evolution from a jeans store to the 'Gap', its entry into Canada caught most Canadian clothing retailers unprepared for the impact it would have on their business and the competitive environment of the clothing sector. As one interviewee stated:

> The Gap was the archetype for a new game – it had built its business in a large competitive marketplace, had talent to draw from, the resources to advance systems and technology, and in general aspired to perform at a higher level (Interview S).

In the work of Evans and Cox (1997), the Gap was identified as one of the early foreign innovators into Canada. They entered in 1989 and by 1995 had 97 stores north of the border. Evans and Cox have described the evolution of the Gap prior to its international expansion: "Private brand merchandise gradually replaced national brands, and the 1980s saw a change in company positioning. Stores were upgraded, designing and sourcing became international, and the company created a strong point of view from the merchandise side, while still managing to provide good value at regular prices" (1997). By the late 1980s, the Gap believed it had the retail strategy to take on foreign markets.

In the contemporary apparel market, the concept of retail brand has been well established. Through the academic study of Burt (2000, 2006) and the more applied writing of Floor (2006) and Torella (2009), a cross section of retailers who exemplify the retailer as brand have been thoroughly analyzed, and the fundamentals are broadly practised within the industry today. However, from a 1990s perspective, brand was still considered a product attribute rather than a company or store attribute. Within this context, the broad use of the term *retail brand* to describe the Gap when it entered Canada would attribute a label that would not have been utilized in 1989. The term does, however, capture the essence of what the Gap represented when it entered the Canadian market; thus, for purposes of this study, the concept of *retailer as brand* will be applied to the Gap and other retailers, keeping with the terminology utilized by the interviewees.

The retail experts repeatedly used terms such as integrated, consistent, dominant, and positioning to describe the Gap's entry into Canada:

- The Gap conducted extensive research of every mall in Canada to identify the best real estate decisions before making any deals
- Entered Toronto, Vancouver, and Montreal simultaneously, clearly signalling that the Gap was in Canada to take a dominant market position, taking on the challenge of the French language and business requirements of Quebec.
- The Gap was a disciplined merchandising machine with everyday value pricing, and turned new fresh inventory every six to eight weeks.

- The merchandise was all private label and went beyond a typical jeans store to offer fashion at an accessible price point.
- The offering catered to both women and men, creating a unisex format that maximized traffic and spoke to the changing consumer attitudes of the 1980s and 1990s.

As noted by Industry Expert B:

> The stores were larger than the majority of domestic clothing specialty retailers and they were better designed and merchandised than most of the competition. This innovation happened at a time when most Canadian clothing retailers still believed in a merchandising philosophy of 'pile it high and watch it fly', with all kinds of different mark down strategies and promotions and signage (p. 2).

Ultimately, it was the integration of every aspect of the business – including the vertical integration of the supply chain, the look of the stores, the service delivery, and the marketing – consistently delivered fifty-two weeks a year that positioned the Gap as a differentiated retail concept, bearing considerable resemblance to a fully developed product brand. Referencing the Salmon and Tordjman (1989) study of typologies for standardization versus adaptation, the Gap clearly established itself on the standardized end of the continuum with a strong belief there would be acceptance of its retail brand beyond the United States home market. This positioning would prove to be successful – from 1989 onward, the Gap would have a significant impact on the Canadian domestic clothing sector.

> Gap came in and it was really the first specialty clothing retailer that in fact had an edge. [The Gap] changed the way consumers in Canada looked at apparel retailing forever... But what Gap did is create excitement in the marketplace and it took an enormous amount of market share away from a lot of other conventional apparel retailers. It went after a segment that was spending money. So the impact of Gap was felt very quickly (Interview D: p. 1).

The Impact of the Gap on the Competitive Structure of the Canadian Clothing Sector

With only two exceptions, the industry experts identified the entry of the Gap as the first major impact of foreign retail on the clothing market in Canada. The two exceptions, industry experts O and T, didn't necessarily disagree that the Gap had a significant impact, but for different reasons identified the earlier entry of Benetton as having an important impact on segments of the market, which will be discussed further in this chapter. Yet the receptiveness of the Canadian consumer to the Gap had a more immediate and lasting effect on the domestic retailers. The degree of impact on both competitors and consumers is reflected in the following statements:

> "[The Gap] made everyone's life in this business more complicated" (Interview T: p. 2).

> "It was like an awakening for Canadian consumers. That's what Gap did. It just raised the bar" (Industry Expert D: p. 3).

The impact on the domestic retail sector was swift and permanent. As summarized by Industry Expert L:

> But the whole focus of trying to be all things to all people was failing because people really wanted to go where they could recognize brand, and brand has continued to be the strength behind a lot of retailers, whether Canadian or American. But now they're fighting against an American brand, so they have to develop the Canadian brand in a much stronger way in order to compete… I think it is again a direct response to the competition (p. 5/6).

The effects were pervasive across all of the processes and behaviours that Dawson conceptualized in his framework. In particular, discussions on investment, productivity, and restructuring highlight the effectiveness of the Gap's entry.

The Domestic Response to the Gap – Trajectory of Success or Trajectory of Complacency

Despite the previous discussion on the significance of the Gap as a dominant foreign retail brand in 1989, there were in fact a handful of comparatively advanced domestic retailers who were establishing their own presence as integrated retail brand concepts. These would include Danier, Club Monaco, Aritzia, Lululemon, LaSenza, and Roots Canada, along with a few others, who would form the group of domestic retailers that would continue to succeed and grow their business. As early adaptors to the innovation of well-defined retail brands, these companies would eventually develop the strategies and tactics necessary to remain competitive in the changing marketplace.

The scope and scale of the Gap enterprise distinguishes it from these domestic retail brands and defines it as a disruptive innovation to the competitive activity of the market. The Gap had honed its business in a highly competitive retail market and had the resources to develop a supply chain and systems that would be considered best-in-class. As Industry Expert H stated:

> All of a sudden you had an American player come in and Canadians automatically viewed the American player as superior. They thought the Gap had great basics, cheaper than us even though in fact they weren't. So again you know, it's a lot like Walmart, you know trying to beat Walmart at price. You'll never do it because it's so ingrained in the consumer's mind... We decided to take a leadership role and reposition ourselves. So for us, having an American retailer come in was pretty significant. It changed our business completely. I think it made us a better retailer quite honestly. What we found was that wherever they did locate our business actually went up (p. 2).

This statement substantiates some of the findings presented in Chapter 5: as domestic retailers reacted to the entry of a foreign retailer such as the Gap, they had the potential to adapt to its strategies and remain successful, or stay complacent in traditional strategies and lose market share.

The Domestic Response to Retailer as Brand - Trajectory of Complacency – Taking the Low Road of the Status Quo

For the majority of Canadian clothing retailers, the entry of the Gap was tracked and monitored in much the same manner as it had been previously from across the border. In other words, the entry of the Gap did not stimulate an immediate call to action. For most domestic retailers, the perception was: "[Foreign retailers] come in and they're hot [but] over time they tend to cool off" (Interview C: p.2).

This attitude would cause most Canadian retailers to view the Gap as one more player in the marketplace, not recognizing the beginning of a competitive restructuring of the clothing sector. Interview N summarized the comparison of the Canadian versus American business model:

> …again I want to go back to the legacy or embedded [(Canadian]) companies. They were buying- driven companies, not selling- driven companies. It was all about the buy. But man when we saw these big unisex guys [companies] come in, they were focused on the customers and they were set up so that if item A wasn't selling, they'd go on item B really quick right. Whereas the buyer is trying to push item A on the customer continually because they knew they were right, thank God I made that buy… 'I'm going to find a way to move item A'. And you got [Canadian companies] married to the product instead of getting married to the customer (p. 6).

It was the foreign companies' focus on the consumer as the driving force for branding that differentiated them from the offerings of domestic apparel retailers. Perhaps the best way to understand the complacency of most Canadian retailers is to recognize how the industry functioned in the late 1980s. As demonstrated in Chapter 1, the state of Canadian apparel retail pre-1989 was a picture of complacency; a sort of entrenched world-order prevailed within the competitive structure. Several industry experts would confirm this observation, such as Interview A:

> My view would be before 1989 there was a fairly comfortable competitive environment in Canada, particularly in the shopping centre environment. It approached almost an oligopoly… there were few players controlling massive amounts of retail space… (p. 2).

These traditional merchants' retailing strategy was in stark contrast to the well-developed brand concept of the Gap. The comfortable and controlled Canadian oligopoly in the early 1990s is best described in Interview B:

> …the retail apparel industry in Canada has been dominated by established, owner/operator/family founders primarily based in Montreal. So it was a very close-knit, closed sort of community that did things [in a] very old-fashioned way in terms of merchandising. It's the way that Quebec and the Quebec customer like to shop and they started expanding across the country with variations of success. Some of them were successful and some of them weren't successful because it all depended on how far they were willing to bend. When the Gap opened, [Canadian retailers] sort of looked at them like they were from Mars because they merchandised completely differently than any of the others… (p. 1).

The differences between the iconic brand of the Gap and the established Canadian apparel merchants would prove a major chasm for some retailers to bridge in order to compete successfully in this new competitive environment.

The industry experts acknowledged that much of the impact of the Gap could be attributed to its first mover advantage: the Gap had a significant four- to five-year lead on other foreign retailers entering the market. This raises an interesting perspective on the concept of first mover advantage: although there were other specialty foreign retailers operating in the Canadian clothing sector prior to 1989, none of them had capitalized on their early entry position. As proposed in the Dawson model, there needs to be some consideration of the degree of impact. The Gap's commitment to expansion in the market – setting up 95 stores in six years – complemented their innovative retail brand concept, which suggests that the degree of impact from a retailer may be as relevant as first mover advantage.

6.3.2b The Sustained Waves of U.S. Retailers as Brand Entrants

Gap Inc.

The entry of the Gap as an innovative retail brand in 1989 through early 1990s created a significant disruption in the Canadian clothing market, but the subsequent entry of Banana Republic in 1995 and Old Navy in 2001 ensured that the Gap stable of brands had a dominant position for the majority of consumer segments. In the early '90s, the Gap was firmly established in the young-middle accessible market, and Banana Republic would establish a brand in the working professional segment and Old Navy would capture the cheap chic segment. The introduction of Gap Kids and Gap Baby would solidify the positioning across gender and age demographics. Only the luxury brand market, which was just starting to grow, and the older consumer segments with declining buying power would be exempt from the Gap brand strategy. In slightly more than ten years, these three brands would hold dominant positioning in the clothing market and force nearly all domestic retailers to compete head-on and respond to the impact of their brand power. The ability of one company to bring new formats and formulas to market with such clarity of offering was remarkable at the time.

The U.S. Followers – Waves of American Entrants between 1989 and early 2000s

While the Gap led the entry and held a dominant role throughout the 1990s and into the early 2000s, other American brands began to enter the market. As Interviewee Q stated: "the one thing that we've learned over the years, particularly with stronger brands, is they'll follow each other. They'll follow each other into real estate for sure" (p. 1).

It was a consensus among the retail experts that as the news of the Gap's success spread, other American retailers began strategizing for expansion north of the border into Canada. It is worth re-stating that during the 1990s shopping centre development and retail expansion in the United States continued at a strong pace. Most American retailers were finding sufficient growth at home to keep their stakeholders satisfied. The determination to expand into a foreign market would be driven more by international vision, or possibly a me-too strategy, than being pushed out of the U.S. market.

By the mid-1990s, retailers such as Talbots and Eddie Bauer were opening stores across Canada, followed by American Eagle Outfitters in 2000. As with the Gap, these retailers had developed a well-defined brand concept that catered to a specific market segment within the much larger and more competitive U.S. market. Their entry into Canada would also have an effect on the competitive structure, but in a more limited and narrow scope: although each company took its share of the market, the impacts of these American followers on the Canadian domestic retailers were more comparable to the ripples that follow a tidal wave. The market structure continued to change and increased in competitive intensity, but not to the same degree as the impact from the Gap.

<u>The Radicals – The Wave that Rode the Consumerism of mid-2000s</u>

The later American entries of Abercrombie & Fitch and Hollister in 2006 would prove to be the final wave of innovative American retail entry that impacted the Canadian market within the time frame of this study. Abercrombie & Fitch (A&F) and Hollister brought a new approach to the young consumer segment. As Interviewee C notes:

> One of the things I always find interesting is the U.S. players… come up in Canada and become so successful out of the gates and the last one in is the hottest new

> product" (p. 11)."I mean, [A&F and Aeropostale] are rising stars and then one fall the pants aren't very good, bang it's over. The shiny new thing is right (Interviewee N: p. 10).

These observations by the experts speak to two significant aspects of the apparel sector and the role that foreign entries played in the changing competitive structure during this period. The first point is that, for the younger segment of the market, the fashion element of the clothing sector experienced an accelerated deterioration in brand loyalty. In other words, as described by expert N, 'the shiny new thing' played an increasingly important role in the performance of apparel companies in the 2000s. This would keep the pace of change at a much higher level than any other retail sector, creating a more fluid competitive environment for retailers to position themselves within. The second point is that the foreign retailers were leading players in this dynamic, not only because of their well-developed brand strategies, but also because the Canadian consumer considered all things foreign in the world of fashion as superior to the Canadian offering. The significance of these two factors cannot be under-estimated in the analysis of the impact of foreign retailers on the Canadian apparel sector.

The Domestic Response to Foreign Retailers as Brands – Proactive or Reactive

If the initial response to the Gap had been general complacency amongst many of the Canadian clothing retailers, the second and third waves of entry would get their attention. Referencing the mid- to late-1990s, Industry expert L stated:

> …one of the very first things that came to the Canadian retailers that they really had to deal with was the war for space. So the entries were coming at a faster pace than the mall base was expanding. I think a lot of Canadian retailers were pretty complacent until they actually went to negotiate their renewals and realized that there was competition for space, even for the good stores (p. 1).

A review of stores from Mall 1 and 2 was conducted in the Quantitative Study, which explores the cumulative response of domestic retailers to the entry of American retail brands. Those who have succeeded are well located within the malls, while the others have been downsized and/or moved to less prime locations. In many cases, these companies could only get locations in tier two malls or power centres to profit off of the legacy domestic clothing model. As clearly articulated by Industry Expert I:

> …I look at Dylex… it was still running and now [its] completely gone. You'd have to say that two or three pieces of the Dylex operation are still here. But the strength of those individual brands, even though at one time they were the absolute best in their field, [is gone]. You could put Fairweather up against The Limited it would win, and you could put Le Chateau up against The Limited and it would win. I think that speaks to the fact that brands have a life and have a lifespan (p. 6/7).
>
> I think competitively that one of the things that always surprises me is when the American guys come in [and it] isn't the Canadians or the incumbents who are there to compete and do better. They kind of retreat – it's like [they] give up and that's always a little discouraging to me. It does not encourage… typically, competition is supposed to encourage, everybody jumps to it, more investment, let's do it right, let's do it better, let's beat them up. It doesn't happen maybe because there isn't any money to invest (Interviewee E: p. 25).

As expert E points out, many of the Canadian retailers in the 1990s and the 2000s were not establishing brand identities that positioned them successfully in the market. For some domestic retailers, the transformation was too great: it was unrealistic for family-run merchant business that depended upon price promotions to become a company that generates enough sales to re-create itself as a brand in the popular foreign concept. For most of these merchant businesses, there was neither the size nor finances to make such a competitive move.

6.3.2c The Product Brands as Retailers

Historically, clothing product brands and designer labels have been predominately within the domain of the department store, and to a smaller extent through specialty chains. In the early days, the dominance of the department stores was a relatively safe haven where the products sold at regular pricing until end of season. There would be the occasional sales promotion, but planning would be done in collaboration between retailer and manufacturer, working primarily with the goal of protecting their brands. This stable market changed with the growth of discount retailing and the increasing threat to department stores at the more value-sensitive end of their market. As promotional activity escalated, many manufacturers determined that developing a retail position would give them greater control of their brands and help them remain competitive. This move from manufacturers coincided with the move by many specialty stores to private labels and a vertical integration of their supply chain, which would give them greater control and differentiation over their merchandise offerings. These moves resulted in product brands expanding into retail formats in an attempt to secure distribution and protect the product's image.

The early apparel entrant to this format was Levi's. By 1989, they had already established an extensive store base in the United States and were operating in-line shopping centre stores in Canada. The impact on the competitive activity within the clothing sector was significant, as it forced the department stores and specialty chains to re-structure their product offering, in particular the jeans stores and casual work wear stores. Canada companies such as Thrifty's, Pantorama, Jean Machine, and Bootlegger would no longer carry the Levi brand, as the Canadian consumer would have the full selection of Levi products available through the corporate stores. Brands such as Dockers, Tommy Hilfiger, Esprit, and Mexx would follow the lead of Levi and open in-line stores in malls during the 1990s. Notably, all of the product brands that turned to retail were non-Canadian, which shows the dependence that domestic retailers had on foreign merchandise. Even though Canada still had a clothing manufacturer base into the 1990s, it was not brand-focused and would eventually fail due to the full impact of retail internationalization and the era of free trade.

There is little evidence to indicate that the product brand innovation met with the same success as the in-coming foreign apparel retailers as brands. A tracking of the aforementioned companies would show that only Levi's and Mexx have sustained their retail presence, and these companies are not dominant players in the Canadian retail market. However, the impact was less about these particular retailers, as the impact on competitive retail behaviour is far more significant: domestic retailers struggled to adapt to this new mode of entry, as these companies had depended upon these (primarily American) product brands to fill gaps in their merchandise assortments. For the Canadian department stores, it represented a renewed assault on their position in the market, and the loss of control of these brands further weakened their consumer base. Industry Expert I supplied a summary of this new threat:

> [Brands] like Hugo Boss and Michael Kors opened a lot of stores here. A lot of the designer brands… chose to come here [and open] their own stores because there wasn't any other route into Canada. That's quite interesting (p. 6).
>
> ...in the US, there are at least seven department store chains that fill the gap between Sears as a discount department store and something [high-end] like Holt Renfrew... So I think people [considering a move to] Canada either look at the number of department store opportunities and say 'oh, there aren't very many vendors and brands'… [or] look at the department store scenario and say 'well I can't really do what I'm doing in the U.S. [by] entering the market as a department store' (p. 2).

The specialty clothing retailers were forced to differentiate their merchandise and either seek out new product brands or move to private label and vertical integration. In either scenario, this competitive structure caused domestic clothing retailers to change their behaviour to respond to this disruption in a formerly stable sector.

Domestic Response to Product Brands as Retailers – Decline of the Canadian Department Store and beginning of Churn among Specialty Stores

For the Canadian department stores, the exodus of brands such as Levi's, Tommy Hilfiger, and Mexx took away sales from the younger consumer segment. As previously discussed, department stores had become associated with older generations, which meant this format was not fashionable enough for younger customers. Interviewee G describes the exodus of young consumers to shop in specialty stores:

> ...kids didn't want to buy from department stores because they were being influenced by either what was coming into Canada or what they were reading in Seventeen or any fashion magazine. So they certainly didn't want a label from Sears, and yet in the 70s and early 80s it was sort of a non-issue (p. 1).

The department stores saw little value in allocating prime selling space to a brand that had a store down the mall corridor, and this further eroded their market position with the younger fashion consumer. At the same time, the discount retailers saw an opportunity to promote these brands when possible to the value-oriented customer who didn't need the most current style but wanted the label. In the end, the department store was being squeezed from both the price scale and the continuum for fashion, which would result in the closing of legacy retailers such as Eaton's and Simpsons.

The Canadian specialty retailers would be equally challenged as they were also feeling the effects from two sides: threatened by the retailer as brand, who had clearly differentiated themselves through private label, and the product brand as retailer, who had taken away the merchandise foundation which Canadian retailers had built. In addition, only some Canadian retailers would have the resources and scale to engage in the off-shore resourcing for private label product that the American retailers were able to access. This would result in significant churn in the domestic retail sector by the later part of the 1990s and early

2000s, as was evidenced in the Mall 1 and 2 data. This challenge has been listed under the *Type 5 Impact*: Changes in Competitive Behaviour.

In summary, the evolution of innovative consumer-focused apparel brands was lead by foreign retailers at both the retail and product level. The industry experts provided significant insight into the impact of differentiated retail brands, which was initiated by the Gap, that would change the competitive structure of the market and force the domestic retailers to respond in order to retain a competitive position in the market.

6.3.3 Innovation in Competitive Activity – Experienced Multi-nationals: The European Invasion

Unlike the majority of American retail brands that had proven themselves in the highly competitive U.S. marketplace, European-based clothing retailers had much more experience out of their home country. For H&M entering Canada in 2004, this was the 22nd country where they had established foreign retail operations. H&M had become a seasoned retailer with a multi-national infrastructure to support its success. The entry of innovative European retailers to Canada is in fact a two-part story: the early entrants prior to 1999, and those companies that set up operations between 1999 and 2007. Both groups had an impact on the competitive activity of the clothing sector, but the scope and scale were substantially different.

The analysis of this innovation in foreign retail activity will be categorized as follows:

<u>6.3.3a Early European Entrants</u>

- The Domestic Response of a Narrow Group of Retailers

<u>6.3.3b Multi-national European Entrants – Raising the Competitive Bar for Everyone</u>

- The Domestic Response – Thrive, Re-formulate, or Perish

6.3.3a Early European Entrants – Further Context

In 1989, there were three European retail companies operating in the clothing sector in Canada: Marks & Spencer from the UK, the Brenninkmeyers' C&A (with head offices in both Belgium and Germany), and the Benetton Group from Italy. Each of these companies charted diverse entry strategies and had different impacts on the competitive activity in Canada.

Marks & Spencer expanded through acquisition and then through organic growth. Entering Canada in 1973 through the purchase of D'Allairds and then Peoples stores, the company struggled through most of its nearly 30 years in Canada. By 1989, the company was operating under its own banner with stores in most major shopping malls and high streets across the country. As the industry experts comments will reveal, Marks & Spencer never found a viable position in the Canadian market and they exited as the competition escalated in 1999. As Industry Expert E states: "...in 25 years of operations in Canada they only had three profitable years, hard to believe. It was shocking."

The Brenninkmeyers also entered through acquisition of the companies Irene Hill in 1979 (rebranded Cleo in 1994), Bootlegger in 1980, and Ricki's in 1982. Through the privately-held company Comark, the three retail banners have operated with a Canadian head office and the support of an international relationship with C&A. The three divisions were still actively operating in 2007, predominately in second tier and power centre locations. Their impact on the domestic retail structure could be summarized as minimal: many of the experts view C&A as not fully adjusting to the changes in the competitive structure of the market.

Benetton Group entered Canada in the mid-1980s as part of a strategy to expand into the North American market in the same manner as they had done in Europe. Known for their multiple formats and banners, Benetton expanded rapidly through Western Europe, opening stores with a strategy that looked more like a Seven-Eleven convenience store location strategy: one on every corner. By contrast, Benetton's progress in North America was surprisingly limited: they had only a few stores opened by the 1990s and struggled to translate a street level format into a mall retail environment. In addition, the Canadian expansion was impeded by two additional underlying factors, as stated by Retail Expert E:

> the Benetton stores… absolutely they're all over, there are posters and billboards and then all the magazines. Then it fizzled. Part of that is due to the exchange rate… the prices were too high and the ordering mechanism [was flawed]… you got your order all at once and if you wanted to reorder it [took] two months. So it was too long. That model didn't work. There was also FIRA was in place at the time, [Canada's] Foreign Investment Review Agency. So that had an impact because these people had to have a 50% Canadian ownership of their store. They could either [have] 50% of the Canadian company or 50% of every store which was tantamount to a franchise.

Ultimately, the environment for foreign investment within Canada changed by the end of the 1980s to allow for direct foreign ownership. However, the early limitations on Benetton's entry impeded its store expansion and, as noted by Interviewee E, once you miss that first mover opportunity it is difficult to recover and gain the consumer's interest.

Despite the limited impact that Benetton had on gaining consumer share, it did make an impact on the industry. As noted in the interviews, particularly Industry Expert O, Benetton was recognized for its innovative concept and its early impact on fashion merchandising in the Canadian market. For those domestic retailers who saw Benetton as a potential competitive threat, the experts believe they responded by focusing on the fashionability of a select group of women's wear retailers.

Many of the early entrants to the Canadian markets were not considered serious competitive threats. If anything, these three early entrants were also victims to the changes that occurred with foreign entry. In the case Marks & Spencer, it is difficult to imagine that a company that had 40 stores at one time in Canada could have so little impact on the marketplace. On the other hand, companies such as Aritzia, Dynamite, and LeChateau had a more immediate impact – not in the pervasive impact of the Gap, whose influence stretched across a much larger segment of the apparel market, but in more measured effects such as the levels of fashion expected by their consumer.

6.3.3b Multi-national European Entrants – Raising the Competitive Bar for Everyone

The more recent multi-national companies of Zara in 1999, and FCUK and H&M in 2004 brought innovation in competitive activity to a new level. The statement of this impact is clearly illustrated through the 33,000 square foot store that H&M built at the north end of the Toronto Eaton's Centre, which has secured a street entrance at the corner of Yonge and Dundas Streets – the Toronto equivalent of Times Square in New York City. This location would have traditionally been occupied by a department store as an anchor draw to the urban mall. In fact, the Sears flagship store is located immediately behind the H&M store and takes a secondary position to the visibility of the European retailer. As stated by expert H: "Even some of these American retailers are starting to look small relative to some of the big international [competition]" (p. 10).

Much has been written about the business models for Zara and H&M (Leknes & Carr, 2004; Barnes & Lea-Greenwood, 2006; Bhardwaj & Fairhurst, 2010; Bhardwaj, Eickman & Runyan, 2011), which confirm that their business models are built on fast fashion, superior supply chain management, and fashion-forward cheap chic. These three factors have had an immediate and lasting impact on the domestic retail clothing sector in Canada. In addition, both Zara and H&M had a broad range of international experience over many years prior to their entry in 1999 and 2004, respectively. As noted by Industry Expert K:

> ...but some of [the European apparel retailers] were involved in so many different countries that they've got this absolute formula for going in, [and] they [know how to] vary from one country to the next (p. 10).

Zara set a new retail standard in 1999, integrating a level of currency to the fashion offering not seen previously in Canada.

> The one thing European retailers have done, like Zara as you know, is they're used to expanding… [that's] their advantage over the Americans… the Americans are getting a bit better, but [the European] advantage is they accept the fact that it's a different culture... What they brought to Canada and to North America in fact is their ability to turn that merchandise around so quickly… Their supply chain was unheard of. I mean people were stunned, retailers. I still remember [colleagues] sitting around the table saying: 'it's impossible, they can't be changing their merchandise every two weeks or three weeks.' ... Gap brought that kind of cool fresh… consumer expertise to Canada. Guys like Zara brought, you know, *la fin* point of technology (Industry Expert D: p. 7).

In addition, when H&M entered in 2004, it brought the combination of forward-fashion, speed-to-market apparel and more accessible price points to target a larger segment of the consumer market. As observed by Industry Expert C:

> …H&M was able to bring in fashionable product much quicker than we've been able to see the Canadian retailer do before... with H&M, one of the things they pride themselves [on is being] able to turn it from finding a concept, designing it and manufacturing it, and having it in stores very quickly (p. 13).

Not only did domestic retailers need to keep pace with continual four- to six-week refreshing of inventory, but the merchandise needed to be fashion-forward and reflective of the most current trends coming out of global fashion centres. The relative scale of fashionability of all clothing retailers operating in Canada shifted with the entry of Zara and H&M, which is summarized by Industry Expert D:

> So [H&M targeted] younger women, mostly 16, 17, 18 [years old], who may not have the money to spend at Zara… So it was still cheap chic. What was amazing about H&M though, [which] I think is different, is that they truly introduced [a product that customers] don't care if it lasts. They introduced that concept of not just cheap chic but 'I won't get pissed off if in two weeks, you know, the bra strap comes off,' which is an amazing phenomenon (Interviewee D: p. 10).

It is worth noting that the entries of Zara and H&M undertook different strategies, which would ultimately be reflected in the impact they each had on the competitive activity of the domestic clothing sector. Industry Expert Q notes:

> I noticed Zara were very slow to roll out their expansion in Canada. They took a store in Montreal. They took a couple of stores in Toronto. They didn't really get into the shopping centres in a big way, but they started to roll it out more recently (p. 2).

In fact, Zara entered Canada as a partnership with the Canadian clothing retailer Reitmans in 1999, and by 2007 had 14 stores in Canada. As has been the practice in other countries, Inditex bought out the partnership during this period. There is some indication that the slow growth of the Zara operation in Canada has accelerated since the transfer to corporate ownership. By comparison, H&M had 35 stores in Canada in 2007, which occurred in a much shorter time frame than Zara: the first Canadian H&M store opened in 2004. Although Zara has thus far had a smaller impact in the market due to slower store expansion, H&M has been challenged in other ways, as observed by Industry Expert Q:

> I saw [H&M] open the flagship store in the Eaton's Centre. [Then they] went into Yorkdale. [Then they] went into a number of malls, and then they started to branch out into some secondary properties and secondary markets and weren't that successful. I think the reason they weren't that successful is because people never heard of them and this wasn't like a U.S. brand. This was a European brand. [But they've been] accepted in the major markets because people obviously travel to Europe and would have seen their brand (p. 2).

In Dawson's framework, he identifies the need for the foreign entrants to also adjust to market conditions: "The development of a retailer in a foreign market involves adjustment to cultural and competitive condiditons, a form of organisational learning associated with the management of intellectual capital” (p. 192). For the European multi-nationals, there were some significant adjustments that needed to be made to be successful, as Industry Expert M observes:

> For instance, [European retailers were] not used to expanding in malls. I mean in America and Canada there is a mall culture, [but] not so much in Europe. [They have more] street locations [with] smaller stores. There was always high traffic [on the streets]... so coming to that whole mall world was definitely something that H&M had to get used to, [as well as things like the nearly] 24-hour economy, different opening times, etc. (p. 1).

Domestic Response to Multi-national European Entrants – Thrive, Re-formulate or Perish

The domestic response can be categorized in three ways: 1) those who thrived, 2) those who survived, but struggled or adjusted by re-formatting or down-sizing, and 3) those who perished. By 2007, the foreign retailers expanding into the Canadian market had changed the competitive structure of the market forever. The statistics used to track domestic retailers and foreign retailers between 1989 and 2007 can be found in Appendix 12, which details the opening and closing of apparel stores in Mall 1 and Mall 2. Although not exhaustive, the following list identifies the notable domestic retailers who resided in each of these categories by 2007:

1) Thriving – Aritzia, Lululemon, Danier, LaSenza, Harry Rosen, Roots, Jean Machine, Club Monaco

2) Surviving – LeChateau, RW&Co, Smart Set, Reitmans, Fairweathers, Stitches

3) Perish – Braemar, Thrifty’s, Dalmy’s

Later in this chapter, in the discussion of *Type of Impact 2*: Catalysts for Re-structuring, the churn of domestic retailers is discussed more fully with observations from the industry experts interviewed.

In summary, the Industry Experts' insight into the second innovative factor from foreign retailers collaborates what was identified in the study of Mall 1 and Mall 2: that early European retailers had little impact on the competitive structure of the apparel market. However, the large multi-nationals from Europe had a dramatic impact on changing the sectoral competitiveness, not only for the domestic retailers but also the embedded foreign retailers.

6.3.4 Innovation in Competitive Activity – Location Diffusion

From 1989 to 2007, it would be reasonable to argue that the focus of retail apparel innovation was happening in the shopping centres. In fact, the influx of foreign retailer as brands and the European multi-nationals occurred predominately in the major malls across Canada. The limited number of 'high streets' in Canada were also location destinations for many of the foreign entrants, but as North America is a mall culture, the major shopping centres were the primary focus of business expansion. The impact of several new categories – such as *Retailer as Brand* and *Product Brand as Retailer* and *the Experienced Multi-nationals: The European Invasion* – set in motion responses from the domestic retail apparel sector that led to the third over-arching innovation in competitive activity: Channel Diffusion.

The exodus of domestic apparel retailers from the major shopping centres cannot solely be attributed to the entry of foreign clothing retailers into the major malls. As discussed in Chapter 1, the evolution of the retail environment in Canada accelerated through the 1990s and into the 2000s, facilitating the movement of clothing retailers to best-fit markets for their business model. In some cases this was proactive, but in many others it was a reactive response to the competitive activity of the market. During this period, mall expansion was non-existent until 2004, and new location growth was occurring in new retail formats. The shopping behaviour of consumers was also changing and their more eclectic approach to shopping across multiple formats was further discussed by the industry experts.

Within this context, location diffusion as an innovative competitive activity can be analyzed within two sub-factors:

6.3.4a Chasing the Walmart Effect

- Domestic Response – Repositioning in the Marketplace

6.3.4b Seeking out the White Space in an increasingly competitive apparel market

- Mark's Work Wearhouse – An Iconic Canadian Brand
- Joe Fresh – The Upstart

The Industry Experts observed that the heightened competitive environment across all categories of retail elevated the need for retailers to innovate in order to stay competitive. The on-going influx of foreign retail had initiated and sustained the changes in competitive structure, but over time the source of innovation would arise from both foreign and domestic retailers. The interviews provided extensive insight into how the entry of Walmart would not only bring a new competitive force into the market, but would also facilitate the pursuit of profitable location distribution within the apparel sector.

6.3.4a Chasing the Walmart Effect

By 2007, Walmart was the second largest clothing retailer in Canada with 10.2% share of market (Trendex, 2007) and would eventually surpass Sears, who had 12.6% share in 2007 (Trendex, 2007) and had held the dominant position in Canada for many years. Having only entered the market in 1994, purchasing the Woolco stores and then undertaking a retail brand conversion that is still considered one of the great retail success stories, Walmart Canada became the focal point of non-major shopping centre growth. Since financial reporting for the Canadian company is not conducted separately, it is estimated by Trendex (2007) that apparel sales in Walmart Canada were $2.04 billion, or 10.2% of the $20 billion dollar apparel industry. Industry Expert R saw Walmart as a impactful innovator in retail because it changed the strategy on gross margin. Based on the observations by industry experts, there is reason to believe that Walmart's growing dominance was not only on the pricing:

> There's a lot of fashion, not fashion... there's a lot of soft goods in [Walmart]. I mean that's been a huge impact and so you certainly can't ignore it. It changes...for the real estate world, the shopping centre developer world… Walmart changes the entire centre of gravity in any town, no question about it. The whole world changes (Interviewee E: p. 20).
>
> ...one of the other major things that happened to Canadian retailing in this point in time was the impact of Walmart coming in and [developing] their brand of George. So Walmart comes in with some special offers as well [and] that creates another competitive challenge for the lower- to middle-income consumer. So [your] Canadian retailer is being sort of caught at both ends. The lower end is being swallowed up and the upper end is disappearing as you lose things like Eaton's and those types of things which [had] a presence in some of the higher end sectors (Interviewee A: p. 3).

What most experts agreed on was that, in spite of Walmart's overall success in the Canadian market and its increase in locations, they had still not gotten the apparel side of the business to the level of performance they wanted. Although Walmart would pass them within two years, in 2007 Sears was still the largest apparel retailer in Canada. Industry experts R, S, and A all spoke about this relative weakness in apparel from a retailer that is known for dominating product categories through well-developed assortments at hard discount pricing.

For many, the weakness in Walmart's strategy was to introduce the UK line of George in 2004 (ladies wear) and 2005 (menswear) without editing for the Canadian market. As Interviewee L states:

> I think in North America it was kind of dumped into the stores. I don't think it was ever really a profile or anything like that and they didn't leverage on the fact that George had exposure in the U.K. It doesn't mean a lot in North America (p. 9).

What followed was an erratic period of positioning in the apparel categories, from multi-page advertisements in Vogue magazine to deep discounting. As stated by Interviewee F:

> "..they made so many mistakes with George... so there were a lot of false starts. Then they went through that period where they overreacted and Vogue magazine… [ran] a 25-page segment [for Walmart]..." (p. 11).

Despite these challenges, the Canadian consumer obviously found something satisfactory in the Walmart apparel offering, such as the everyday value pricing that changed the competitive position across apparel retailing and opened new opportunities for both foreign and domestic retailers. Sears in particular would be forced to respond to the changed value proposition, and specialty chains such as Stitches would depend further upon price promotion to drive sales.

Domestic Response – Re-positioning in the Marketplace

In the end, the impact of Walmart provided an interesting opportunity for domestic retail growth and innovation that otherwise might not have happened. For the Canadian mass merchants and department stores, the arrival of Walmart in 1994 would immediately restructure the lower end of the retail market, including the apparel sector. It would also become the focal point of the expansion of power centres and non-mall shopping growth. This would provide an opportunity for many of the domestic clothing retailers to either completely re-position themselves in the market or create a second business model. As noted by Industry Expert L:

> ...more and more Canadian retailers started to realize there was an opportunity to sell sort of a B version of their mall brand. That became I think a real fork in the road for a lot of retailers which I think was [directly] related to the fact that space became a premium. [Canadian retailers] really had to rethink how they were using their space (Interviewee L: p. 2).

Through the late 1990s and into the early 2000s, the competition for space in the major shopping centres and the opportunity for lower cost locations in power centres and secondary malls generated diffusion in the channel distribution for apparel in Canada. Only Walmart, Moore's, and Winners (the TJMaxx off-price company) were the foreign clothing operators in these expanding non-mall locations. For many domestic retailers, this provided an opportunity to escape the intensifying competition of the major malls, hoping that their customers would follow. The industry experts had the following to say about the apparel retailers who moved to these new locations:

> I would say initially that the power centres were considered to be a secondary location. But as the power centres matured and they realized there's a lot of traffic, a lot of retailers were making way more money out in power centres than they were out of malls, primarily because of the cost of their space. I would say that it was more bottom-line driven as opposed to just accepting the fact that I'm no longer the hot brand. I think it was more a matter of how do I get more in the bottom line (Interviewee L: p. 4).
>
> Reitman's is a remarkable organization through all this and they just keep making money. You walk in their stores and you look at the price point. So I suspect that that migration [out of major malls]… is really driven financially, that malls are more expensive. What you sacrifice in traffic maybe you'll make up in lower overheads and margin if you're a well-positioned box type [centre] (Interviewee U: p. 7).
>
> So the bottom line is some of our brands that we left behind, you and I, they are leaving the malls. Fairweather can't really exist at those price points. So they are being taken over by whoever can afford the rents (Interviewee P: p. 10).

Amongst the industry experts, there is disagreement about how many of these B concepts were generated as a proactive strategy versus those moves that were a reactive response to the lack of affordable space due to the foreign retailers. Later in this chapter, in the analysis of *Type of Impact 2*: Catalyst for Re-structuring, the impact of churn in the major malls will take a further look at the experts' views on this impact of foreign retailer entry.

Despite Walmart's share of clothing sales, most of the domestic retailers who opened stores in the power centres did not see Walmart as a direct competitor. Rather, the specialty chains viewed Walmart as the draw for traffic to these new centres in much the same way as department stores had been the original draws for major shopping centres. This was a structure that the domestic retailers were familiar with and believed they knew how to capitalize on the traffic.

Companies such as Reitman's, Fairweather, Jacob, and Smart Set were finding the major mall environment increasingly competitive and expensive, so they opened nearly identical formulas in the power centres. As noted by the industry experts, it wasn't just the struggling domestic retailers who opened in these centres: companies such as Roots, Danier, and LaSenza opened B concepts as part of a strategy to follow the customers. By 2007, these stores were used to clear merchandise and generally represented a true second formula for the retailer, however, as the success of the power centres proved to be unsuitable for all apparel retailers, the distinction between the major mall formula and the B concept was often blurred.

While many of the legacy domestic apparel retailers focused on chasing the Walmart model to find new innovative strategies to stay competitive, other Canadian retailers looked for more innovative channel diffusion to not only stay competitive, but also play a dominant role in the apparel sector. They accomplished this through a strategy, identified by Industry Expert S, called: 'seeking out the white space in the marketplace'.

6.3.4b Seeking out the 'White Space' in an increasingly competitive apparel market

> I think the Canadian retail industry has matured, become a lot smarter, a lot more efficient through the pain of the last 20 years. At the end of the day we have a much stronger industry than when we really did back in those days. Even though it was comfortable, it was fragile. I think today it's much more sustainable (Interviewee U: p. 9).

In the interview with Industry Expert S, he articulated the idea of searching out the 'white space' around existing retailers, be they foreign or domestic, to find opportunity for innovation in competitive activity. Within the Canadian market between 1989 and 2007, two domestic apparel retailers found the white space in the market through location diffusion: Mark's Work Wearhouse and Joe Fresh.

<u>Mark's Work Wearhouse – An Iconic Canadian Brand</u>

> Background:
>
> Our mission is simple. Mark's is devoted to providing extraordinary clothing and footwear to Canadians. We define 'extraordinary' as products that look, last, protect, feel better and are easier to care for than ordinary clothing and footwear. It is a mission that resonates well with customers, since we have grown from one store in 1977 to over 380 stores across the country. We are now proud to be a part of the Canadian Tire group of companies and to be providing more Canadians than ever before with smart clothing and better footwear that works better in their everyday lives. We offer our customers exclusive private labels and Canada's best sellers in men's and women's casual and business wear, outdoor apparel and work wear (Mark's, 2012).

It is difficult to explain how a retailer such as Mark's (re-branded from Mark's Work Wearhouse in the past two years) could own 4.4% of the Canadian Apparel Market in 2007 (Trendex, 2007), and be the largest single retail banner after Sears, Walmart, The Bay, and Zellers at that time. Several of the industry experts found it difficult to explain the success of Mark's, except that it is solidly Canadian. In 2001, without any prior experience in retail, the iconic Canadian retailer *Canadian Tire* bought Mark's. The partnership has been successful thus far, with Mark's share of market growing significantly each year. What is known about Mark's is that the growth and position has come through a channel distribution network that is unorthodox and not implemented in major malls. Since the acquisition by Canadian Tire, Mark's has built locations inside the hard goods/automotive mass merchant, as well as in power centres, secondary malls, plazas, and street locations. The industry experts had this to say about the trajectory of Mark's Work Wearhouse:

> I mean it's everyday wear. It's basically a great part of this country, although there's been a huge urbanization, a great part of this country is rural and we're manufacturers and farmers and so on. So there's a huge population base. There's probably an element of aspirational buying that goes on there from the urbanite who just thinks it's cool to be able to put on that plaid shirt and a pair of boots and hold a chainsaw… I think men are probably a lot more relaxed shopping in that industrial kind of environment rather than in a formal shopping environment that the mall offers. Maybe that's it... I thought Canadian Tire made that association obvious and I think that's worked out for them. I think that was a brilliant one (Interviewee U: p. 18).

> We get asked a lot by foreign investors, particularly U.S. investors, about Canadian retailers... 'Can you explain to me why Tim Horton's is so popular? I don't understand Canadian Tire, can you explain that to me? Mark's Work Wearhouse, who is that?'... And you try to explain it: 'well it's generally work wear'. And they just look at you and they think 'well [I guess] it's sustainable up here'… (Interviewee Q: p. 14).

Mark's Work Wearhouse built an iconic Canadian brand between 1989 and 2007, catering to a specific but large market segment that was not as receptive to the in-coming foreign retailers, using distribution channels that are innovative in their diffusion and uniqueness. They also no doubt benefitted from the weakness of both Sears and Walmart's clothing offerings.

<u>Joe Fresh – The Upstart</u>

> Background:
>
> All of our Loblaw control labels and brands make us proud because they follow our philosophy of taking something good and making it better – and that's what our customers expect when they shop in our stores. It's been true since the introduction of *The Decadent* Chocolate Chip Cookie, and it's still true today, with our *PC G.R.E.E.N* and *PC Organics* products. We market our control label products in the food, health and beauty, apparel and general merchandise categories under brand names that include *President's Choice*, *PC*, *no*

> *name*, *Blue Menu*, *Joe Fresh*, *Club Pack*, *PC Organics*, *PC G.R.E.E.N*, *Exact* and *Teddy's Choice* (Loblaw, 2012).

The concept of a major share of apparel sales being captured through non-traditional retail channels is not a new format in some parts of the world, such as the UK. However, in Canada and North America, this is still viewed as innovative diffusion of distribution channels, which was the case when when Joe Fresh launched in 40 Real Canadian Superstores (a Loblaw banner) in 2006. As seen above in the Brand Statement from the parent company Loblaw, Joe Fresh is but one of several control labels and brands within the mix of a company that is predominately a grocery retailer. Even though Joe Fresh has only been a brand during the last two years of this study, the impact on the market was instant and extensive. The company boldly declared that they would be a billion dollar brand within five years. The retail industry experts have the following to say about Joe Fresh:

> "You've got Joe as part of Loblaw. These are non-traditional [retailers] that are each [putting up] numbers that will register... I mean Joe Fresh has tried to become a billion dollars" (Interviewee U: p. 20).

> the reason for Joe Fresh's existence is because Walmart was so [inadequate]. There was a huge void in the market... [Joe Fresh is] not fast fashion. It's very clean and very preppy and very wearable I guess. [And now] they've got a place in the market (Interviewee B: p. 7/8).

The most innovative domestic responses to foreign retail entry in the apparel sector have come from outside of the traditional clothing locations. As foreign retailers have generally entered the apparel market in very traditional formats – such as major mall stores, department stores, and mass merchant discounters – this has left 'white space' in the market for newer innovations, which Joe Fresh and Mark's would capitalize on:

> [Joe Fresh] is just brilliant. The good news about that – as with Lululemon, Aritzia, and La Senza, as well as Harry Rosen, Henry Singer, and Le Chateau and Reitman's to a degree – you need more of [these domestic successes] because [I think] that in most countries when there's a good mix of both domestic and foreign, that's where

> you have the most innovation... So thank God there are still some of those [domestic apparel merchants] around because you need them (Interviewee D: p. 17/18).

Location diffusion has revealed that the disruptive innovation of foreign entry into Canada has spread beyond the traditional formats of department stores and specialty chains in malls. The location diffusion goes beyond the scope of what the Quantitative Study was able to illustrate, but is closely tied to many domestic retailers exiting the malls due to the foreign entry. The search for a competitive position in a changing market structure encouraged new innovative retailing by the domestic sector.

6.3.5 Summary of Type of Impact 1 – Innovation in Competitive Activity

The industry experts have provided important insight into why retail brands such as the Gap were so successful entering the Canadian market. The role of consumer-focused innovative concepts that continuously evolve with a changing market was seen as fundamental to the foreign retailer success, which was lacking in most Canadian retailers. The subsequent entry of European multi-nationals brought a new level of sophistication to the marketplace and the experts saw the domestic market splitting into the successful responders and those who went searching for different market positions. Ultimately, the industry experts saw the impact of foreign entry spreading beyond the mall microcosm through the influence of Walmart and the channel diffusion that followed.

6.4 Type of Impact 2: Catalyst for Sectoral Restructuring

> "But the weak retailers won't win in any situation and that's the thing about the retail business, is it constantly regenerates itself" (Interviewee Q: p. 12).
>
> "As the new exciting entries come in, they're all coming from outside of Canada. It's going to squeeze out the existing Canadians I think" (Interviewee Q: p. 18).

The reflections of Industry Expert Q summarize much of what all respondents had to say about the state of foreign retail entry between 1989 and 2007. Reflecting back on the context for foreign entry (as discussed in Chapter 1), it was inevitable that the apparel sector in Canada would undergo considerable restructuring as a result of the newcomers into the market. With the exception of the Walmart entry in 1994, the influx of foreign apparel retailers between 1989 and 2007 would come through the major shopping centres. With no new major malls opening between 1990 and 2004, the battle for retail space began, which fostered distrust and animosity between domestic retailers and landlords in the Canadian malls. As pointed out by Industry Expert B: "...there wasn't a lot of thought put into or strategic understanding about what [the leasing to foreign retailers] would do to some of these Canadian retailers" (p. 14).

As proposed in the Dawson framework, retail internationalization has the potential to impact the domestic market when foreign retailers act as catalysts for sector restructuring. Based on the interviews with industry experts, the catalysts for sectoral restructuring can be classified under three sub-factors:

<u>6.4.1 Foreign Retailers bring Unisex Format into the market</u>

- Domestic Response – Unisex Retailers
- Niche – Success Strategy

<u>6.4.2 Landlords need to re-configure mall space</u>

- Rise of the Mini-Anchor
- Domestic Response – Focus on Productivity

<u>6.4.3 Competition for Finite Space brings Churn to the market</u>

As stated by Interviewee A:

> I think [foreign retailers] created a whole series of consumer expectations and a different sense of dynamism within the environment. I just don't mean closures, but [also] how things changed: new product entry, new looks to stores… just a much

> more dynamic environment in which consumers operate and with different formats and with different store signs, etc. (p. 14).

The study of Mall 1 and 2 provided empirical data to identify what the catalysts were for sectoral restructuring. The industry experts validated these findings and provide important insight into why these acted as catalysts.

6.4.1 Catalyst for Sectoral Restructuring – Foreign Retailers bring Unisex format into the market

One can summarize the successful foreign apparel retail company as follows:

- Unisex
- Large square footage

As unisex formats required spaces with larger square footage than the typical women's or men's only retail operation, the foreign retailers entered the market with larger footprints than was the norm in Canadian malls in 1989. Over time, the size of stores would continue to evolve, which would have considerable impact on the structure of the marketplace.

> Well they like to go big in America. Basically everything's been bought up. Almost every company you're talking about now is public and that gives the company the resources to try to outdo the next person and the next concept. You know, I don't think Canadians can think that big. Maybe it's just built in to the [American] DNA (Interviewee T: p. 7).

By comparison, the domestic retailers were predominately pure women's or menswear. Overall, successful domestic response depended upon the Canadian retailer finding a differentiated niche in the marketplace. For those domestic retailers that operated in unisex formats, the head-on competition would be more difficult and the likelihood of failing became much greater.

Unisex – The Dominant Foreign Formula

There are several perspectives from the industry experts as to why foreign retailers arrived in a predominately unisex format. One of these explanations indicates that these retailers were looking for specific synergies to maximize traffic, and another shows these companies arising as the natural offshoot of a lifestyle concept, which was often built from a jeans company. Between 1989 and 2007, there was not one foreign pure menswear retailer, and only a handful of pure women's wear retailers who entered in Canada. In the case of women's wear, only Talbot's and Bebe proved to find some success in the country, while Mango was struggling to find its place. Since the majority of Canadian clothing retailers catered to a single gender in 1989, the entry of foreign unisex retailers was a direct catalyst for the restructuring of the market. The industry experts observed:

> …In every fashion business, every fashion retailer, their main target is women. That's your customer and it doesn't matter if it's a woman for yourself, for your husband, boyfriend, or for your children… [you have] that customer. So you might as well take advantage of that customer who wants to spend and who is your main target customer... (Industry Expert M: p. 7).
>
> In terms of the restructuring of Canadian market space, I think it is important to note somewhere along the line that this casual shift, this demographic shift, this kind of lifestyle easing shift that happened across North America [and maybe even] globally… You know, casual Fridays is really a past 15- or 20-year phenomena... (Industry Expert P: p. 17).
>
> The [foreign retailers] recognized the social environment of shopping: it's who you see, and being seen, and the activity of it, and a place to be. I think they recognized all that... if you're going to do lifestyle and unisex and so on, you need bigger stores... I think that was pretty insightful at the time and [Canadians] didn't see it really (Industry Expert F: p. 5)

Domestic Response – From the Canadian Unisex Retailers

With the majority of Canadian apparel retailers operating as pure women's or menswear, their response was generally seen as either strengthening their niche position in the market – such as Aritzia, Harry Rosen, or LaSenza – or struggling to find a competitive position in a marketplace that was moving away from gender-specific retailing. The experts provided the following perspectives:

> In terms of the unisex, we're talking about American Eagle, Gap, and Banana Republic. [Canadian retailers] never did any kind of a crossing of the minds. I mean, even Big Steel and Fairweather had different doors [for men and women]. Harry Rosen, men and women, different doors or upstairs/downstairs. We never really integrated the merchandising. You go in and you go right this, go left this (Industry Expert P: p. 16).

For those Canadian retailers who operated as unisex and had to meet this new competition head-on, the responses were a mixture of success, failure, and in some cases constant re-working as each new competitor came into the market. For Club Monaco, the purchase by Polo/Ralph Lauren in 1999 provided new life and much needed capital. For Roots, it has been a renewal of their iconic Canadian focus, and for LeChateau, the changes for success have been more challenging, which is summarized by Interviewee U:

> "Le Chateau… it's just remarkable… Suddenly their sales are through the roof and the next thing you know they're off 15% month after month, and then bang up they go again" (Interviewee U: p. 16).

<u>Domestic Response – Niche as Success Strategy</u>

Between 1989 and 2007, foreign unisex retailers entering the market examined Canadian retailers finding successful positioning through specialization and niche formulas. Rather than taking on the foreign competitors head-on, and recognizing that the Americans and Europeans were vastly over resourced by comparison, the Canadian secret to success was to focus on a well-defined niche. As the industry experts commented:

> "...a Danier to some extent who would say 'look we have a unique niche: this is what we do, [and] we do it well… we look at these other guys coming in and we're not that concerned' " (Industry Expert N: p. 2).
>
> "I mean, Harry Rosen is one of the few men fashion retailers that really do it well because men customers are not easy and [are usually your] backup because [they're] maybe 9% or 10% of your total business" (Industry Expert M: p. 7).

> “I think you can almost identify the winners by going back and looking at how well focused they are. [For example,] Aritzia walked in and filled a niche that was not being filled. Lululemon [also] filled a niche that wasn’t being filled, and that’s the secret” (Industry Expert J: p. 6).

> “…[I think] a lot of the newer Canadian retailers that are successful have been niche-oriented, much more niche-oriented [than] the general fashion [companies]” (Industry Expert A: p. 10).

The general consensus of the experts was that the market re-structured along the lines of foreign unisex and domestic niche lines. It had become heavily internationalized and the environment was much more about the best of foreign competing against the best of domestic.

6.4.2 Catalyst for Sectoral Re-structuring – Landlords need to reconfigure mall space

The Quantitative Study identified that many of the foreign retailers were entering with significantly larger square footage than was the norm for domestic retailers. As the same time, the mall landlords were confronted with a changing department store industry and aging malls that required renewal.

<u>The Rise of the Mini-Anchor</u>

Part of the re-structuring of the apparel sector during this time was the shift of the major shopping centres to include more fashion. The movement of non-apparel retail to less expensive locations in power centres had begun, and landlords responded by focusing on the higher margin apparel sector. Several industry experts discussed how most major shopping centres were undergoing major renovations on aging properties; where possible, this included expanding the footprint and re-configuring store locations. The landlords needed to fill the gaps left from department store closures and provide access to exciting new foreign retail brands, which required larger renovated spaces. As the industry experts observed, this was an important turning point in the relationships between landlords and domestic retailers:

> When Eaton's… disappeared at the end, it did pose a significant question as to how that square footage was going to be reallocated. Perhaps [the] most dramatic example of that is Yorkdale in terms of how they used up 400,000 square feet of Eaton's space... I mean, department stores as a form of retailing matured and started declining fairly significantly throughout the 1990s... I think [malls] are all trying to get away from one huge anchor into manageable smaller anchors (Industry Expert P: p. 13).

Experts familiar with the leasing negotiations acknowledged the strain that this process put on everyone, as the desire for new innovative formats made the foreign retailers sufficiently attractive to negotiate different deals. The foreign retailers were then able to build business models on a different leasing structure:

> ...this gets into a bit of a science in the leasing business, but typically the anchor definition in our business is 15,000 square feet. If you're in 15,000 square feet, it's easier as a landlord to be able to cut a deal with the tenant because the way the leases are structured the smaller CRU pick up the shortfall on that (Interviewee C: p. 8).

> But the rent structures here were so much higher than in the U.S. In the U.S., where it was so much more competitive and rents were so much lower, the larger formats became their standards and they were making good money there. One of their big problems of coming to Canada was they wanted to use that format in a Canadian setting. That's why the money got so crazy for them. So that was a hurdle, [but] through negotiations ultimately we got some of these guys in and in some cases in those exact formats... But it was a disruption certainly [to try and] aggregate these big spaces to accommodate these guys, [which] pissed off a lot of Canadian retailers that they were being relocated and bounced in order to bring in this [American company] who was getting all sorts of money from the landlord. But they were exciting new concepts which truly did drive traffic and business to the malls… so everybody benefitted. I think most of them would reluctantly agree that at the end of the day it was good for their business to bring these [companies] in (Industry Expert U: p. 12).

The power balance had historically been with the large retail companies such as Dylex Ltd, but this influence had now shifted to the shopping centre owners. Not only were domestic retailers facing a new competitive set, but they also had to deal with increased costs and less dominance in the mall. The industry experts acknowledged the two perspectives on this battle between landlord and domestic retailer, most taking one side or the other. All agreed that this was the primary catalyst for the re-structuring of the apparel market.

Domestic Response – Focus on Productivity

This response is best illustrated in the Chapter 5 mall analysis, however, it is worth noting that the successful strategy for the domestic retailers was to focus on high productivity from smaller spaces, seeking out positions near centre court in the major shopping malls. Although some attempted to expand stores, such as Roots and Club Monaco, they found that the additional square footage did not give them a competitive advantage and lowered their productivity. The decision of domestic retailers to scale down operations came at the expense of losing market share, but not at the expense of productivity as a means to profitability.

> [Aritzia, Lululemon and Danier] crept up a little bit… they started out as very specialized and smaller. I think they've had some pressure on them to get a little bit bigger but they haven't gone to these big formats or the unisex kind of formats that were so popular (Industry Expert U: p. 13).
>
> "There's really no Canadian retailer who's going out and building 15,000-20,000 square foot stores... you've got H&M [with those] big stores..." (Industry Expert H: p. 16).
>
> Look, obviously they have survived – Le Chateau, Reitman's, Laura, Tristan, [and] to some extent Group Dynamite – mainly because I think that they understand their customer a little better than the Americans do. The Americans… do not have a presence in this marketplace other than field personnel and maybe a couple of HR people. So they don't really have a true understanding of the market. They don't really care by and large... But that's the reason why some of these Canadian retailers have stayed and thrived… they've understood the customer better than the Americans have and the Americans really don't care – on the margins, 'yeah we could have another 10 points or 12 points but I don't really want to put the effort in, it doesn't matter, we're doing well enough' (Interviewee B: p. 15/16).

6.4.3 Catalyst for Sectoral Restructuring – Competition for Finite Mall Space creates Churn in the Market

With no new malls built in Canada between 1990 and 2004, the entry of foreign retailers had to target existing malls, which helped expand the market of the major malls. As landlords looked to improve productivity and total revenues in their malls, the allocation of space became a heated battle and the outcome was a significant restructuring of the competitive market through the churn of the domestic retailers.

While churn would typically refer to failure of the domestic business, the interviews and mall analysis in the previous chapter identified varying degrees of churn:

- Domestic retailers who stayed within the mall – staying in the game, either successfully in prime locations or downsized or to less prime locations
- Out of the mall – proactive or reactive leading to location diffusion and/or creation of new formats or formula
- Out of business

The industry experts had a great deal to say about the role of foreign retailers and landlords as catalysts in the restructuring of the apparel sector in the major malls. The following statements best capture the timing of when domestic retailers felt the impact of the increased competition for space:

> I would say one of the very first things that Canadian retailers really had to deal with was the war for space. [Foreign] entries were coming in at a faster pace than the mall base was expanding. I think a lot of Canadian retailers were pretty complacent until they actually went to negotiate their renewals and realized that there was competition for space, even for their good stores. They had good stores in a location in the Eaton's Centre and Yorkdale that they automatically thought that they could easily renew and, all of a sudden, lo and behold… rental rates started to increase and [the] demand for the space started to increase. So I think that was the first really

> solid point of competition. Even before sales started to move in different directions, the landlords became very powerful and that's continued... So really what you have is a [real mismatch of] supply and demand (Interviewee L: p. 1).
>
> So I think competition has really brought much better definition to the market, better discipline – there's a natural cleansing that goes on. The older concepts can't keep up but the new ones keep coming and that's healthy (Interviewee U: p. 8).
>
> ...I don't know any developer that has [so] much clout over a retailer that [they] can drag them into a foreign market without the retailer having some overriding strategy to be in that market (Industry Expert Q: p. 20).

Put in a historical context, the new space constraints in the 1990s and into the 2000s changed the competitive environment, which put an end to the preferential treatment described by industry expert Q:

> When a new mall was being built in Canada they would sit down with Dylex first because, you know, retailers follow each other. They would ask: Well where is Dylex going? Where's the Fairweather store going? Where's Harry Rosen going? Where's Tip Top going? Where's Thrifty's going? And then retailers would locate based on that (p. 11).

Domestic Retailers who stay in the malls

In the war for shopping centre space, some domestic retailers developed strategies to stay at the top of the productivity performance for apparel retailers. This gave them the clout to hold prime locations and negotiate competitively within the shopping centre environment.

> Lululemon and Aritzia are the top two performers in Canada on the fashion side of it. I mean, these guys are so far ahead and shoulders above the crowd, it's almost frightening (Interviewee C: p. 4).

By comparison, there were Canadian retailers who were performing at a lower level of productivity. For these retailers, the landlord would decide where and what size of location they would be able to lease, keeping in mind that the legacy domestic retailers had been accustomed to prime locations and long leases that were well below current market value. The re-alignment of space may have eliminated previously prime locations, and the new financial pressure of market values forced most companies to re-evaluate their formula and make some difficult decisions to stay competitive in the future. For those who wanted to stay in the major shopping centres, the following expresses the situation they were faced with:

> Within the mall, there's always been a fight for that centre court because foot traffic is everything in a mall – if you have a bad location off on a wing some place close to the subway or whatever, it's almost like a self-fulfilling prophecy. You're weak so you're being moved to the weaker spot, which makes you weaker. So I think a lot of retailers weren't easily accepting that… But they did accept smaller footprints and I'm not sure your data shows this. But I noticed that a number of retailers that [previously] had a 5,000 square foot store went down to a 3,500 square foot store, [then] down to a 2,000 square foot store, becoming much more condensed [and reducing] their offering, which also made them more focused on their customer (Interviewee L: p. 4).

Out of the Mall

For many domestic apparel retailers, after years of declining performance they were essentially pushed out of the mall when leases came up for renewal. In some cases, the landlord needed to amass space for a large foreign retailer and domestic retailers were asked to leave. The experts had the following observations:

> [Mall landlords] are always scrutinizing who's productive and who's not. So I think regardless of whether you're international or local, if you weren't productive you're not going to be there (Interviewee F: p. 14).
>
> Sometimes the landlord just said we're not really interested in you anymore, we need someone here that's going to drive more traffic into the mall. It wasn't acquiescence. It was a forced decision for them (Interviewee L: p. 4).
>
> I think [Fairweather and Reitman's] sales within the malls are going down because of the intensity of the competition, and then you have mall rents going up, so you get a double whammy. So I think they are trying [to develop] locations in secondary malls and power centres]... But I think you're going to see more and more of these Canadian retailers moving out of the malls… They're being pushed out by the international retailers who are not as price sensitive (Interviewee J: p. 8/9).

Whether pushed out of malls or strategically deciding to re-formulate their offer for secondary malls and power centres, many domestic retailers saw this as an opportunity to structure a profitable business away from the direct competition of the foreign speciality retailers. However, this move would place many of these retailers in direct physical competition with Walmart and Winners. Overall, the expert opinion on the success of these alternative locations is mixed:

> I agree that some of the players moved to secondary malls. The greatest example of that to some degree might be Y&M [YM Inc.], and Northern Reflection is another one. But why did Northern Reflection move out of the major malls? The reason was they didn't spend enough money on marketing and advertising to be in a major mall and they didn't want to [because] they found it hard to compete in those malls. So they decided to have a strategy of [going] into the second tier malls. Now Bootlegger in Vancouver, which is owned by C&A, is a prime example of that today. They're in one major mall out there but [otherwise] they are the king of the secondary malls. Now to some degree I think that's a good strategy: if you can't beat them, then leave... Y&M has a unique business model... Cheap rents and cheap products and promote like hell (Interviewee J: p. 5).

By contrast, some interviewees saw the negative effects of retailers being pushed out of the major shopping centres:

> Well I think [that the Canadian clothing retailers'] move out of the malls was engineered by the developers, not by them… people will say 'well we had a strategy to move to power centres' but I think that's [wrong]. I think that they got shoved out partially by rent and partially by the developers saying 'we don't want your brand here'. Does it mean that's the end of the brand? Is power centre the end of the road? No. There's tonnes of business that thrives in power centres if they… can adapt to the environment. But the environment is not walk-in traffic anymore right. So you have to have a compelling reason for people to come if they love your brand and your items, or [maybe] they see the 40% sign on the window. But if you don't have either of those you're gone. But it's not an instant death. Power centres aren't an instant death. There's a lot of people thriving in them right (Interviewee N: p. 9).

The success of power centre locations was considered to be more risky for apparel retailers by most of the experts, particularly if the company didn't fully develop a clearly differentiated formula for the power centre compared to the major shopping centre location:

> What's the difference really between a Pennington's [at a power centre location] and a Pennington's in the mall? Nothing. So they really didn't differentiate – the retailers didn't differentiate themselves in the two formats (Industry Expert B: p. 20).
>
> Power centres or box format shopping centres versus enclosed mall… Prior to 2007, [we did see] whether they were American or Canadian retailers opening stores in these formats, [particularly] fashion stores. But a lot of them closed because their customer wasn't going there. They couldn't get there. There wasn't public transportation (Industry Expert Q: p. 19).

The churn of domestic retailers, evidenced in the analysis of Mall 1 and Mall 2, was explained more fully by the industry experts, who provided important insights into whether they were pushed or pulled out of the malls, and identified whether they were successful or not in the new secondary and power centre locations.

<u>Out of Business</u>

For some legacy companies, the challenges of competing with the foreign entries became too great and these companies decided to sell off leases to new entrants. American Eagle Outfitters will always be considered one of the biggest winners in the acquisition of locations in major malls across Canada. Their ability to have an impact immediately compared to the organic growth of most other foreign entrants was felt in the early 2000s:

> The first thing to go from Dylex was Braemar because it had the best locations. I mean the best 50 or 60 locations… And who bought it? American Eagle. American Eagle came in and instantly had 60 [of the] best locations in the malls overnight... a brand is lost, a competitor is invited in, and a whole new cycle evolved. There's nobody else to blame for this except us (Interviewee P: p. 25).
>
> "Yeah, I guess when you really [think] about it, there aren't an awful lot of old Canadian banners around [anymore]" (Interviewee U: p. 7).

There is a certain *c'est la vie* attitude in the comments of the experts about the demise of domestic companies during the 1989 to 2007 period, which is captured in the comments below. From the perspective of analyzing these outcomes through the Dawson framework, one might argue that not all of this churn would be the result of foreign entry. In fact, some experts argue that the companies that didn't survive played a significant role in their own exit. However, it is difficult to diminish the impact that the innovative formats and formulas introduced by foreign retailers had on the competitiveness of the sector. In addition, the consumer was effectively drawn to these new entrants, forgoing their long-time loyalty to the Canadian store.

> I think that [churn] is natural. I think it was very healthy quite frankly for the industry and for the customer. The customer wanted more variety: they wanted it to be different and they wanted it to be aspirational… Not just a reflection of themselves but aspirational (Interviewee G: p. 5).
>
> American retailers can… enter into prime locations and are welcomed by developers. The Canadian retailer has to, in effect, have almost a national or large regional presence to even have the economies of scale to [compete]... A change in the level of competition, a change in where you're making your offer, and [the change has] been really quite radical.... but there's always closures in retail. [And] we've had some major closures... (Industry Expert A: p. 3).

As Dawson (2003) postulated in his framework, there was anecdotal evidence to suggest that small domestic retailers on the margin of profitability would be pushed out by foreign entry. In the Canadian apparel market, it was just not the small independents, but also large legacy retailers that would close their operations:

> "You know I don't think Dalmy's exists anymore. They had 200 stores. Eaton's, a [formerly] major fashion provider, is gone... So you start looking at the retail landscape of 1989 and 1990 and it's frightfully changed" (Industry Expert A: p. 18).

6.4.4 Summary of Catalyst for Sectoral Restructuring

The study of the two malls in the Quantitative Study had identified specific impacts from foreign retailers that were catalysts for the re-structuring of the apparel sector in Canada. The industry experts were able to validate these impacts and explain why and how they changed the market. Foreign retailers brought a new format of large square footage unisex retail that had not previously existed in the market. Not only did this establish a new competitive format but it accommodated the landlords that wanted to re-configure mall space. The Qualitative Study provided additional insight into the relationship between landlords and both foreign and domestic retailers, as well as the responses that Canadian retailers either proactively or reactively made during the re-structuring of the sector. The fight for finite space, the creation of new mini-anchors, and the dominance of foreign unisex retailers were the catalysts that left a very different competitive structure in apparel retailing in 2007 compared to 1989.

6.5 Type of Impact 3 – Additional Investment

Within the Dawson framework, it is proposed that the entry of foreign retail would bring the "injection of new and additional investment into the sector often with expectation of higher than average sectoral profitability and productivity returns on investment and consequential sectoral restructuring" (Dawson, 2003: p. 195). Due to unique provisions in the financial reporting laws and accounting standards in the United States, American companies are not required to report their Canadian operations as separate businesses, even if they are incorporated as such. Therefore, it is impossible to gather specific information on investments, performance, or return on investments for the Canadian retail business. The retail experts were able to provide some meaningful insight into their perceptions and knowledge of the investment and performance activities of foreign and domestic retailers, however, this a limitation in the analysis due to the absence of data and the general code of confidentiality that surrounds such matters. Perhaps the following observation for Industry Expert Q best summarizes the view that foreign retailers have done very well in Canada, signalled by the continued entry of other foreign retailers looking for success: "But the one thing that we've learned over the years, particularly with stronger brands, is they'll follow each other. They'll follow each other into real estate for sure" (p. 2).

In analyzing the content of the interviews, the impact of foreign additional investment can be categorized under the following sub-factors:

6.5.1 Additional Investment - Sophistication and Size of Foreign Retail Formula

- Financial Stability
- Technology Investment
- Looking to the Future
- Domestic Response – Trajectory of Success
- Domestic Response – Overwhelming Challenge against Sophisticated Foreign Retailers

6.5.2 Additional Investment - Foreign Investment not made

Overall, the interviewees saw domestic retailers faced with a significant challenge, competing against much larger and more aggressive foreign competitors.

6.5.1 Additional Investment - Sophistication and Size of Foreign Retail Formula

For the most part the foreign retailers exhibited a level of business sophistication that had been developed in their home markets and proved a significant advantage in competing with the domestic retailers.

Financial Stability

The industry experts focused on the strength of foreign cash flow and foreign companies' ability to invest in large stores with a lavish store design and a significant inventory investment. Some believe the Canadian landlords facilitated the foreign investment through lease inducements and reduced rental costs on the larger square footage, a point of conflict between domestic retailers and landlords that has been well documented elsewhere in this research. The following statements from the interviews highlight the issues around the impact of foreign additional investment and the attraction of their investments:

> …Most Canadian companies don't have the kind of cash flow that's required [to build stores the size of the larger unisex foreign retailers] because you don't [just] build

those stores and walk away. It takes a substantial amount of investment and you need to be able to have patience (Interviewee D: p. 11).

> …the mall owner's point of view became very conducive to international retailers coming in because they brought the right type of cash flow for the developers. So not only could they afford to be in there, but they also brought the right stuff when the real estate industry was also changing (Interviewee P: p. 11).

> If you look at our banking systems, it's very conservative, and in the States [it's very] easy to get money... There are a lot more private equity players in the States... a lot of them come to Canada to lend money because there is a bit of a vacuum in Canada.... You know, you can't do a lot of high flying things here without having a lot of financial backing and a lot of equity (Industry Expert L: p. 15).

> They've just got a different view on business than the apparel retail crowd had in Canada. It was just a much more corporate sort of setting in that way. It you're looking at all of these names that [are] on the list – whether it's Gap, Guess, Talbots, Eddie Bauer, Esprit, American Eagle, Zara, H&M, or A&F – they're all major concerns in terms of corporate governance and sophisticated management systems and all those things. So it was a little easier for them to go far flung (Interviewee B: p. 3).

This final quote gives context for the challenges of financial support for Canadian retail and, in a more general view, the more risk-adverse nature of the domestic market. As will be seen in the domestic response to the impact of foreign retail investment, Canadian retailers have had to go out of the country for funding and have had to take a more global perspective on their business to stay competitive.

Technology Investment

Dawson also suggests that the "introduction of improved information management methods that affect competitive success" (p. 195), which will have an impact on the competitiveness of the apparel sector in the host country. This is substantiated by the observations of the several industry experts:

> ... the American retailers came in and they had a 500 or 600 store chains, whereas Canadian retailers might have had an 80 or 90 store chain. So spreading that cost over an 80-90 store chain in the early days of technology was impossible because the cost was just too high, whereas the American retailers were able to make the investment. They were much more cutting edge on technology... Canada was a laggard (Interviewee L: p. 3).

> "We know that the best thing that Walmart had was information systems. They spent the second most on information technology in the world – [only] the Pentagon spends more" (Interviewee J: p. 1).
>
> Well I think Americans have been good innovators. I think they really kind of led the way... there's a couple of different forms of innovation... Then there's some technological innovations... [which] saves you time and time is of the essence (Interview T: p. 11-12).

A few of the interviewees more involved in the financial side of the retail industry also spoke at length about the more advanced accounting practices and systems processes that gave foreign retailers a significant advantage over the domestic retailers. The impact of competing with less information would force domestic retailers to make investments in technology to stay competitive. One of the most notable examples of this has been the massive undertaking by Loblaw companies with SAP, which was started at the end of this research period in 2007. A billion dollar undertaking, SAP's single largest global project was with Loblaw, spending several years to integrate a myriad of diverse legacy systems. As Joe Fresh launched its business, there was not a perpetual inventory system in place to manage the business, which is something every other clothing retailer would take for granted.

<u>Looking to the Future</u>

> "You know most of [the foreign retailers] are incubating a bunch of different concepts at the same time..." (Industry Expert H: p. 10).

This simple statement best summarizes the opinion shared by the majority of industry experts: foreign retailers not only have the wherewithal to invest in today's business, but also in preparation for the future. By comparison, domestic retailers have always been trying to catch up as each foreign retailer entered the market. The disadvantage was obvious to the interviewees: in-order to stay competitive, Canadian retailers had to increase their investments in stores, technology, and the future.

Domestic Response – Trajectory of Success

For domestic retailers, different sources of funding to support current and future growth in the business have been elusive. On the domestic front, Mark's Work Wearhouse has benefited from the purchase by Canadian Tire and the access this provided to a large and loyal customer base. It also provided access to cash flow and low-cost real estate within the Canadian Tire stores. As Canadian Tire aspired to be located within 15 minutes of 90% of Canadians by 2007, the potential was unlimited for Mark's growth. One could argue that Joe Fresh benefits as much from the deep pockets of Loblaw as from the weekly traffic that a grocery retailer can provide. This has allowed Joe Fresh to take time to work through its concept and find the 'white space' between the Gap, H&M, Walmart, and other style-at-a-price competitors. Other Canadian apparel retailers have found the necessary funding through foreign investment, including LaSenza's sale to The Limited Brands, Aritzia's investment from American private equity firm Berkshire Partners, and Lululemon's investment from Highland Partners (also U.S. based).

The interviews revealed other forms of investment that domestic retailers made to ensure their competitive position in the market. Many of these investments focused on staying currently competitive and not about funding for future.

> ...constantly reinvesting capital to improve the businesses. That's ongoing. You just don't open a store and spend money to open it and that's it. It has to be innovative over time and you're constantly trying – you're redesigning new fixtures, and obviously new visual materials always go into the stores to keep it fresh (Industry Expert T: p. 4).
>
> [Canadian clothing retailers] increased their store size. They went from 3,000 to 3,500 square feet. They were probably spending $80 to $90 a foot, not factoring inflation, and all of a sudden went to spending more than $150 or $175 a square foot and building these beautiful stores. They really took off and I think they're an example of somebody that really [understood that there's] opportunity out there, and it paid off (Interviewee C: p. 3).

> Another Canadian retailer was Groupe Dynamite... looked at the U.S. guys and [found out how] they were modelling, how they were being successful, and went and designed really terrific stores (Interviewee C: p. 3).

> So that's just reinvestment in plant and if you don't do that, I think you're at risk... I think you [also] have to invest in real estate and this would be in the big box environment. You simply have to and if you are not where the population is growing, you are forced to continually respond to the competition in terms of physical space, in terms of leases and in terms of your offer. I don't think there's any choice. If you don't do that, I think you're going to get run over (Interviewee A: p. 16).

<u>Domestic Response – Overwhelming Challenge against Sophisticated Foreign Retailers</u>

The empirical analysis in Chapter 5 clearly illustrated the overwhelming challenge that domestic retailers faced in competing with the large unisex format of the foreign retailers. While several Canadian retailers developed strategies for success, many others continued to struggle with the realities of being a domestic-based retail operation. The impact of additional investment by foreign retailers was difficult to overcome when a domestic company was operating multiple stores and formats across the entire Canadian market. As noted by the industry experts, this increased the challenge to compete with foreign retailers who were located in the top retail malls and streets. Successful retailers such as Lululemon and Aritzia had avoided that scenario by opening fewer stores and competing head-on with the foreign companies, a best-against-best strategy. On the other hand, companies such as Reitman's, Fairweather, LeChateau, and Laura were operating everywhere, which diluted their resources. The industry experts comments on this tendency:

> In terms of investment made by Canadian retailers, I don't think it would even make any difference. I mean an average Canadian retailer is never going to be able to withstand the onslaught of global brand creep. They can't no matter how good they are, unless they have something that's vertical and that's exportable (Interviewee I: p. 15).

> Most of the major American retailers go to the major markets and they go to the major malls, often [coming] in with inducements... If a Canadian retailer is going to compete effectively, whether it's [at] Yorkdale or Scarborough Town Centre or right across the country in the 25 malls that matter, then they're going to have to reinvest

> in their store and they're going to probably have to reinvest in their people. I would think at one end if you don't do that you're backing away from the competition (Interviewee A: p. 15).

6.5.2 Additional Investment - Foreign Investment not Made

One final factor in analyzing the impact of foreign investment on the competitiveness in the apparel sector was the investments which were not made. Unlike the mass merchant Walmart or big box retailers such as Home Depot and Best Buy, who would open Canadian head offices to run their business, apparel retailers did not always see the need for separate head offices. For Americans, this was a relatively easy decision due to proximity and a comparatively open border to move goods from U.S. distribution centres. For the European multi-nationals, their structure of foreign operations had been well established long before entering Canada, and they knew how to run businesses at a distance. This foreign expertise meant that Canadian retailers had to compete against foreign retailers who could operate on better margins due to lower operating costs, which typically achieved economies of scale with lower inventory costs, allowing them to achieve higher levels of profitability in the host market. This would put greater pressure on the Canadian retailers' margins and pricing to stay competitive. The industry experts provide the following insights:

> We were just talking about head offices and thinking that a lot of the companies would not set up head office… I think they certainly [did] in the beginning – not many of them would come in and try and run the operation from the States. They did have… and still do have, their Canadian people. But I think after a period of time, [after] the rollout has occurred, they realized that they can probably maybe cut and run. The problem becomes that [the] best jobs in retail are going to end up being in the U.S. or being in Europe (Interviewee K: p. 10).

> ...American Eagle… wanted nothing except Braemar locations. That was their prize and then the distribution center of course because they didn't have a home office. They just used several offices and they probably still are. So they had no home office facilities needed (Interviewee P: p. 26).

6.5.3 Summary of Type of Impact 3 - Additional Investment

In this study, the qualitative research gathered through expert interviews shed limited insight into the details of the financial performance of companies. The lack of numbers is compounded by the fact that the foreign retailers do not report Canada as separate to the United States, and the majority of Canadian apparel retailers would have been privately held during the period of study. However, the demise of some major domestic companies such as Dylex Limited has been documented in this study, which helps demonstrate how the competitive structure of the market changed significantly to make it impossible for all retailers to survive.

Foreign retailers that increased the investment necessary to compete would forever change the apparel sector. Whether through the investment in stores, systems, processes, or people, foreign retailers arrived with more sophisticated operations and established a new standard for performance. For some domestic retailers, the obvious response was to find financial stability that would allow them to compete, and for the rest it was a matter of doing as much as possible to stay in the market with limited resources.

6.6 Type of Impact 4 – Improved Productivity of Assets

> The empirical evidence of what the foreign companies were able to establish as new standards of performance was well documented in Chapter 5. To add to this evidence, the interviews of industry experts contributed some insights into other measures of improved productivity, such as inventory turns, better margins through scale, diversified merchandise mix within the formula, better accounting methods, and loyalty development. ...I think that [productivity and finance issues influence] the type of strategic decisions when these bigger companies get involved and say ‘you know what, we’ve got to be unisex because that’s just going to increase our [productivity] by 30%’ (Industry Expert B: p. 10). “...productivity drives the mall business because it tends to drive the [available spaces]... Landlords are constantly focused on driving productivity” (Interviewee U: p. 13/14).

This attention to productivity as measured in sales per square foot was clearly important to foreign retailers, domestic retailers, and mall landlords. Thus, stores had to adjust square footage and merchandise offerings accordingly to stay competitive.

> …as soon as you move the square footage higher, your productivity goes down. Now that doesn't mean your profitability down... [but] you get a break on rent and you get a break on your common area and maintenance charges because you're considered an anchor now (Interviewee B: p. 12).

For example, when Loblaw introduced higher margin apparel in a grocery format, it was a clear indicator of the types of innovative strategies employed by domestic retailers to improve the productivity of their real estate:

> One example of productivity of asset… is the Loblaw experience with Joe Fresh: you [enter] into an area which generally has low margins, certainly regular shopping behaviours, and you put an awful lot of fashion [in there], which has been extremely successful from what I can observe (Industry Expert A: p. 9).

Throughout this restructuring, domestic retailers saw the foreign entrants as much larger and benefitting from economies of scale. Expert H provides an interesting cautionary note on this factor:

> I think scale is really underestimated from a buying perspective, particularly [in today's market]. Some of the Asian markets are growing and some of these [companies] are starting to make for [the Canadian market]… The Canadian retailer is going to have a more difficult time I think if you don't have real scale because I don't think you're going to be very important to any of them... Even some of these American retailers are starting to look small relative to some of the big international [companies] right [now] (Interviewee H: p. 9/10).
>
> The [Gap] started going in a crazy direction. They opened [even] larger stores... Well they couldn't sustain it because they didn't have the same broad appeal anymore because there was more competition coming in, whether it was from U.S. retailers or Canadians that woke up. So they couldn't sustain the productivities in those larger boxes. I think it's almost like they ate themselves up. So now they're going back to smaller boxes (Interviewee B: p. 11).

The industry experts saw that improved productivity of assets could take on several forms, such as the more fundamental focus on improving inventory turns, or using improved accounting processes to ensure the effective monitoring of retail moves. In particular, one expert focused on the strong customer loyalty processes that can play an important role in the health and longevity of a brand:

> And Gap was a revolution in those days because their inventory turns were 20% higher than most, which in those days was revolutionary [and] meant you had fresher merchandise (Industry Expert D: p. 4).

Consumer focus has been often cited by the industry experts as fundamental to retail success – a particular strength of foreign retailers:

> I think one of the things we look at is loyalty and advocacy, and so that concept of customer for life, which is an indication of the strength of the brand and [the] propensity to buy the brand (Interviewee F: p. 7).

Greater sophistication and earlier adoption of technology and business systems are also attributed to the foreign retailers and their improved productivity:

> But around the late '90s [and] early 2000s, we saw a real switch from retailers that traditionally used the retail method: [they now] had an access to much more sophisticated technology that enabled them to manage their inventory in a much more detailed manner. Most of them switched from a retail method to a costing method about that time, and now they had the tools all of a sudden to track the aging of every sku and almost every item in their inventory. They had to get sharper with it because… the bottom lines were shrinking and the way to boost them was to be a lot smarter, turning your inventory more quickly, price it properly, and if it wasn't selling to discount it quickly (Interviewee L: p. 2).

6.6.1 Summary of Type of Impact 4 - Improved Productivity of Assets

The entry of foreign retailers established new standards for business sophistication and improved productivity of assets. The industry experts discussed this across the full spectrum of inventory and systems management, customer management, and overall brand management. They also indicated that, by 2007, the domestic retailers who had survived the foreign expansion were increasingly competitive on these measures. In summary:

> I now think obviously that, after a 20-year period or a 25-year period, Canadian retailing is in a much better position to compete. There's been a lot of culling that's taken place and as a result I do think we can compete more effectively one-on-one than we could before (Industry Expert A: p. 13).

6.7 Type of Impact 5 – New Competitive Behaviours

It is not surprising that the overall impact of foreign entry into Canada would result in the introduction of new competitive behaviours and the need for domestic retailers to respond with their own new behaviours to stay competitive. The culmination of the impacts previously discussed in this chapter lead directly to changes in marketing, operational, merchandising, and supply chain behaviours. In analyzing the interviews, the discussion of new competitive behaviours could be grouped under five headings:

- 6.7.1 Marketing Activity
- 6.7.2 Merchandising Strategy
- 6.7.3 Foreign Retailer Everyday Value Pricing versus Domestic Retailer Promotional Pricing
- 6.7.4 Vertical Integration
- 6.7.5 The Global Perspective

Of note, the importance of a global perspective in retail was a broadly shared opinion among industry experts. Regardless of whether the retailer operates in many countries or just one, the initiative to expand with a global perspective determines top-tier success.

6.7.1 New Competitive Behaviours - Marketing Activity

The foreign retailers were seen to enter the market with higher standards of marketing activity that were developed and perfected within their own home markets. Much of this was the extension of the well-developed retail brand formulas that the foreign retailers, such as the Gap and Abercrombie & Fitch, brought to the market. This point was emphasized in the comments of the following industry experts:

> ...[foreign retailers] taught us a lot... there was a lot more concern about the staff looking the part [and] exemplifying the lifestyle [of the brand]. That was a lot of new thinking. I think lastly, and the one that I got more involved in perhaps, was just marketing and communications, a much deeper understanding of brand, [and] a lot more early emphasis on the web and some of the skills of social marketing. They were talking about this and it wasn't even on our radar (Industry Expert F: p. 2)
>
> "Well [H&M is] a global collection as well, but you can modify. You can adjust per country. But marketing will always be global" (Interviewee M: p. 5).

The foreign retailers brought a comprehensive and dominating approach to their marketing that gave them an advantage over Canadian retailers. By comparison, industry expert J describes the marketing behaviour of domestic retailers as both less strategic and under-resourced:

> Often [Canadian apparel retailers] decide: 'oh, let's spend some more money on marketing to help sales', but they haven't clearly identified who they are. So your advertising is not going to work (Interviewee J: p. 6).
>
> The major thing they failed to do was invest in marketing... my guess is they spent a third of their [foreign] counterparts. The other thing that they have never done is [properly promote their] private label and [exploit] the brand… there is no marketing plan to market the private label like the Gap did. I once had a meeting with a guy who was president of a big specialty store and he says 'well we're trying to emulate the Gap brand, it worked for the Gap'. I said 'yeah but they spent an enormous amount of money in marketing and advertising and you spend basically nothing.' So if I had to make one major comment, it's the industry failed to react to the degree that I think they should have, and [their inaction] sowed the seeds for their demise (Interviewee J: p. 2/3).

However, foreign retailers could not execute established marketing behaviours without challenges, as noted in the observations of expert M on H&M and its standards of window and visual display in Canadian stores.

> …Fashion, price, marketing, [and] the visual side [determine] the way H&M positions itself with windows as an invitation to the customer. I think [quite a bit] changed [in its transition to Canada]... I didn't see nice windows. Nobody used props or different

> kinds of team in the window... It was tough to find people to do that because there was no experience... [H&M] had to make classes for [employees] and send them over to Europe to train and teach them (Interviewee M: p. 8/9).

What was also obvious in the interviews was the benefit foreign retailers had in building their marketing profile in Canada, as potential customers already had an awareness of their brand due to proximity to the U.S. market.

> Because what these new entries were doing was raising the bar in terms of presentation – it was showbiz and pizzazz and these higher spaces, more light, [better visuals], etc. But of course you're coming into the market with a brand that's already got high recognition, and the media had done the work for them already in announcing their entrance. So you know they got a lot of freebees coming in... There were different presentation tactics that we didn't really practice here... (Interviewee K: p. 2/3).

> ...if you have a strong brand people will flock to your store. To get a brand, you have to advertise, you have to have marketing, you have to be in magazines, commercials, TV, etc. If you can spread that over 800 stores [throughout] North America versus 80 stores in Canada, that makes a huge difference... Because Canada and the U.S. are, from a media point of view, almost integrated… There's very little difference between the two... (Interviewee L: p. 11).

Despite the accessibility of the Canadian market and the advantages that the foreign retailers had in marketing, one of the industry experts saw the potential for domestic retailers to claim a unique marketing differentiation:

> "It's proudly Canadian. So I think it's interesting – I think it's increasing and I think that retailers are trying to take advantage and promote that" (Interviewee K: p. 19).

The more general consensus among the experts was that the successful domestic apparel retailers approached their marketing consistent with their brand positioning, with a focus on the niche opportunity. These domestic retailers would expend resources in the stores and on-line instead of investing in large traditional marketing campaigns. Both industry experts O and S saw the future as being on-line globally and excellent at the store level locally, emphasizing the importance of expertise in these areas. The marketing mix for apparel retailers was seen as shifting as much as the competitive environment was shifting in Canada.

6.7.2 New Competitive Behaviours - Merchandising Strategy

Consistent with the perception that the foreign retailers' marketing activities were at a higher standard than those of Canadian companies, the industry experts also saw the merchandising strategies in a similar light – more evolved and sophisticated. For the majority of industry experts, the most significant change in merchandising behaviour was the frequency of inventory turns within the foreign merchandising strategy. When the Gap entered Canada in 1989, one of its lasting impacts on the competitive activity of domestic retailers was the frequency of inventory turns and the strategy of consistent newness to the consumer. As Industry Expert T recalls:

> ...talking about two seasons of deliveries and a sale twice a year [in] the '70s. In the 80s there was probably four seasons, but then when the Gap came in you had to get into almost monthly deliveries to compete… Canadian retail was not as good as the American retail in terms of product development, speed to market.

Numerous interview comments spoke to the acceleration of inventory turns, which has accelerated from the faster turnover of basics that the Gap introduced to the hyper-speed of cheap chic fashion at H&M.

> ...the whole change in the retail calendar. Much earlier to market, the sales period is expanding, expanding... and a lot of that is in response to competition, which comes from the U.S. entrance (Interviewee L: p. 19).

Over time, Canadian retailers would change their merchandising strategies to meet the challenge of more frequent inventory turnover. However, the industry experts cited the challenges and barriers that left the majority of domestic retailers lagging behind the foreign competition:

> So there was quite a flurry in the '90s when the department stores really cleaned up that supply chain and started to eliminate the distributors in Canada. Then as it evolved, eventually they were actually going right to the manufacturer, [which] took a lot of overhead out of the process. But they were forced to do that [really] because they were not competitive once the Gap came in (Interviewee U: p. 1).

> ...none of the major [Canadian] retailers have upgraded their information systems. They [only] use their information systems for one reason: to have a real time indicator of sales... on sourcing they paid no attention to that and all they tried to do was keep their prices lower and lower. So instead of using domestic vendors to be able to react quicker, they went offshore and that real movement to offshore began in 2006 and 2007, which was the wrong thing to do [in a way]... that [move] precludes quick response to trends (Interviewee J: p. 2).

> Of course, at the same time we had the downturn we had the Gap coming in and shortly thereafter you had Walmart, new competitors. I think a lot of people were probably slow reacting on the merchandising side of the business because they were so preoccupied with the financial difficulties that they were in because of the high rents and the high debt and soaring interest rates and an economic slowdown, which was cutting sales everywhere. It was a great confluence of stuff that happened (Interviewee U: p. 4).

In summary, the industry experts identified factors such as the cost of technology and the recession of the early 1990s as impediments to the speed of changing competitive behaviour on the domestic front. Those domestic retailers who have been successful in competing in the changed competitive market eventually adopted merchandising strategies that were consumer-focused, adapting to the strategies of successful foreign retailers.

6.7.3 New Competitive Behaviours - Foreign Retailer Everyday Value Pricing versus Domestic Retailer Promotional Pricing

There is no clearer statement of differentiation between the pricing strategies of domestic versus foreign retailers than the following quote:

> I remember the Gap saying 'we came into this new market and everybody was calling out their prices. We don't call out our prices. We would have it in the back in a rack and here's our clearance prices at the back, bring everybody back there'. So [Canadian retailers had to adjust] pretty quick. I also think that our department stores had led the way in terms of price reductions, doing deeper and deeper discounts before the height of the selling season to entice people [until] there's not much further that it can go (Interviewee K: p. 2).

The interviews revealed a general agreement within the industry that the foreign retailers set a new challenge for the domestic players by not only turning their inventory much faster, but also committing to an everyday value pricing strategy that consumers responded to in a positive manner, which is evidenced in the following comments:

> ...[it is not a new combination] to market the H&M brand as a very high fashion brand with extremely good prices. That is not a new business model, but I think it was very sexy of course that we came from Europe, that it was H&M and it was young and fast and the marketing was cool (Interview M: p. 3).
>
> Walmart and to a decreasing extent Sears have taken the price proposition through hard discount. H&M, Zara, and the Canadian retailer Le Chateau have created a differentiated discount offering of style at a price, [which was a] position created and once dominated by Old Navy (interviewee S).

What the industry experts observed was that the market over time became clearly differentiated on pricing strategy behaviour with a store such as Walmart at one end of the discount scale and Everyday Value Pricing (EDVP) on the other end. As noted above, fashion at good prices was not a new strategy by the time H&M entered the market in 2004. Some Canadian retailers had adopted the practice, such as Le Chateau and other foreign retailers. The challenge is finding the right strategy and sustaining it, as noted in the following observation:

> I think it's very difficult to go from high low to EDVP. You see Walmart struggling with that because they went back and forth in the U.S. and now they can't figure out how to do it... I think it's more the brand – [high-low pricing] has been associated with it right. So if you're brand has been associated with that for years and years, I think trying to get away from that is suicide right. I think you buy and structure to that as best you can. There's nothing wrong with that in a power centre" (Interviewee N: p. 8).

Amongst the many criticisms levied at the domestic retailers, the failure in pricing strategy received some of the strongest condemnations, as illustrated in the following excerpt:

> So I think [Canadian retailers] reacted rather than [anticipating and] strategizing for the long-term. They weren't thinking about creating a differentiation. They didn't

> understand the competition. It was way stronger than they ever thought about and price was the first thing that [foreign competition] thought about (Industry Expert K: p. 5).

As noted by expert K, the domestic retailers were pre-disposed to rely on price promotion to drive business, but many of the companies who dominated the domestic market lost their positioning to the focused foreign brands. As a result, several legacy companies have in fact exited the major malls as an outcome of their non-branded price-driven strategies. As noted by the following industry experts:

> ...the business model that the YM and INC. Groups pursue is really a completely supply side business, the promotional model. I mean their model depends on getting blue jeans at $3 and selling them for $10... They can sell twosomes, threesomes, foursomes, just pure volume. Those people, because they are advertising-driven or promotional-driven, they can't really survive in the malls because malls are still brand-oriented entities. I mean they want brand names to have some stability, some price discipline, and so forth (Interviewee P: p. 10).

> Dylex goes away and it gets really replaced by the INCs of the world. INC bought Fairweather, Suzy Shier, Urban Planet, Urban Behaviour, Costa Blanca. Everything that has to do with pricing and price... It's all import. It's all unit driven and it's all commodity driven (Industry Expert B: p. 5).

Industry expert R gave credit to Walmart for setting the standard for everyday value pricing across the retail industry, placing pressure across all sectors to re-position their promotional and pricing strategies. For many domestic apparel retailers, this was particularly problematic since their business strategy was substantially based on a price/promotion proposition rather than integrated brand positioning.

6.7.4 New Competitive Behaviours - Vertical Integration

The underlying business model for the success of the foreign retailers was their vertical integration. Without the differentiation of merchandise and control over the supply chain, the retailer brand formula is seen by industry experts to be far less viable. Multi-brand retailing can be successful though, as noted here:

> Intermix is a retail concept of brands. So that's an unusual scenario for a retail of mixed brands to come if you're not a major business like Nordstrom or anyone. But basically no other entry other than Walmart has come [to Canada] that's multi-branded. I don't think so, because the rest are all vertical. I think that vertical has a much better chance of succeeding than multi-brand and mostly because a multi-brand store is going to have exclusivity issues to deal with... (Interviewee I: p. 4)

For the most part, dominant foreign retailers entered Canada as vertically integrated companies. In 1989, there were very few Canadian companies operating in the vertical integrated model, the exceptions being Roots and Club Monaco:

> I think Roots was the first [retailer] in this country to be private branded, design and create their own product, and only sell their own product in their own stores. This would be in the late '70s... back then everything was made in Canada. It was fantastic (Interviewee T: p. 3).

By 2007, the successful Canadian retailers would also be fully established as vertically integrated operations:

> Lululemon is 100% vertical and Aritzia is 100% [as well]. They don't have any non-private label I don't think, [or they] might have one pair of pants in a season. It's very small (Interviewee I: p. 5)

This move to increase numbers of domestic clothing retailers to develop private brands and take production off-shore increased significantly during the time frame of this study. While this changed, competitive behaviour on the part of the retailer was considered essential for their survival against the foreign retailers, although it did have a very negative impact on the once large clothing manufacturing base in Canada. As noted here:

> ...one of the things I did notice during that 1989 to 2007 period was that we did see the Canadian retailer going to foreign production, if you go back to the '80s and even early '90s, a lot of manufacturing was still done within Canada... I think that's when the Canadian retailer became much stronger, that the margin improved significantly from what they had historically been (Interviewee C: p. 13).
>
> ...it's a zero sum game. So why wouldn't you believe that the Canadian retailers are going? The really bad news in this whole thing is the domestic apparel manufacturers – none of the internationals will source from them, even though

> they're in Canada. So many of the domestic ones who are still here do some sourcing but they lose share [and often go out of business] (Interviewee J: p. 13/14).

The geographical relationship between Canada and the U.S. favoured the logistics of the American companies. As noted by industry expert G, the north-south links were in fact more efficient than the east-west distribution required for Canadian firms. Along with the potential for less expensive transportation, the impact of timing was also a factor:

> Because of their distribution centres are dotted across the U.S., that's a big disadvantage for Canadian retailers [that have] to distribute across the country or land in Vancouver, come back to Montreal, and [then] do the redistribution. So their whole distribution network really supports doing business in Canada easier than a Canadian does. It's tough... So everything went directly into Montreal. Sometimes we'd be taking a markdown when it arrived in Vancouver because it had to be – It would be a month (Interviewee G: p. 10/11/12).

As with most competitive behaviours, the industry experts viewed the domestic retailers as generally late to adapting new behaviours over the period of this study. Despite some of the noted limitations, the successful ones had made up the gap with the more advanced foreign retailers and were increasingly competitive on key business strategies, including the development of private branding and the global sourcing necessary for vertical integration.

6.7.5 New Competitive Behaviours - The Global Perspective

The global perspective of retail revealed itself in a very subtle way until the collective analysis of the interviews was completed. In particular, the interview with industry expert O was most significant in revealing the global perspective as critical to successful retailing: the key to success became finding a sustainable niche that was not only competitive in the local market but could compete internationally, supporting the business through a sustainable global supply chain strategy. According to industry expert O, the business point of view had to be global across all aspects of the business, whether the business was currently doing business in one country or one hundred. This perspective is elaborated on by expert K:

> ...I mean you're dealing with some very sophisticated competition… and when you know you see the tactics that the Walmart uses, I mean you think… pricing, looking at location issues, purchasing, you've got to compete with a global network that can source and sourcing I think is going to become increasingly a big issue (Interviewee K: p. 24).

This is further reinforced by the following observation:

> I think the reality is that brands are global today… it's all about marketing. A brand that has a marketing global awareness… any brand that is an internationally recognized brand is going to be wanted in a country like Canada and it's going to be considered cool... (Industry Expert I: p. 3).

The Canadian retailers saw this global marketing strategy as both a challenge and increasingly more an opportunity. Looking at the downside, some of the industry experts had the following to say about why Canadian retailers have difficulty changing their competitive behaviour to meet the impact of foreign entrants:

> ...I mean I always make the argument that one of the reasons that we are not as innovative and we are not as outrageous in our successes in retailing is because we just can't do it in Canada, unless you have ambitions beyond Canada because I don't care what you take, after you hit the 100th store you are really going into C's (third tier mall) if you're mall oriented. I think we have about 60 really good malls in Canada... our biggest failure I believe is that we are not ambitious enough and we cannot generate enough capital to venture outside of our borders. So we are at the mercy sometimes of these international retailers coming in and eating our lunch in Canada. That is really the bottom line I believe (Interviewee P: p. 18).
>
> But it's very hard for a fashion business to play on being Canadian and have any followers. It's just you know – that's a non-starter. The global aspect of a fashion brand I think is one of the first criteria a customer looks at when they're choosing a brand is I'm wearing something that has credibility and fashionability and is in all the worldwide magazines (Interviewee I: p. 6).

On the other side of the discussion is the identification of those domestic companies that have taken a global perspective to their business and have been successful in doing so. Industry experts articulated the importance of a global view as follows:

> I think the Canadian retailers that survived or emerged in the '90s and in the next decade were the ones that always thought of themselves as global. Even though they thought locally, they operated based on the fact that they would be competing

> globally which allowed them to look at opportunities to think big (Interviewee D: p. 8).
>
> Interviewee D quoted a Canadian apparel retailer who had expanded to other markets: "until you test your metal in different markets where you're not controlling it and figure out what you're not doing well, you'll never survive" (p. 8).
>
> So they've got to go to the models that are working and Aldo is a good example of one that works who have got the international global presence but are still running it close to the marketplace and doing all the right things and staying the course (Interviewee F: p. 10).

The global perspective that is key to successful competitive behaviour in the apparel industry references some of the foundational research on retail internationalization and the strategy of adapting to the foreign market or executing a standardized brand entry. The industry experts had opposing views on this point. Speaking of taking a company into a foreign market, industry expert H had the following view:

> ... it can help you evolve your concept and it makes you even better because you go into a very competitive market, you do play with the dialing up and down, and then you come out with maybe even a better concept at the end of the day. And then once you have that set – I do believe in standardization. I think Esprit is the best example of why you can't go country by country because then I think it loses its sense of brand (Interviewee H: p. 19).

On the other hand, expert B sees the value of a foreign retailer adapting its behaviours in the new market to build a customer relationship:

> ...unfortunately, I think they are still known as American retailers who have some good stuff as opposed to 'this is my Old Navy' or 'this is my Mexx'. [Mexx's Canadian licensee] took a lot from Europe, but when Europe didn't do what they needed, he knew what the market needed and he went out and did it. So it was a hybrid of sorts. So it was really a Canadian business (Industry Expert B: p. 17).

Whether adaptation or standardization was considered to be the more successful competitive behaviour for a foreign retailer, the following observation succinctly summarizes what most industry experts believes is the reality for consumer's awareness and knowledge of the retailers they shop: "...if you surveyed 100 consumers and you asked them to identify foreign domestic country of origin, not very many of them could do it" (Industry Expert A: p. 25).

6.7.6 Summary of Type of Impact 5 – New Competitive Behaviours

The discussion of competitive behaviour demonstrates that, by 2007, the retail business had become a global marketplace, but consumers had become less aware of where a retailer had originated. The industry experts would also observe that as the retail internationalization process in the apparel industry was underway, the best domestic retailers elevated their competitive behaviours to compete successfully with the foreign retailers, which is shown in the data from the Quantitative Study of Mall 1 and Mall 2.

Within the category of apparel retailing, competitive behaviour comes down to the following in the view of Expert I:

> I think that at the end of the day, the reason that the global brands are more successful than Canadian brands (and will continue to be more successful than Canadian brands)... [is] price: [the company] who makes the most goods gets the best price and is also first to market, [and] has more margin to be able to markdown. So the most successful brands are going to be the global brands.... [and] the customer is going to vote on the cool quotient and price. Some people only vote on cool quotient, some people only vote on price (Industry Expert I: p. 11).

6.8 Summary of Chapter Six – Analysis of Industry Expert Interviews

The Dawson (2003) model was used to examine the impact of foreign retailer on the host country, providing an insightful framework to assess what the impact has been on the apparel sector in Canada between 1989 and 2007. Industry Expert P summarizes the evolution of the most significant period of sectoral competitive change:

> ...[the Gap and other foreign retailers had] more sophisticated approaches and much more professional approaches to the business and to multi-store operations, [which] started to eat away at some of the market share of the original Canadian retailers.

> [For me], that was really the big moment in terms of how sophisticated retail became in Canada (p. 2).

The Dawson framework provided the industry experts with a thought-provoking structure to reflect on what had happened to Canadian retail after the Gap entered in 1989, and how the market was re-structured by 2007. It also gave this study the opportunity to extract the key points of impact and the evolutionary nature of the change that resulted from foreign retail entry. However, it is important to state that the empirical data analyzed in Chapter 5 was pivotal to testing the framework's ability to assess the impact of foreign retailers on the host market. Without this data, it would have been impossible to measure the intensity and degree of the impact, and track the evolutionary nature of the retail internationalization process.

6.8.1 Industry Expert Observations Outside of the Dawson Framework

The industry experts spent considerable time discussing the retailer-landlord relationship and its role in the process of retail internationalization. This third party factor is not identified in the Dawson framework as having an impact on the expansion process, yet it was shown to be pivotal to when and how the foreign retailers were able to enter and grow in the market. There are some situational aspects to the role of landlords in this study, given the focus on apparel retailing primarily in malls. The role of landlord as gatekeeper in the control of access of sites is especially relevant to fixed store retailers and must be seen as a key factor in the study of operational expansion for both domestic and foreign retailers. To the extent that the landlord maybe viewed as an 'enabler' to foreign entry, and not a passive third party then their role in the study of foreign impacts should be factored into future study.

There was also a temporal element to the industry expert comments that does not fit into the current framework. This specifically relates to the question of embeddedness: at what point in time does a company become part of the host country competitive structure? There is a general perspective in the model that a foreign retailer will remain a foreign retailer regardless of stage of entry and growth in the host country, however, the industry experts would view this differently, as was noted in several quotes. Certainly for H&M arriving in 2004, they were more focused on the other foreign retailers operating in Canada than they were on the domestic retailers. To the extent that retail internationalization continues to escalate the distinction between foreign and domestic, these categories may need to be defined using new criteria in the future.

Industry experts were also turning their sights to the impact of the internet, such as the broad spectrum of e-commerce and social media, and the growing importance of its role in the future. This of course needs to be tempered by the time frame for this study, which ended in 2007. Looking specifically at the period under study, the role of the internet was significantly less developed and impactful than it is today. However, one must acknowledge that e-commerce currently has a large role in retail development, which should be considered in future iterations of the framework.

It is acknowledged that the structure of the study was based on the Dawson model, which may have limited the exploration of internationalization processes outside of these parameters. However, there is some indication that the pace of change in the expansion of international retailing would align with a modified framework that can capture the dynamic changes currently underway. This will be addressed in the concluding chapter, as will the overall findings of the study and the contribution made by evaluating the Dawson framework with both empirical and qualitative research.

Chapter 7 – Conclusion

7.1 Overview

Through the later decades of the twentieth century and into the twenty-first century the pace of retail foreign expansion has accelerated; bringing with it the recognition of the complexity of the retail internationalization process and the need for further study in this area. The fundamental decisions of adaptation or standardization for internationalizing retailers continue to prevail; while the importance of brand transfer, knowledge transfer and the multiplicity of factors leading to continuity or discontinuity of foreign operations have been studied as increasingly important to understanding the process. Significantly, the earlier concentration on retail expansion into developing countries has given way to the realization that retailers have been most active in their entry into developed markets. The analysis of the Canadian apparel sector within this study is a case in point; with first time internationalizing companies such as the Gap and experienced multi-nationals such as H&M making their moves into established marketplaces. What is evidenced through the progression of research on the internationalization process and substantiated in this study is that the context of the market and the cause-effect relationship between foreign and domestic retailers must be considered in understanding - what is the retail internationalization process? The perspective of the firm must now be seen as too narrow a lens to analyze what occurs when foreign expansion is undertaken.

In 2003 Dawson identified the need for a model to study the impacts of retail internationalization. Since then little research has been conducted to directly address the question of impacts even though the pace of internationalization has accelerated and the cause-effect-response relationship between foreign retailer and host country has been substantial. This study set out to investigate the impact of foreign entry on domestic retailers in the host country using the Dawson framework, and specifically to explore impact in respect of *changes in sectoral competitiveness.* As detailed in Chapter 4, the objectives of the research were to address:

1) What are the impacts of foreign retailer entry and how can they be measured over time and by degree of impact?

2) What are the changes in sectoral competitiveness that can be measured and interpreted?

3) What processes are used when responding to the changes in sectoral competitiveness?

4) What gaps in the Dawson model are identified from this application?

In response to Dawson's call for the "design and undertaking of empirical surveys to measure the presence, processes and intensity of the impacts of foreign retailers.", Dawson (2003, p. 205) the author attempted to make a contribution to the understanding of the retail internationalization process and to further develop the Dawson model as a theoretical framework for the study of this complex process.

In order to fulfill these objectives the research was undertaken in two stages. The first stage was a quantitative analysis of retail activity in the apparel sector in two major Canadian shopping centres between the years 1989 and 2007. Recognizing that the competitive retail market structure is manifest at the local level, even for internationalizing companies, the mall was used as microcosm for the broader market; providing meaningful empirical data to assess the *when* and *what* of foreign entry impacts. The second stage was a qualitative analysis where twenty-one industry experts were interviewed utilizing the Dawson model as the framework for the questions. Analysis of the interview content provided important explanation of the first stage findings, expanding on what occurred, *why* foreign retailers had a significant impact, and why domestic retailers responded in the manner that they did. The findings of these two studies were discussed in Chapters 5 and 6. The conclusions of the research in meeting the objectives of the study will be presented here. In addition the author's perspective on the contribution of this research to the study of retail internationalization impacts, the limitations of the study, and some considerations for future research will also be presented.

7.2 Conclusions from the Study of Impacts in the Process of Retail Internationalization

The mixed method approach to the study of impacts in the process of retail internationalization revealed strong empirical evidence, enriched through qualitative insight into the changes in sectoral competitiveness that occur when foreign companies enter a host market. The analysis of foreign entry at the local level of the major shopping centre over a specified time period providesd a frame which allowed observable measurement into both when impact occurs and the intensity or degree of impact. In addition, the responses of the domestic retailers in the host market were also identified in this analysis. The mall data allowed the researcher to quantify these observations and trends, providing an important contribution to the understanding of the impact of foreign entry in changes to the sectoral competitiveness. The quantitative analysis effectively laid the foundation to meet the objectives of the research; providing further understanding of *when* and *what* happens during foreign entry into the host market. The qualitative interviews provided the data to explain *why* the effect and responses of internationalization occur. The findings arising from analysis of these interviews were presented in detail in Chapter 6. In particular, Figure 6.1 summarizes the types of impacts and their sub-factors as identified by the experts. Collectively the two stages of this research met the four objectives of this study as presented here.

7.2.1 Retail Internationalization Impacts can be Identified and Measured at the Local Level

The retail internationalization process has been extensively studied at the macro level, capturing the generic processes involved in a retail company expanding into one or more foreign host countries. In terms of pre-entry activities, this macro level investigation has generally proven satisfactory in the explanation of the processes of internationalization as discussed in Chapter 3. Given that most research has been undertaken from the firm's perspective, the macro level post-entry analysis has been effectively measured by the success or failure of the company; however, the macro level approach does not allow for measurement of impacts on the host market until the scale of the foreign entry is of a sufficient size to be measured. In order to meet the first research objective it was necessary to move from the macro level to the micro level in identifying and measuring impact of foreign entry.

Focusing on a specific point of entry for foreign retailers overcame the challenges of macro level analysis, and shifted the focus to the micro level. Access to data that captured the key measures of foreign entry – stores, square footage and sales – was tracked over time; enabling the study to analyze whether impact could be measured. Based on the results presented in Chapter 5, it can be concluded that impact can be measured both on a temporal and intensity basis. The results of the quantitative analysis revealed that there is a change in market share when foreign entry occurs in a defined market (such as a major shopping centre), drawing customers away from existing retailers to the new entrant. This change in market structure is demonstrated in the number of stores operated by foreign rather than domestic operators, as well as the respective shares of square footage and sales. This impact can be tracked through the timing of entry and the degree of impact on the domestic sector. Using these dimensions, measurement of the impact of retail internationalization provides important knowledge on when the process occurs.

7.2.2 Retail Internationalization Impacts are Observable and Definable

The ability to observe and define the impacts of foreign retail expansion is as important as the measurement of when and to what degree an impact occurs. The analysis of the shopping centre data revealed that the impacts of foreign retailers are unique for each company entering the market; however, this analysis provides limited insight into the underlying process. The method of tracking the activity of multiple firms over time and their interaction with the host country reveals a more significant understanding of the internationalization process; revealing definable impacts that go beyond the individual firm. From the quantitative study, this study concludes that foreign retailers were able to establish a dominant position in the host country based on a differentiated format: stores that were larger in size and broader in consumer segment than the domestic sector. This large square footage unisex format was not unique to one foreign retailer, but defined the business model for the majority of foreign successes. Specific formula employed by each foreign retailer was observed to be sufficiently differentiated within the unisex format to establish a market position. It was also observable that over time retailer positioning would evolve; impacting which retailer would be most dominant at any given point in time. The change in the competitive structure of the apparel sector was a direct result of the entry of this large unisex forma, brought to the market by new foreign entrants.

It can be also concluded that the foreign retailer's large unisex format positioned them to meet the needs of the expanding shopping centre environment. The results of the first stage study found that foreign retailers were able to further their dominant position as landlords re-configured the mall space. These foreign companies seized the opportunity to replace the declining department store format with a new type of mini-anchor, which was well suited to the large unisex format. From the macro level tracking of foreign entry the researcher was able to identify the impacts of foreign entry, track changes over time and measure the intensity of the impacts on the mall market.

7.2.3 Measurement and Interpretation of What are the Changes in Sectoral Competitiveness

The first stage identified that sectoral restructuring did occur as a result of foreign entry and this could be both measured and defined at the local level through an analysis of the data from the two malls. The industry experts confirmed that restructuring did occur between 1989 and 2007 and were able to provide important insight into what aspects of foreign retailer entry contributed to the change in competitiveness. The industry experts confirmed that the foreign retailers brought a more sophisticated and competitively advanced approach to retail than existed in the Canadian market at that time. They were able to explain the impact that a dominant size and broader target audience of a unisex offering had on domestic retailers.

The interviewees were able to provide insights that were not directly evident from the quantitative study, such as the notion that both the domestic retailers and the landlords enabled the foreign impact. The industry experts used terms such as *oligopoly* and *complacency* to describe the domestic apparel sector at the time of this foreign expansion. It was their collective view that many of the domestic retailers played a significant role in their diminished market position; not anticipating or responding effectively to the foreign entrants. This was not to suggest that foreign entry would never have occurred. However the experts believed that the intensity and scope of impact might have been different had domestic retailers reacted sooner and with effective competitive strategies. These experts also observed that the landlords played a key role in the entry of foreign retailers, offering prime space at preferred leasing costs and displacing domestic retailers in the process. The real estate experts interviewed did not agree completely with this view, as they saw a more complex series of events with department stores exiting and the malls being re-configured as opportune for foreign retailers. However, they did acknowledge that the new entrants were appealing and that favourable deals were negotiated as a result. Thus, the cumulative effect of both the domestic retailers' complacency and the landlords pro-activity allowed foreign retailers to effect the re-structuring through an enabled internationalization process. As set out in the second objective for this research study, the combined findings of the Quantitative and Qualitative Studies revealed the measurement and interpretation of the changes in sectoral competitiveness as a result of the internationalization process.

7.2.4 Innovation within the Internationalization Process as Key to Success for both Foreign and Domestic Retailers

Whether measuring the types of impacts of foreign retailer entry (Objective 1) and their impact on changes in sectoral competitiveness (Objective 2) or the processes used by domestic retailers in response to these impacts and changes as set out in Objective 3, it was found that innovation was a key to success. Martenson (1984) was amongst the earlier researchers to identify the role of innovation in the retail internationalization process through her study of IKEA and its differentiated offering. As proposed by Dawson (2003), changes in sectoral competitiveness would be brought about by the introduction of new innovations in competitive activity. The entry of apparel retailers with well developed brand concepts was seen by the industry experts as the dominant innovation that contributed to foreign entry and its impact on the host country. From the first notable brand retailer (the Gap) through successive entrants from both the United States and Europe, the differentiated private label and the fully integrated brand offering was commonly recognized by the industry experts as the game changer in international retailing. In stark contrast to the multi-brand and promotional driven concepts of domestic retailers, the innovation of a retailer as a brand introduced a new consumer focus to the retail strategy. Domestic retailers were slow and often unable to transform to a brand approach. By the later part of this study, the successful retailers (both foreign and domestic) were identified by the industry experts as having well developed retail brands built upon a consumer centric offering.

The findings of both the quantitative and qualitative studies revealed that the retail brand concept would prevail as the dominant innovation in shopping centre apparel retail between 1989 and 2007. Foreign retailers were considered the leaders in retail brand strategy and execution, each one differentiating itself within the market: from the solidly American Gap brand to the fast fashion brand of the multi-national H&M or the consumption driven lifestyle brand of Hollister. As illustrated in the data from the first stage, the experts would expand upon the finding that the change in sectoral competitiveness would impact the established foreign retailers in the host country as much as the remaining domestic retailers. The rise and fall of the Gap in the Canadian market exemplifies the process of retail internationalization over time. As proposed in Dawson's model, the study of impacts is intended to reveal the cause-effect-response relationship between foreign retailers and the host country. The evidence from this study indicates that the foreign retailers would eventually themselves need to respond to changes in sectoral competitiveness. In addition, the interviews highlight the work of Hess (2004) on the existence of embeddedness and the relevance of its role in the internationalization process. This will be addressed in the considerations for future research.

7.2.5 Further Understanding of the Dometic Response to Changes in Sectoral Competitiveness

There is an underlying assumption in the retail internationalization process that the foreign entrant is expected to be superior to the domestic competition – the foreign retailer is expected to have a negative impact on the domestic retailer. The evidence from the quantitative analysis would confirm that this assumption is justified, even in developed to developed country internationalisation. The changes in sectoral competitiveness cause several forms of churn amongst domestic retailers, the most dramatic being the close of the business but more frequently significant alterations to the business model or retail format. It can be concluded from this study that such impact does occur and that it can be temporally linked to changes in the competitive structure of the sector due to the entry of foreign retailers.

However, not all domestic retailers will be negatively impacted by the entry of foreign competition. Significant numbers of domestic retails are able to withstand the initial impact of the entry and find their own dominant position in the market over time. The Quantitative Study identified a group of Canadian apparel retailers who have continued to compete at the top levels of performance. The majority of these retailers were well positioned prior to the foreign expansion into Canada and, for the most part, they were able to retain or increase their market position and market share. Notably, a niche strategy was most often employed by these successful domestic retailers – avoiding direct competition by choosing not to alter their formats to match the large unisex model of the foreign countries. While this may have resulted in Canadian retailers losing some of the overall share of square footage and sales, their performance on the key measure of sales per square foot equaled or was better than the best of the foreign retailers.

Building on the conclusions related to retail innovation within the internationalization process, the industry experts provided important insight into the successful responses of domestic retailers to the entry of innovative foreign brands. This was best summarized by Industry Expert S with the term 'finding the white space', which refers to the process of a retailer finding a differentiated position in the market that is not currently dominated by a competing retailer. Yet the entry of foreign retailers can interrupt this process for domestic retailers as the new entrants cause the competitive structure to change, filling in a white space or pushing a domestic retailer out of their space. This action forced successful domestic retailers to find their white space through either a niche position or channel diffusion.

The successful niche retailers retained a strong position in the shopping centre market, competing against the large foreign unisex retailers by creating a well defined brand that the foreign competitors were not dominating: Aritzia fills the gap in price point and fashion between the foreign unisex players and the designer labels, i.e., Zara and Coach; Danier dominated the leather apparel market; and Lululemon created a lifestyle niche built on yoga apparel. As evidenced in the mall data and explained by the experts, these niches have proven their ability to sustain the numerous impacts of foreign retailer entry between 1989 and 2007.

For several domestic retailers, the response or search for white space took the form of channel diffusion. This was identified on two different levels: 1) the significant number of retailers who searched for locations better suited to their promotional driven formula, categorised as “chasing the Walmart Effect”, and 2) innovating channel diffusion by taking an apparel brand to the consumer. This later response has proven to be highly successful for two retailers: Mark’s and Joe Fresh. The specifics of the channel diffusion options were discussed in both Chapters 5 and 6.

In conclusion, the changes in sectoral competitiveness within the internationalization process caused domestic retailers in the host market to search out a sustainable white space for their market position. This study identified two specific strategies of niche branding and channel diffusion as successful responses employed by Canadian retailers to compete in this new market structure.

7.2.6 Impacts and Responses - Comparing the Best Against the Best

The quantitative analysis of retail performance through the market share of various performance measures captured by the foreign retailers over the period 1989 to 2007, showed that the change in competitive structure was dramatic during this time as foreign retailers increased market share, which was reflected in their domination of square footage and sales in the shopping centres. Taken alone, these measures seem to show that domestic retailers were overwhelmingly impacted in a negative manner; however, many domestic retailers did continue to grow, benefiting from the overall growth of the apparel categories in these malls, even if they did not grow their sales at the same rate as the foreign competitors.

On the matter of productivity, in this case measured as sales per square foot of retail space and considered a key measure of performance, domestic retailers were found to either equal or out-perform the foreign retailers (see Tables 5.17 and 5.18). Thus, this study concludes that, as the change in competitive structure unfolds over time, the domestic retailers are able to respond to the impact of the foreign entrants and perform at a competitive level. This also speaks to the wider range of individual firm competence that exists amongst domestic retailers compared to the foreign retailers. It has been well documented that retailers who engage in foreign expansion have had proven success in their home market – viewed as bringing best-in-class operations to the host country. The churn in the domestic market caused those retailers unable to adjust to the changing competitive market to exit, leaving a stronger domestic compliment of retailers. Therefore, the changes in sectoral competitiveness can be seen to result in an overall strengthening of the market.

7.2.7 The Process of Retail Internationalization – Different Perspectives

The Dawson (2003) framework proposed that the study of retail internationalization should move from looking at activities or events to the study of processes. It is concluded from the first stage of this research that the impacts of internationalization must be studied over time to understand when and what happens in the process. These impacts can be identified with a point of entry, but a more fruitful assessment takes the cumulative effect of multiple entries into account, documenting the responses of the domestic sector that reveal the full process of retail internationalization. The competitive structure of te market continues to change with each new entry and exit and with each response by both foreign and domestic retailers. Within the context of this study, the question of when retail internationalization occurs would be seen to be continuous – as series of impacts and responses that contribute to a changing competitive structure.

Industry Expert O articulated the view that retailers must have a global perspective on their business in order to succeed in today's marketplace. This is a point of view supported by all of the interviews, expressed in several different ways. The global perspective goes beyond the operational competitive environment and was presented as a broader business philosophy and strategy. To simplify this perspective, global expansion requires a successful retailer to have a brand concept that can dominant a segment of the market in any marketplace and sustain itself over time. The issue is not whether the retailer is competing only in its home market or in many markets, but whether the internationalization process is sufficiently pervasive to have an impact in all markets. Either the retailer goes to foreign competition or the foreign competition comes to the retailer. This perspective also captures the full retail business model by suggesting that global sourcing and knowledge exchange are as integrated into the internationalization process as operational expansion. In fact, some experts, including O, observed that the difficult competitive battle ahead focuses on supply not for consumers.

This global perspective is significant to the study of retail internationalization as it challenges the underlying assumptions of defining foreign and domestic. An aspect of this question was raised in the analysis concerning the definition of domestic. If a domestic retailer comes under foreign ownership but continues to manage its business from the original home country, is it domestic or foreign? Also, if it expands to other countries and over time operates in more locations outside of the home country, is it domestic or foreign? These are not questions that were intended to be answered in this study, but they are raised within the findings of this study and certainly are critical to the understanding of the internationalization process.

7.3 Contributions of the Thesis

The retail internationalization process has been shown to be complex and evolving as the rate of foreign expansion accelerates and research attempts to keep pace. It was the aim of this study to address a relatively new area of understanding in the internationalization process. Initially put forth by Dawson (2003) and followed by Coe & Wrigley (2004, 2007) with further refinements, the need for a theoretical framework to study the impacts of foreign entry on the host country has received little study in the past 10 years. This study is an initial step toward contributing to the understanding of the internationalization process and to assessing the theoretical framework for the study of this process.

7.3.1 Empirical Study of the Impacts of Retail Internationalization

The lack of empirical studies of retail internationalization has generated a call for such research, including the request from Dawson (2003). There are numerous reasons for this gap in research, most notably the general practice of gathering retail performance data at the macro level. This makes it difficult if not impossible to measure cause and effect relationships within the competitive structure of the market, as a level of scope and scale is required for competitive activity to be measurable at the macro or national level. In order to effectively measure the impact of foreign entry, empirical data would need to be collected operationally at the local level. This challenge was addressed by proposing that the local market could act as a micro-market and that the analysis could be conducted within this microcosm of the market. For several reasons, which have been documented in Chapter 4, the major shopping centre was identified as an acceptable microcosm for the study of the apparel sector.

This approach to research focuses on the impact of foreign entry at the point of impact, which has demonstrated that it is possible to measure impact. Utilizing the mall as a market provided insight into the full complexity of a foreign entry, facilitating the study of the cause and effect relationship of foreign entry. This is most significant on a temporal level, as the impact of retail internationalization must be studied as a process.

The availability of performance measure data from the shopping centres was an important contribution to the study of impacts of foreign entry because it allowed the degree of impact to be quantified. The ability to replace anecdotal evidence is increasing, i.e., through the statistical measurement of the number of foreign retail stores. For example, the market share of foreign retailers has increased from 24% to over 50% in eighteen years, which is an important contribution to understanding what the impact has been. There are of course limitations to the interpretation and extrapolation of the data from two malls, but the process for empirical analysis has been effectively established.

Finally, this study has clearly identified that impact is in fact an output of the internationalization process. The ability to measure the output and build linkages to the causes is an important contribution to our understanding of the process. Within this study measurement is confined to specific categories and formats of retail - apparel retailing in major malls; the Canadian market and a specific time frame. Therefore the output as measured must be defined within these boundaries. There is however a methodology here for researching impacts that is transferable to other defined retail internationalization processes.

7.3.2 Study of Developed to Developed Country Retail Internationalization

The value of studying the foreign expansion of retailers from one developed country to another developed country is significant for two reasons: 1) it neutralizes many of the other extraneous factors and considerable assumptions when studying the entry into developing countries, such as political or socio-cultural considerations, which are either not relevant or can be fully disclosed when analyzing a developed host country, and 2) overturns the assumptions generally associated with entering developing countries, such as the superiority of the internationalizing company, which are seen as having less relevance in the future global market. In addition, access to the internet and the spread of information must be seen as accelerating the pace of change for retailers in developing countries in advance of the actual physical entry of developed foreign retailers.

This study also provides insight into what happens when the best of foreign retail compete with the best of the domestic retail as well as the best of other foreign retail. The Canadian market has a relatively unique position in its advanced stage of apparel retail internationalization, providing a perspective of what could happen elsewhere. The author does not assume that there is broad interest in the Canadian apparel sector, but rather that the level of international competition experienced in this developed market is projected to continue in other markets, both developed and developing; suggesting the need for continued study of changes in sectoral competitiveness.

Fundamental to this study is the classic economic paradigm of structural changes in the marketplace as a result of competitive behaviours that bring about certain responses which in turn have performance consequences for all players involved. It has been demonstrated that foreign entry played a significant role in these structural changes in the Canadian apparel market. There is also evidence that some change was impacted by domestic retailer behaviours; certainly the structure of the market in 1989 was conducive to such change. Over time the dynamic evolves beyond a simplistic foreign impact and domestic response to a more complex study of embedded foreign impact/response and innovative domestic impact/response. It is the culmination of all of these forces that contribute to the changes in sectoral competitiveness. Future study of the impact of foreign entry in retail internationalization in both developed or developing countries will need to investigate this structure- behaviour-performance relationships within each market; potentially contributing to an economic model of the retail internationalization process.

7.3.3 The Dawson Model: A Critique

This study offers an application of the Dawson (2003) model that has not been conducted in other published research. It has demonstrated that the framework as proposed by Dawson provides a foundational model for the study of the impacts of retail internationalization. The specific investigation of the framework's proposed changes in sectoral competitiveness resulted in an empirical study at the micro-level to successfully study impacts and responses. The model also established a context for the development of the interview questionnaire, bringing a structure to the contributions of the industry experts that could be analyzed and reported on. This structure was extremely useful in focusing discussion. It was also apparent that the model contained some inherent beliefs, originating from early research by Hollander (1970) and Goldman (1981) that foreign retailers would have superior competitive qualities that would be the catalyst for positive change to the host country structure. The validity of this perspective should be challenged in future research. From this application, and in meeting the fourth objective of this research, there are some proposed modifications for future development of the model:

- The model identifies six distinct types of impacts, but the results of this study would point to considerable connectivity between the six types; which needs to be accounted for in future. An example of this would be the factors that surfaced in analyzing changes in competitive behavior, many of which referenced changes to the demand chain. Socio-cultural factors that frame the market structure pre and post foreign entry were found to be essential to the interpretation of impacts and the changes to sectoral competitiveness and not an independent type of impact. Over time consumer literacy is also seen to have evolved in the internet era to increasingly have less direct relationship to bricks and mortar foreign entry; this will be elaborated on later in this chapter. These findings from the study and many others discussed through out the dissertation point to the need for re-evaluating the structure of the model from six separated types of impacts within the retail internationalization process to a relationship model for the types within the process.

- As the model evolves, it should incorporate an understanding of the host market in order to establish a context or basis for evaluating impacts. In the undertaking of this study, it became evident that the context was essential before the research could progress; without a base there is no assessment of pre- and post-impacts of retail internationalization.
- There is an important temporal condition to the study of impacts and this should be framed in the model – both in terms of the point in time and the evolution of a process such as internationalization over time. To exemplify the significance of point in time, it was observed that Benetton never had the impact on the market that might have been anticipated based on their European dominance. Much of this can be attributed to the timing of entry, which was pre-free trade agreements, and the general opening of foreign markets and consumer receptiveness. By comparison, the need to study impact over time is exemplified by the Gap, whose initial timing was perfect and benefitted from first mover advantage, but over time became a victim of the impacts of subsequent new foreign entry.
- The model is founded on the study of physical retail operations entering the host country in the form of bricks and mortar stores. Throughout most of the 1989 to 2007 timeframe, it was evidenced that the specific point in time of foreign operational entry was the ‘measurable point of impact’ on the host market. The

indicators of consumer awareness and anticipation, specific to the Canadian-United States proximity, were noted but not seen as pre-empting the physical entry impact. By example the existence of the Gap in the United States and some level of consumer and competitive awareness of its existence did not pre-empt the impact of entry in 1989. As has been discussed previously, the perspective of the future of retail internationalization in 2012 is considerably different than in 2003. The role of the internet, which provides global access to both information and product, has changed this process dramatically. Consumer literacy can no longer be tied to bricks and mortar foreign expansion or confined to small segments of early adopters in a host market. It is suggested that the scenario for consumer literacy and access will be much different looking ahead and should be incorporated into the future iterations of the Dawson model.

Finally, it is suggested that the thesis has provided a meaningful contribution to assessing the proposed Dawson model's application for the study of the impacts of retail internationalization. It was demonstrated that effective application of the model must include: a base assessment of the host market at a defined point of time to conduct quantitative research at the local level; measuring cause and effect impacts and conducting qualitative research to provide explanations of the when, what, and why of cause, effect, and response. Further the temporal dimension of the retail internationalization process cannot be minimized as the dynamic of sectoral change must be considered as evolutionary and not static. All of these findings point to progression of the Dawson model from the proposed six independent types of impacts to a model that captures pre and post market entry; the inter-connectivity of the types of impacts; and the multi-dimensional forms of foreign expansion that include virtual as well as physical internationalization. It is conceivable that this model could contribute to the further development of an economic framework specific to international retail business that has been investigated but not resolved. Where early efforts to apply manufacturing based international business models have failed to explain the retail internationalization process, the more recent work discussed in Chapter 3 coupled with further study of impacts may lead to such formulation.

7.3.4 Contribution of the Thesis – Final Thoughts

Reflecting back to the foundational research on retail internationalization, this study has brought forth further insights into the subjects that Martenson (1981) in particular but also other early researchers explored on the role of innovation and the dynamic nature of the internationalization process. The findings of how domestic retailers responded to foreign entry in the Canadian apparel market are consistent with the concepts presented by Martenson (1981) in the Combined Dynamic Model as discussed in Chapter 2. It might be argued that this study furthers the understanding of domestic response as either flexible or rigid through an empirical interpretation of the cause and effect relationship that occurs in the internationalization process. Where Martenson isolated one innovative impact, IKEA, the study of the apparel retailers here demonstrates the greater dynamic of repetitive innovative impacts. Given the current pace of retail foreign expansion the reality of constant new entrants and changing market structures is one that most retailers must respond to in-order to survive. The proposed revisions to the Dawson (2003) model made here based on this study should provide significant insight into the future study of the internationalization process in an increasingly dynamic period of retail market change.

And finally, the study has established that not all innovation or positive impact is caused by the foreign retailer. Within the Canadian apparel sector it was demonstrated that domestic retailers are capable of innovative concepts that can also impact sectoral competitiveness, Lululemon and Joe Fresh are prime examples. This is important learning for future retail internationalization as companies and researchers might focus more attention on analyzing the host market and its domestic retail structure.

7.4 Limitation of the Study

The detailed review of the limitations of the study's methodology is provided in Chapter 4. In summary, it should be noted that the findings and conclusions of this research are limited by the study of one market in one retail category in a specific time period. The focus of the study was also confined to one of the categories of the Dawson model and not the full model. The very nature of studying impacts suggests a cause and effect relationship. It is acknowledged that foreign entry has been attributed the primary impact on changes in sectoral competitiveness in this study; the interviews with industry experts substantiated this conclusion. With these considerations in mind, the conclusions drawn are limited to the context of the study.

7.5 Implications for Future Research

This study has addressed a specific area of the retail internationalization process and in doing so revealed the complexity of the activity and its study. There is obviously much to be researched on a wide range of subjects, particularly as the pace of internationalization continues to rapidly expand and the dynamic of traditional brick-and-mortar operations and internet-driven activity forges new territory. More specific to this study, the following considerations for future research could be used to build on this study and contribute further to the understanding of the impacts of retail internationalization on the host country's sectoral competitiveness:

1. The evolution of the Dawson model requires further applications to build on or challenge the findings of this study. The recommendation to re-configure the model requires additional findings to support this view.
2. There would be value in applying this study to retail categories other than apparel and to other markets than Canada to further explore such factors as: the catalysts for structural change; and the role of innovation in competitive changes.
3. To extend this study to the period of 2008-2012 would be of interest to this author, as the pace of foreign entry has accelerated in recent years. This may be of particular interest to managerial understanding of market structure change; embeddedness in the context of foreign expansion; and innovation as a catalyst for market change.
4. To take the idea of the 'global perspective', that surfaced as an important behavioural outcome in this study, and propose a theoretical framework for the study of its place in the process of retail internationalization.
5. Given the importance of the BRIC group of countries in the world economy and in the international growth aspirations of many retail organizations it may be beneficial to managerial decision making to assess these markets for a pre-entry base point utilizing the six types of impact categories proposed by Dawson. As demonstrated in this study the context of the market pre-entry provides important knowledge for assessing and measuring the impacts. There is considerable academic research to illustrate that retail companies have not engaged in substantive pre-entry market

study and as a result met with disappointing or surprising performance outcomes. The persistent ‘superior’ foreign company perspective that has existed both with managers and in the academic study of internationalization may be re-assessed through further host country studies.

6. To investigate the role of the internet in the study of the impacts of the retail internationalization process. The later years of this study observed the entry of companies such as H&M, Abercrombie & Fitch and Hollister to name a few, achieving immediate impact on the market . While not explored in this study the observations from industry experts that factors are increasingly at play in building awareness and acceptance of foreign retailers that are different than in the past need to be understood in the study of the process of retail internationalization.

By no means have the implications for future research been exhausted in this short list. The continued acceleration of foreign expansion requires that both the managerial understanding of retail internationalization processes and the contribution of academic research to this knowledge is as important today as in the early research of Hollander and others. It is hoped that this study has furthered the understanding of an increasingly complex and dynamic process.

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APPENDIX 1 – Currency Exchange Rates between the U.S. and Canada from 1970-2007 (Bank of Canada, 2012)

	Date	Rate
Low	1979-02-01	$1 CAN = 0.8320 US
High	1974-04-25	$1 CAN = 1.0443 US

Highest and lowest CAN/US rates between 1970-1979

	Date	Rate
Low	1986-02-04	$1 CAN = 0.6913 US
High	1980-07-07	$1 CAN = 0.8767 US

Highest and lowest CAN/US rates between 1980-1989

	Date	Rate
Low	1998-08-27	$1 CAN = 0.6311 US
High	1991-11-04	$1 CAN = 0.8934 US

Highest and lowest CAN/US rates between 1990-1999

	Date	Rate
Low	2002-01-21	$1 CAN = 0.6179 US
High	2006-05-31	$1 CAN = 0.9134 US

Highest and lowest CAN/US rates between 2000-2007

APPENDIX 2 – Timelines for Foreign and Domestic Apparel Retailer Activity in Canada up to 2007

Pre-1989

1869:

- Eaton's Department Store founded
- Hbc becomes retail entity (yielding sovereignty over the land it had held since 1670 to Canada)

1952: Simpsons-Sears created by partnership of **Sears Roebuck Co** and Robert Simpson Company

1959: LeChateau opens

1965: Simpsons-Sears goes public

1968: Suzy Shier opens

1970: Tristan & Isuet opens (1985 opens America for men and 2007 consolidates to Tristan)

1972: **Marks & Spencer** enters Canada

1973: Roots opens

1975: Suzy Shier acquired by Dylex Limited

1976: Comark Canada retail formed – privately owned by **Brenninkmeyer Family**

1977: Jacob opens (predecessor to Jacob started in 1960s)

1978:

- HBC buys Zellers, Fields and Simpsons Limited
- **Marks & Spencer** buys D'Alliards (goes to U.S. in 1980's and sold in 1996), People's and Walkers (which become the M&S stores)
- Les Boutiques San Francisco opens first store in Montreal

1979:

- HBC buys Robinson's
- **Comark** buys Irene Hill

1980: **Comark** buys Bootlegger

1982: **Comark** buys Ricki's

1984: Aritzia launched

<u>1989 to 1994</u>

1989 **Gap** opens in Canada

1990:

- HBC buys Towers/Bonimart
- LaSenza opens (division of Suzy Shier)

1991:

- Simpsons closed
- Urban Behaviour opens (banner of Clothing for Modern Times – also Costa Blanca)
- **Talbots** enters Canada

1993: Suzy Shier goes public

1994:

- HBC buys Woodwards
- **Walmart** buys Woolco and converts stores to Walmart
- Shirmax re-organizes (operates stores as Addiitonal-Elle, AE Sport, Shirley K Maternity, Thyme)

Early 90s: **Guess** opens

Mid 90s: **Mexx** opens

<u>1994 to 2000</u>

1995:

- **Banana Republic** enters Canada
- Reitman's acquires Penningtons Stores Limited

- Dalmys seeks CCAA
- **BCBG** opens

1996: Reitman's acquires Dalmys (Canada) Limited

1997: Eaton's enters re-structuring

1998:

- Eaton's goes public
- HBC buys K-Mart Canada

1999:

- Eaton's declares bankruptcy and assets are bought by **Sears Canada**
- **Polo Ralph Lauren** buys Club Monaco
- **Bebe** enters Canada
- **Zara** opens in Canada - Reitman's in strategic alliance with Inditex Group of Spain
- RW & Co opens (banner of Reitman's)
- **Marks & Spencers** exits Canada

2000 to 2007

2000:

- **Sears** re-opens Eaton's stores
- **American Eagle Outfitters** buys Thrifty's and Braemar locations from Dylex Limited
- Grafton-Fraser Inc acquires Tip Top Tailors

2001:

- **Old Navy** enters Canada
- Canadian Tire acquires Mark's Work Wearhouse

2002:

- **Sears** retires Eaton's name and closes stores – convert to Sears
- Reitman's buys Shirmax

2003:

- LaSenza opens in U.S.
- YM Inc. buys Suzy Shier
- **Continential Saxon Group** purchases Cotton Ginny and Tabi International
- Les Boutiques San Franciso restructures

2004:

- **Walmart** launches George Ladies Apparel
- **H&M** opens in Canada
- **AEO** sells Bluenotes to YM Inc.

2005:

- Aritzia LP enters partnership with **Berkshire Partners LLC**
- **Walmart** launches George Menswear
- Lululemon sells 48% to Advent and **Highland Partners**
- **Mango** opens
- **Comark** purchased by **KarpReilly LLC** (American investment fund)

2006:

- Joe Fresh opens in 40 Real Canadian Superstores
- LaSenza sold to **The Limited Brands**
- HBC bought by **J Zucker and his company The InterTech Group**
- **Abercrombie & Fitch** opens
- **Hollister** opens

2007:

- **Aeropostale** opens in Canada
- West 49 (Billabong, Off the Wall) WXX on TSE

APPENDIX 3 – List of Developed and Developing Countries (United Nations, 2007).

	Developing regions
002	Africa
019	Americas excluding Northern America (numerical code 021)
029	Caribbean
013	Central America
005	South America
142	Asia excluding Japan
009	Oceania excluding Australia and New Zealand
	(numerical code 053)

	Developed regions
021	Northern America
150	Europe
392	Japan
053	Australia and New Zealand

199	**Least developed countries**
004	Afghanistan
024	Angola
050	Bangladesh
204	Benin
064	Bhutan
854	Burkina Faso

108	Burundi
116	Cambodia
140	Central African Republic
148	Chad
174	Comoros
180	Democratic Republic of the Congo
262	Djibouti
226	Equatorial Guinea
232	Eritrea
231	Ethiopia
270	Gambia
324	Guinea
624	Guinea Bissau
332	Haiti
296	Kiribati
418	Lao People's Democratic Republic
426	Lesotho
430	Liberia
450	Madagascar
454	Malawi
466	Mali
478	Mauritania
508	Mozambique
104	Myanmar
524	Nepal
562	Niger
646	Rwanda
882	Samoa
678	Sao Tome and Principe

686	Senegal
694	Sierra Leone
090	Solomon Islands
706	Somalia
736	Sudan
626	Timor-Leste
768	Togo
798	Tuvalu
800	Uganda
834	United Republic of Tanzania
548	Vanuatu
887	Yemen
894	Zambia

432	**Landlocked developing countries**
004	Afghanistan
051	Armenia
031	Azerbaijan
064	Bhutan
068	Bolivia (Plurinational State of)
072	Botswana
854	Burkina Faso
108	Burundi
140	Central African Republic
148	Chad
231	Ethiopia

398	Kazakhstan
417	Kyrgyzstan
418	Lao People's Democratic Republic
426	Lesotho
454	Malawi
466	Mali
496	Mongolia
524	Nepal
562	Niger
600	Paraguay
498	Republic of Moldova
646	Rwanda
748	Swaziland
762	Tajikistan
807	The former Yugoslav Republic of Macedonia
795	Turkmenistan
800	Uganda
860	Uzbekistan
894	Zambia
716	Zimbabwe

722	**Small island developing States**
016	American Samoa
660	Anguilla
028	Antigua and Barbuda
533	Aruba
044	Bahamas
052	Barbados
084	Belize
092	British Virgin Islands
132	Cape Verde
174	Comoros
184	Cook Islands
192	Cuba
212	Dominica
214	Dominican Republic
242	Fiji
258	French Polynesia
308	Grenada
316	Guam
624	Guinea-Bissau
328	Guyana
332	Haiti

388	Jamaica
296	Kiribati
462	Maldives
584	Marshall Islands
480	Mauritius
583	Micronesia (Federated States of)
500	Montserrat
520	Nauru
530	Netherland Antilles
540	New Caledonia
570	Niue
580	Northern Mariana Islands
585	Palau
598	Papua New Guinea
630	Puerto Rico
659	Saint Kitts and Nevis
662	Saint Lucia
882	Samoa
678	Sao Tome and Principe
690	Seychelles
702	Singapore
090	Solomon Islands

670	Saint Vincent and the Grenadines
740	Suriname
626	Timor-Leste
776	Tonga
780	Trinidad and Tobago
798	Tuvalu
850	United States Virgin Islands
548	Vanuatu
778	**Transition countries d /**
172	***Commonwealth of Independent States***
051	Armenia
031	Azerbaijan
112	Belarus
398	Kazakhstan
417	Kyrgyzstan
498	Republic of Moldova
643	Russian Federation
762	Tajikistan
795	Turkmenistan
804	Ukraine
860	Uzbekistan
	Transition countries of South-Eastern Europe
008	Albania

070	Bosnia and Herzegovina
191	Croatia
499	Montenegro
688	Serbia
807	The former Yugoslav Republic of Macedonia

a/ The designation sub-Saharan Africa is commonly used to indicate all of Africa except northern Africa, with the Sudan included in sub-Saharan Africa.

b/ The continent of North America (003) comprises Northern America (021), Caribbean (029), and Central America (013).

c/ There is no established convention for the designation of "developed" and "developing" countries or areas in the United Nations system. In common practice, Japan in Asia, Canada and the United States in northern America, Australia and New Zealand in Oceania, and Europe are considered "developed" regions or areas. In international trade statistics, the Southern African Customs Union is also treated as a developed region and Israel as a developed country; countries emerging from the former Yugoslavia are treated as developing countries; and countries of eastern Europe and of the Commonwealth of Independent States (code 172) in Europe are not included under either developed or developing regions.

d/ "Countries in transition from centrally planned to market economies" is a grouping used for economic analysis.

APPENDIX 4 – Industry Expert Interview E-mail and Letter

<u>Letter</u>

Dear […],

As you are aware from previous conversations I am completing my PhD at the University of Stirling, Scotland. My topic is the study of the impact that foreign retailers have on the sectoral competitiveness of the domestic retailers in the host country, obviously a topic that has been dominant of late with the current influx of foreign companies. My research is actually focused on the period of 1989 to 2007 and specific to the clothing sector, a period of significant activity of foreign entry and changes to the domestic retail men's, women's and unisex clothing businesses. As a final stage in my research I am conducting interviews with industry experts and would be most appreciative of your contribution to this study.

At this time I have completed an analysis of some data that shows what has happened competitively in the clothing sector since the entry of the Gap in 1989 to the pre-recession year of 2007. I am now interested in understanding the underlying reasons and outcomes of why these changes in competitiveness occurred and what impact the foreign retailers had on these changes. As an industry executive who has experienced these changes first hand your insights into the dynamics of the market would be a valuable contribution to my research.

The interview will be approximately one hour in length and will be structured around a set of open-ended questions. You will be provided with the interview questions in advance. All information gathered during the interview will be kept confidential. The reporting of results will be done on a cumulative basis across the group of interviewees. As an academic researcher I am subject to the strict requirements for research ethics and confidentiality.

I hope that you will give consideration to this request and will follow up with you in the next two weeks to answer any questions you may have, expand upon the interview process and hopefully set a time for an interview at your earliest convenience.

Sincerely,

Elizabeth Evans
Associate Professor and Director
Ted Rogers School of Retail Management
Ryerson University

<u>E-mail</u>

From: Elizabeth Evans <eevans@gwemail.ryerson.ca>
To: Industry Expert
Date: 7/12/2011 1:32 PM
Subject: Industry Expert request for Research Interview with Liz Evans
Attachments: Letter.07.12.11.docx

Dear Industry Expert,

I am now in the final stages of the research for my thesis and will be interviewing industry experts to get their perspectives on the impact that foreign retailers have had on the Canadian retail clothing sector. I would like to interview you for this research given your vantage point …..

I have attached an interview request which outlines in more detail what the process would involve. Your consideration of this request is greatly appreciated.

Best regards, Liz

Elizabeth Evans
Director
Ted Rogers School of Retail Management
Ryerson University

APPENDIX 5 – Interviewee Profiles

- Industry Expert A: Academic, Applied and Academic Researcher
- Industry Expert B: Retail Executive, CEO both domestic and foreign apparel retail
- Industry Expert C: Executive, Shopping Centre Landlords
- Industry Expert D: Executive, Retail Trade Association
- Industry Expert E: Executive, Retail Leasing
- Industry Expert F: Consultant, former department store executive
- Industry Expert G: Retail Executive, both domestic and foreign retail companies
- Industry Expert H: Retail Executive, domestic apparel retail
- Industry Expert I: Retail Executive, both foreign and domestic apparel & department store
- Industry Expert J: Consultant, North American apparel specialist
- Industry Expert K: Consultant, former department store executive
- Industry Expert L: Retail Financial Specialist
- Industry Expert M: Retail Executive, both foreign and domestic apparel companies
- Industry Expert N: Retail Analyst
- Industry Expert O: Retail Executive, domestic apparel retail
- Industry Expert P: Consultant, former apparel retail executive
- Industry Expert Q: Executive, Shopping Centre developer
- Industry Expert R: Retired Academic and Consultant in multi-national large format
- Industry Expert S: Brand Expert
- Industry Expert T: Retail Executive, domestic apparel retail
- Industry Expert U: Executive, Shopping Centre developer

APPENDIX 6 – Interview Guide

Date:

Interviewer:

1. The entry of a foreign retailer into a market may be a catalyst for sectoral restructuring –
    a. Has it been your experience or observation that this happened between 1989 and 2007 in the Canadian clothing sector?
    b. Are there specific foreign retailers that had this impact and if so how did this impact manifest itself with Canadian retailers?
    c. Any other comments on the restructuring?
2. The entry of a foreign retailer may cause new competitive behaviours –
    a. Are there specific new competitive behaviours that you experienced or observed between 1989 and 2007 that Canadian retailers undertook in response to foreign retail entry?
    b. Any other comments on changes in competitive behavior?
3. Changes in sectoral competitiveness may lead to improved productivity of assets –
    a. Can you comment on how this has impacted Canadian clothing retailers?
4. The changes in sectoral competition due to foreign retailer entry may require additional investment-
    a. Has it been your experience or observations that this happened with Canadian clothing retailers?
    b. Any other comments on the change in investments made by Canadian retailers?
5. The entry of foreign retailers may lead to innovation in competitive activity –
    a. Are there any innovations that you could comment on during 1989 to 2007 that impacted the sectoral competitiveness in the clothing sector?
6. Analysis of the data would indicate the following impacts on the Canadian clothing sector between 1989 and 2007, would you comment on why these happened?
    a. Closure of the following retailers…….
    b. Expansion of uni-sex formats
    c. Re-positioning of retailers from fashion to promotion and from major malls to secondary locations
    d. Store size changes
7. Are there any other impacts from foreign retail entry that you would like to discuss?

APPENDIX 7 – Ethics Board Approval

RYERSON UNIVERSITY
RESEARCH ETHICS BOARD

To: Elizabeth Evans
School of Retail Management

Re: REB 2011-187: A Study of the Impact of Foreign Retailers on the Sectoral Competitiveness of Domestic Retailers in the Host Country

Date: June 26, 2011

Dear Elizabeth Evans,

The review of your protocol REB File REB 2011-187 is now complete. The project has been approved for a one year period. Please note that before proceeding with your project, compliance with other required University approvals/certifications, institutional requirements, or governmental authorizations may be required.

This approval may be extended after one year upon request. Please be advised that if the project is not renewed, approval will expire and no more research involving humans may take place. If this is a funded project, access to research funds may also be affected.

Please note that REB approval policies require that you adhere strictly to the protocol as last reviewed by the REB and that any modifications must be approved by the Board before they can be implemented. Adverse or unexpected events must be reported to the REB as soon as possible with an indication from the Principal Investigator as to how, in the view of the Principal Investigator, these events affect the continuation of the protocol.

Finally, if research subjects are in the care of a health facility, at a school, or other institution or community organization, it is the responsibility of the Principal Investigator to ensure that the ethical guidelines and approvals of those facilities or institutions are obtained and filed with the REB prior to the initiation of any research.

Please quote your REB file number (REB 2011-187) on future correspondence.

Congratulations and best of luck in conducting your research.

Nancy Walton, Ph.D.
Chair, Research Ethics Board

APPENDIX 8 – Interview Consent Form

Study of the Impacts of Retail Internationalization on the Host Country

Elizabeth Evans, Associate Professor, Ted Rogers School of Retail Management, Ryerson University

Consent Agreement

Dear Study Participant:

You are invited to participate in a research study. Before you give your consent to participate, it is important that you read the following information and ask as many questions as necessary to be sure you understand what you will be asked to do.

Investigator
The study is being conducted by Elizabeth Evans, MBA, Associate Professor and Director Ted Rogers School of Retail Management at Ryerson University.

Purpose of the Study
The objective of this study is to examine the impact that the entry of foreign retailers into the Canadian market has had on domestic retailers. This is specifically focused on the clothing retail categories.

Description of the Study
The study will include a set of general questions about your experience and observations of the types of changes that have happened in the competition among the clothing retailers in Canada. The questions will be based on an analysis of the industry between 1989 and 2007.

The study location will be at your discretion either at your office or at the Ted Rogers School of Retail Management in Toronto. The interview will be approximately an hour in length and will be audio recorded for purposes of analysis only. You will be provided with an interview outline in advance.

Risk of the Study
None of the questionnaires used in this study are experimental in nature. The only experimental aspect of this study is the gathering of information for the purpose of analysis. Because you are being asked for your contact information, there is a potential risk involving subject identification. However, this information is being collected solely for the distribution of the final report. You may chose not to receive the report in which case you can chose not to provide your contact information.

Names of individuals and/or organizations will not be used to calculate results nor will this information be used in the presentation or distribution of the final results. We are confident that the questions are designed in such a way that respondents and/or the companies for which they work cannot be identified by their responses. There is no guarantee that you will benefit from your participation.

Confidentiality

Your questionnaire responses will be kept confidential. The names of those surveyed will not be used in the calculation, preparation or publication of results. Survey questions are designed so that respondents cannot be identified by responses. We ensure you that your responses and identities will be kept confidential: raw data will only be accessed by the Principal Investigator. The responses will be kept in a secure location, locked in a file cabinet in the investigator's office at Ryerson University. The audio tapes will be used for analysis. The recordings will be kept in a secure location for up to three years. You may chose to participate in the interview but not agree to be audio taped.

Voluntary Nature of the Study

Participation in this study is voluntary. Your choice of whether or not to participate will not influence your future relations with Ryerson University. If you decide to participate, you are free to withdraw your consent and to stop your participation at any time without penalty or loss of benefits to which you are allowed. At any particular point in the study, you may refuse to answer any particular question or stop participation altogether.

Questions about the Study

Please let me know if you have any questions about the study. If you have questions later about the research, you may contact Elizabeth Evans at eevans@ryerson.ca or 416 979 5000 x7281

If you have questions regarding your rights as a human subject and participant in this study, you may contact the Ryerson University Research Ethics Board for information.

Research Ethics Board
c/o Office of the Vice President, Research and Innovation
Ryerson University
350 Victoria Street
Toronto, ON M5B 2K3 416-979-5042

Your signature below indicates that you have read the information in this agreement and have had a chance to ask any questions you have about the study. Your signature also indicates that you agree to be in the study and have been told that you can change your mind and withdraw your consent to participate at any time. You have been given a copy of this agreement.
You have been told that by signing this consent agreement you are not giving up any of your legal rights.

Thank you very much.

I consent to participate in the interview.

____

Name of Participant (please print)

______________________________________ __________________

Signature of Participant Date

______________________________________ __________________

Signature of Investigator Date

Elizabeth Evans
Ted Rogers School of Retail Management, Ryerson University

I consent to be audio taped for the interview.

____ _________________
Signature of Participant Date

I consent to provide contact information for purposes of receiving the report.

____ _________________
Signature of Participant Date

APPENDIX 9 – Proto-typical Mall Performance Report

Mall A - All Stores Sales Report for the period November 2005								
Tenant	Unit #	Nov-05	Nov-04	% Chg	GLA TY	GLA LY	$ YTD	$ Last YTD
		Sales	Sales					
Womens								
A								
B								
C								
D								
E								
F								
G								
Sub-total								
Mens								
H								
I								
J								
K								
L								
M								
N								
Sub-total								
Unisex								
O								
P								
Q								
R								
S								
T								
U								
V								
W								
X								
Y								
Z								
Sub-total								

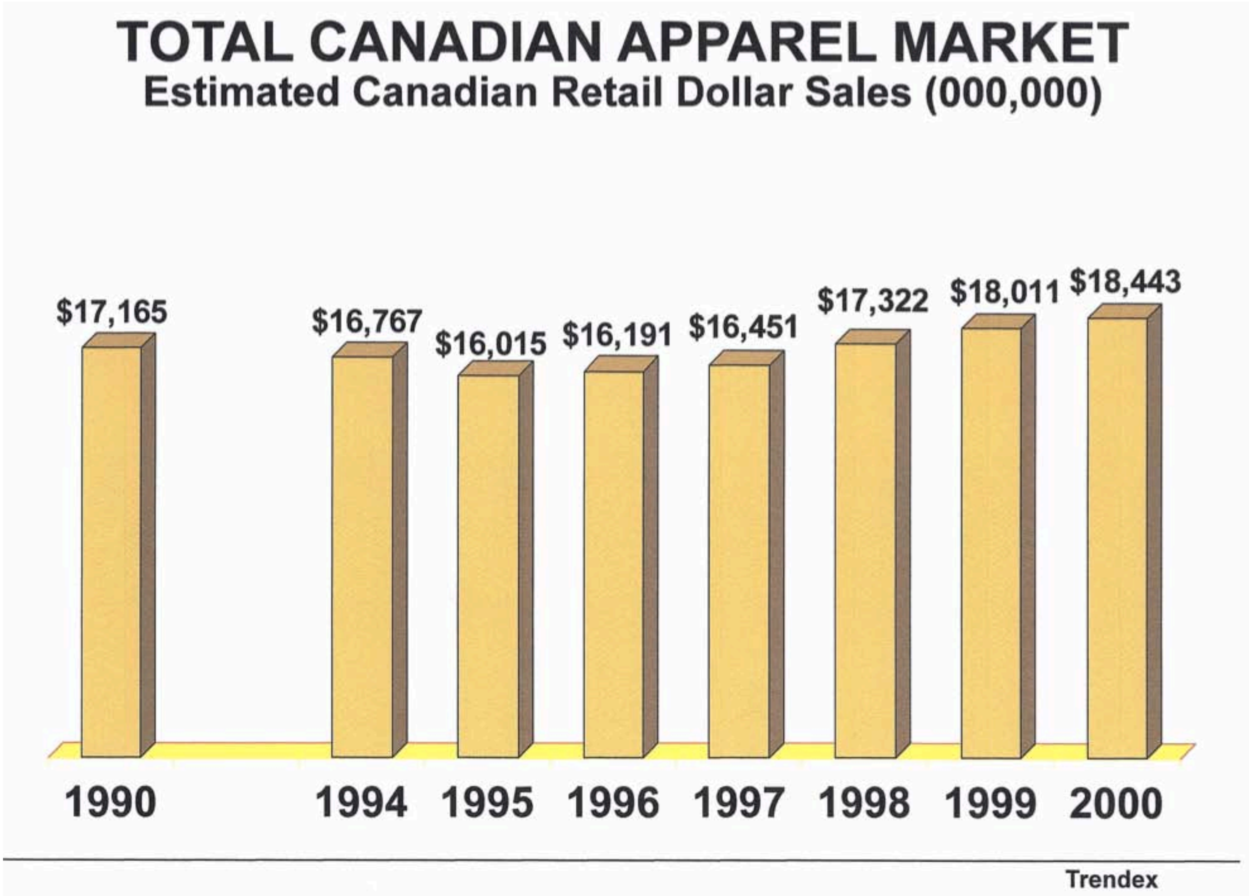
APPENDIX 10 – Examples of Data Analysis Spreadsheets

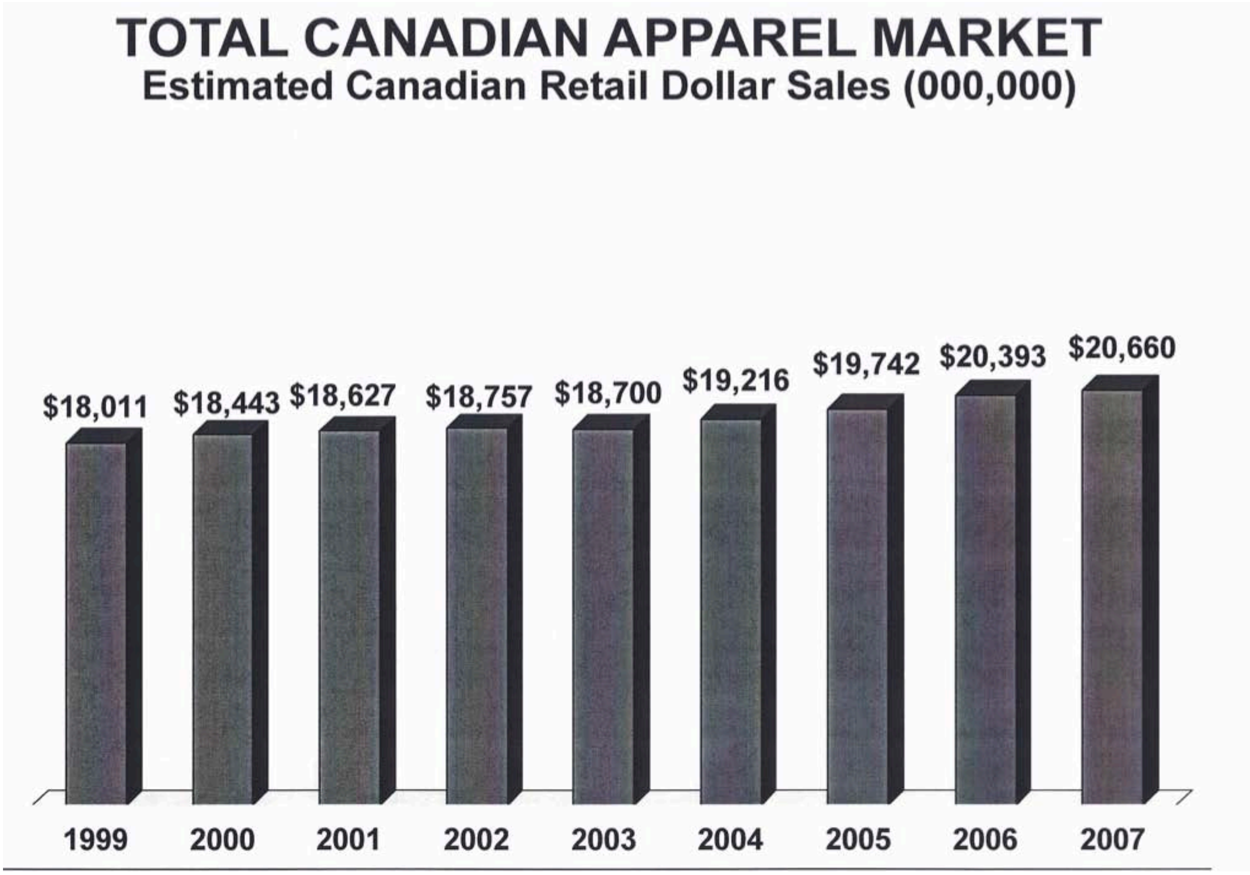
Mall One	2000				
Apparel Format	Square Footage	Sales	Annual Sales	Months in Operation	Sales per Square Footage
Retailer A	15,973	25,000,000		12	**1565.14**
Retailer B					
Retailer C					
Retailer D					
Retailer E					
Retailer F					
Retailer G					
Retailer H					
Retailer I					
Retailer J	2,425	3,525,000		12	1453.61
Retailer K					
Retailer L					
Sub-Total Canadian	**18,398**	**28,525,000**			
Open 12 Months	18,398	28,525,000			1550.44
-					
Retailer AA	-	-			
Retailer BB					
Retailer CC					
Retailer DD					
Retailer EE					
Retailer FF					
Retailer GG					
Retailer HH					
Retailer II					
Retailer JJ					
Sub-Total US	**-**	**-**			
Retailer AAA					
Retailer BBB	-	-			
Retailer CCC					
Retailer DDD					

Sub-Total Non-US	**-**	**-**			
Sub-Total Foreign	**-**	**-**			
Open 12 Months	-	-			
Total $2M Plus	**18,398**	**28,525,000**			
-					
Retailer M					
Retailer N					
Retailer O	2,039	1,985,222		12	**988.73**
Retailer P					
Sub-Total Canadian	**2,039**	**1,985,222**			
Open 12 Months	2,039	1,985,222			988.73
Retailer KK	1,662	425,242		7	
Retailer LL					
Sub-Total US	**1,662**	**425,242**			
Retailer EEE	-	-			
Sub-Total Non-US	**-**	**-**			
Sub-Total Foreign	**1,662**	**425,242**			
Open 12 Months	-	-			
Total Under $2M	**3,701**	**2,410,464**			
-					
Retailer Q					
Retailer R					
Retailer S					
Retailer T					
Retailer U					
Retailer V					
Retailer W					
Retailer X					
Retailer Y	2,916	1,403,086		12	**481.17**
Retailer Z					
Sub-Total Canadian	**2,916**	**1,403,086**			
Open 12 Months	2,916	1,403,086			481.17
Retailer MM	-	-			
Retailer NN	-				
Sub-Total US	**-**	**-**			
Retailer FFF	-	-			
Retailer GGG	15,080	3,245,153		5	
Sub-Total Non-US	**15,080**	**3,245,153**			
Sub-Total Foreign	**15,080**	**3,245,153**			
Open 12 Months	-	-			
Total Closed	**17,996**	**4,648,239**			
-					
-					
Actual Total for Unisex Apparel	**40,095**	**35,583,703**			
Open 12 Months	23,353	31,913,308			682.09

Total Canadian Unisex	**23,353**	**31,913,308**			
Open 12 Months	23,353	31,913,308			682.09
Total US Unisex	**1,662**	**425,242**			
Total European Unisex	**15,080**	**3,245,153**			
Total Foreign Unisex	**16,742**	**3,670,395**			
Open 12 Months	-	-			

APPENDIX 11 – Trendex Apparel Marketing Report (1990-2007)



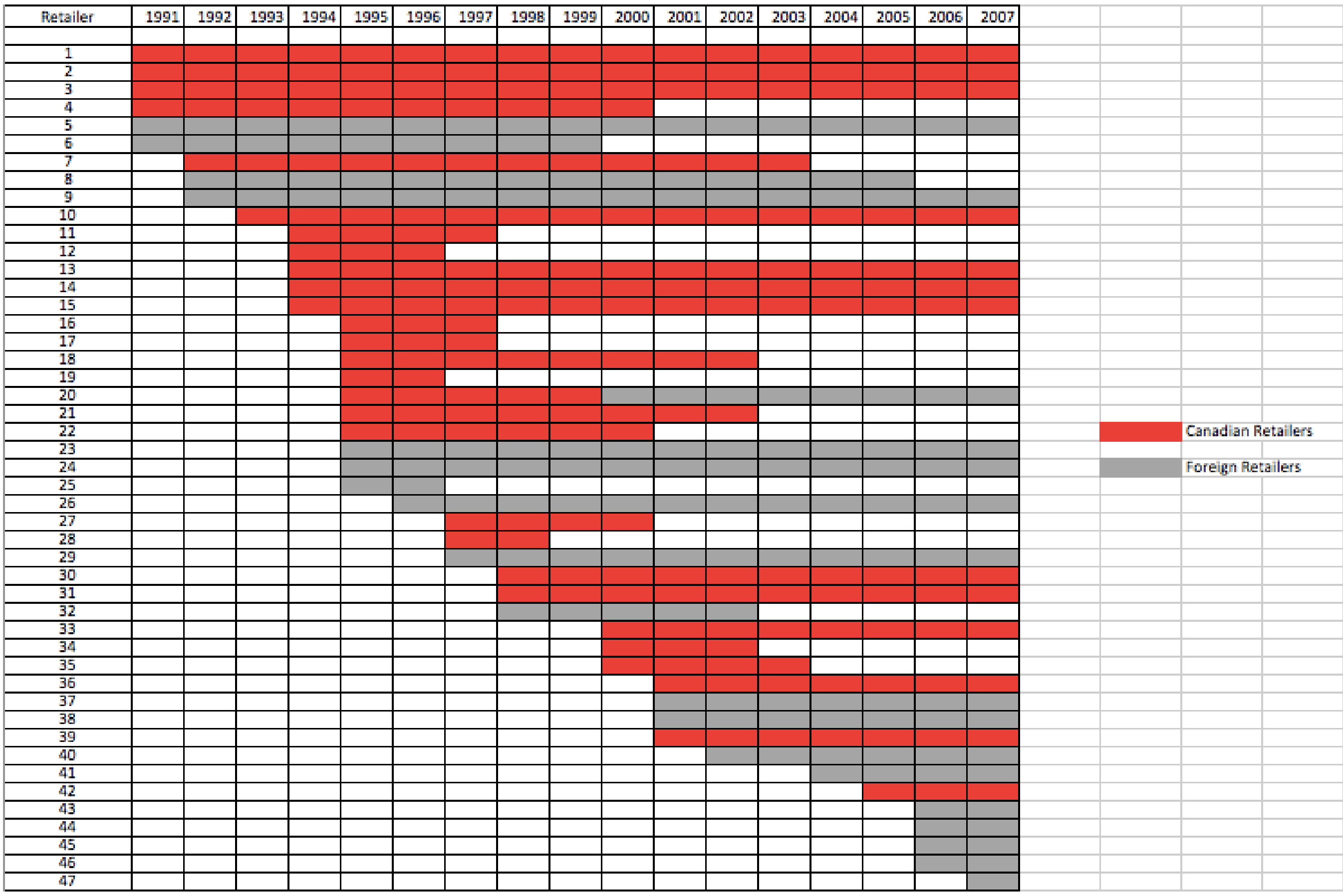

TOTAL CANADIAN APPAREL MARKET
Estimated Canadian Retail Dollar Sales (000,000)
$18,011
$18,443
$18,627
$18,757
$18,700
$19,216
$19,742
$20,393
$20,660
1999
2000
2001
2002
2003
2004
2005
2006
2007

2007 SOFT GOODS INDEX RETAIL CHANNEL DEFINITIONS	
Channel	**Definition**
Department Stores	Only Sears (retail, catalog, home stores, and warehouse), and The Bay
Discount Stores	Zellers, Wal-Mart, SAAN, Winners, Fields, Croteau, etc.
Clothing Specialty Stores	Includes both chain stores and independent men's, women's, children's, and unisex(1) specialty stores. (independent specialty stores include outlets with less than ten doors)
Shoe Specialty Stores	Includes both chain stores and independent shoe stores
Sporting Goods Stores	Sports Chek, Sports Experts, Champs, etc. (does not include Foot Locker)
Grocery Stores	Safeway, Loblaws, Provigo, A & P, etc.
Drug Stores	Shoppers Drug Mart, Big V, London Drugs, Jean Coutu, Cumberland Drug, etc.
All Other Outlets	Industrial distributors, Costco, Avon, Canadian Tire, and all other store types (e.g. gift shops) not mentioned above

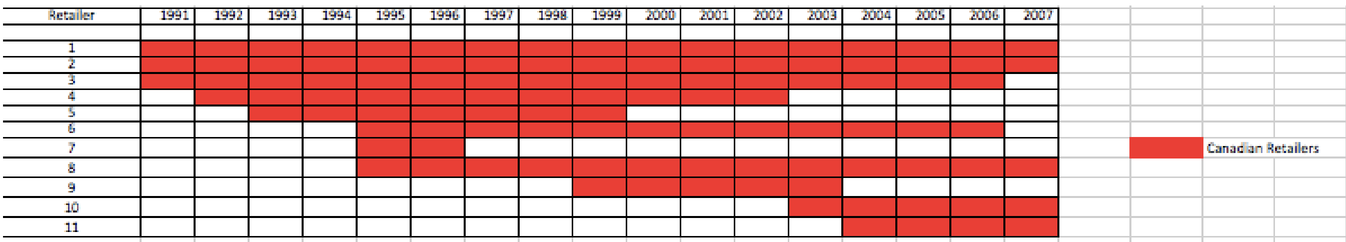
(1)Includes retailers such as: The Gap, Bluenotes, and Holt Renfrew which sell both men's and women's apparel.

APPENDIX 12 – Store openings and closings in Mall 1 and Mall 2

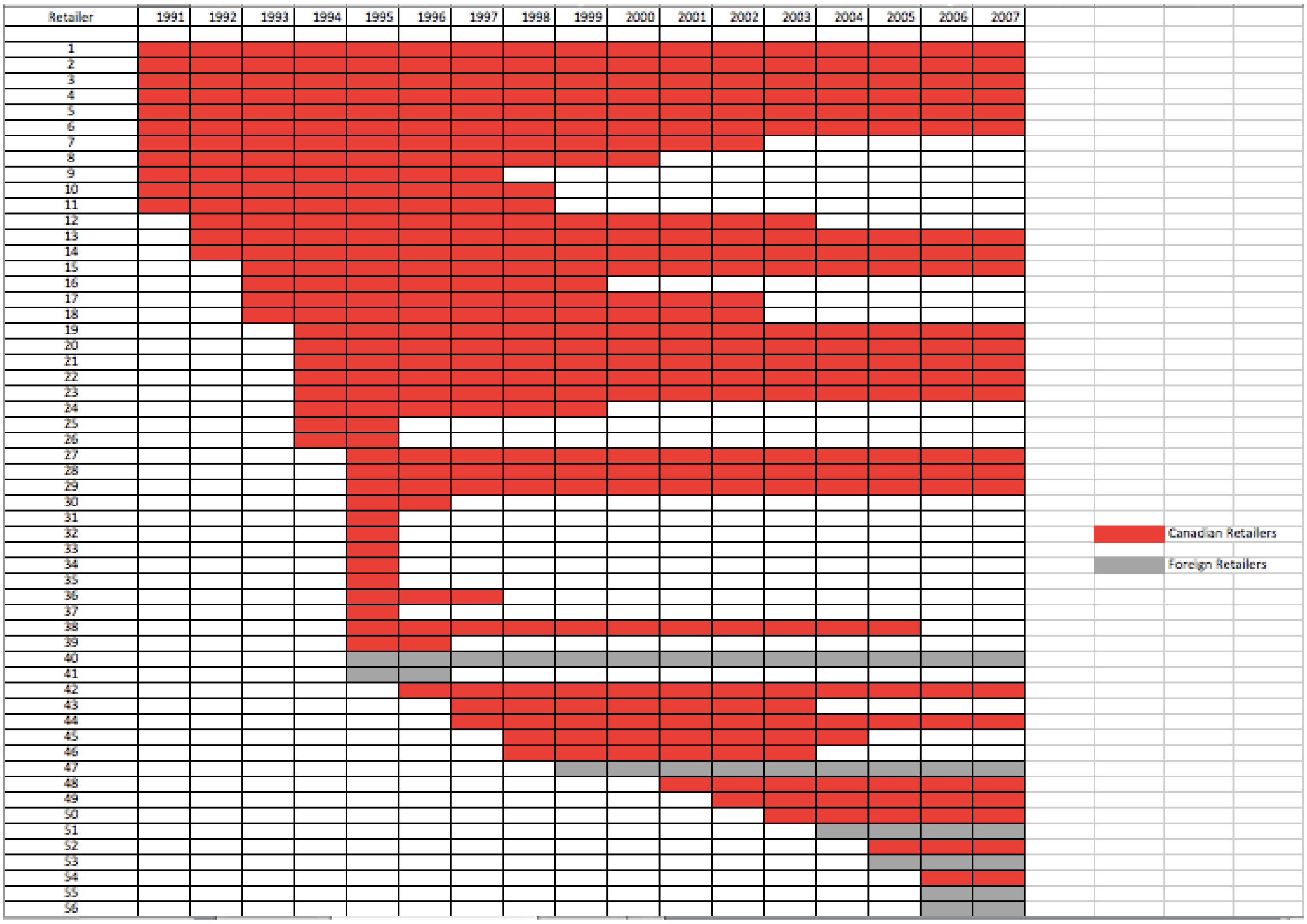
Mall 1 – Unisex, 1991 to 2007



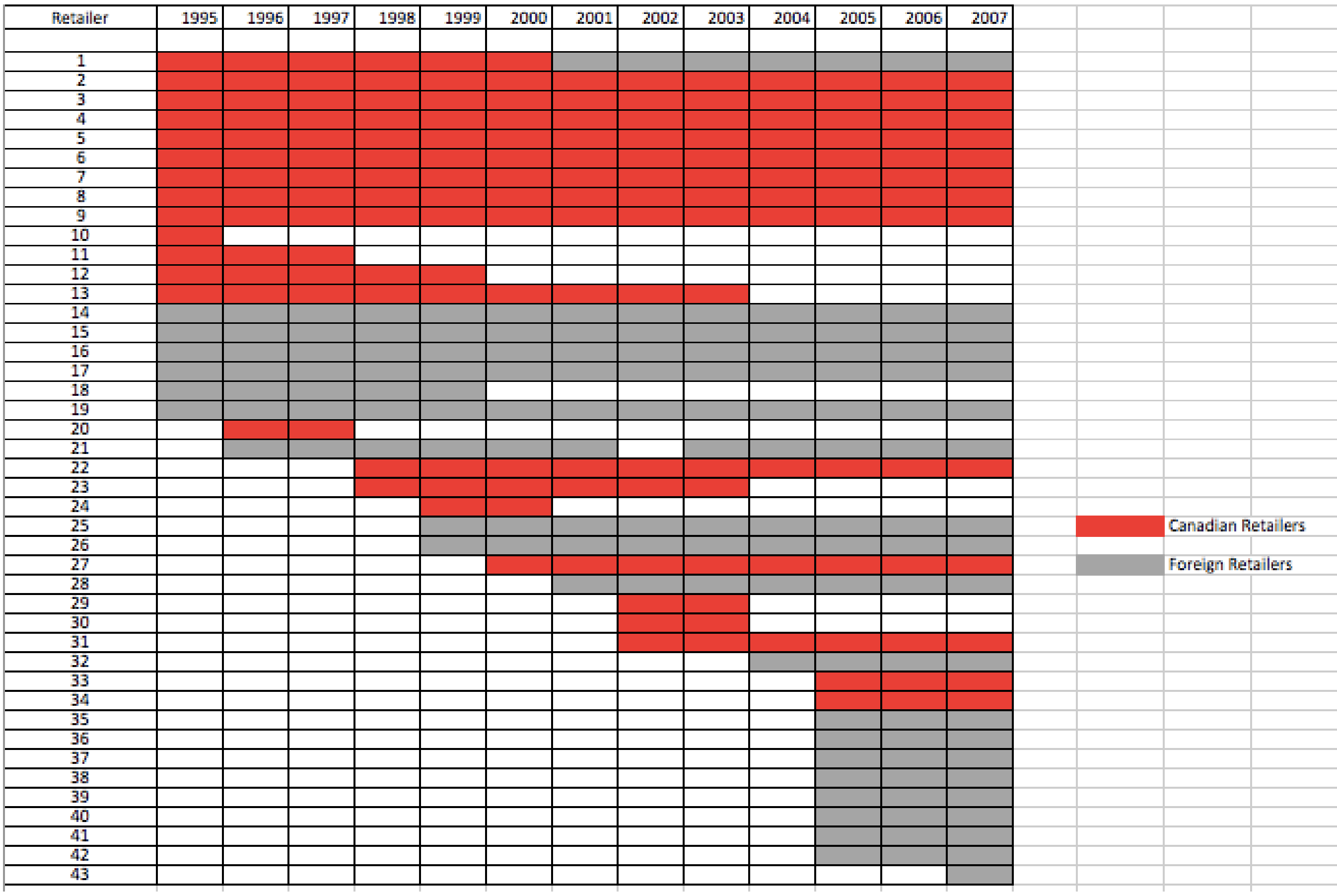
Mall 1 – Men's Wear, 1991 to 2007



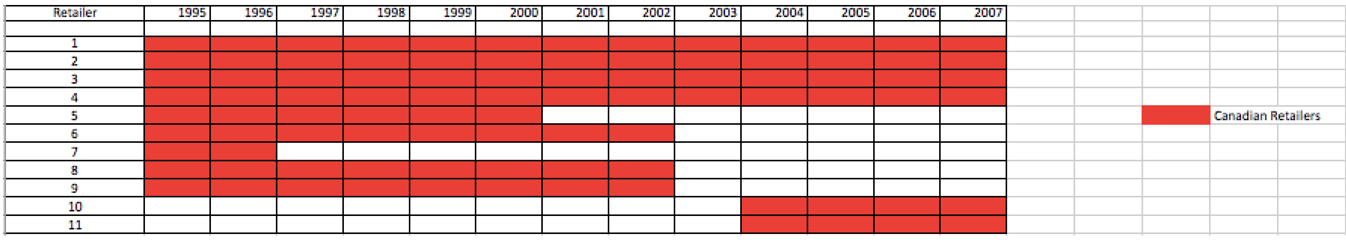
Mall 1 – Women's Wear, 1991 to 2007


Retailer
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
Canadian Retailers
Foreign Retailers

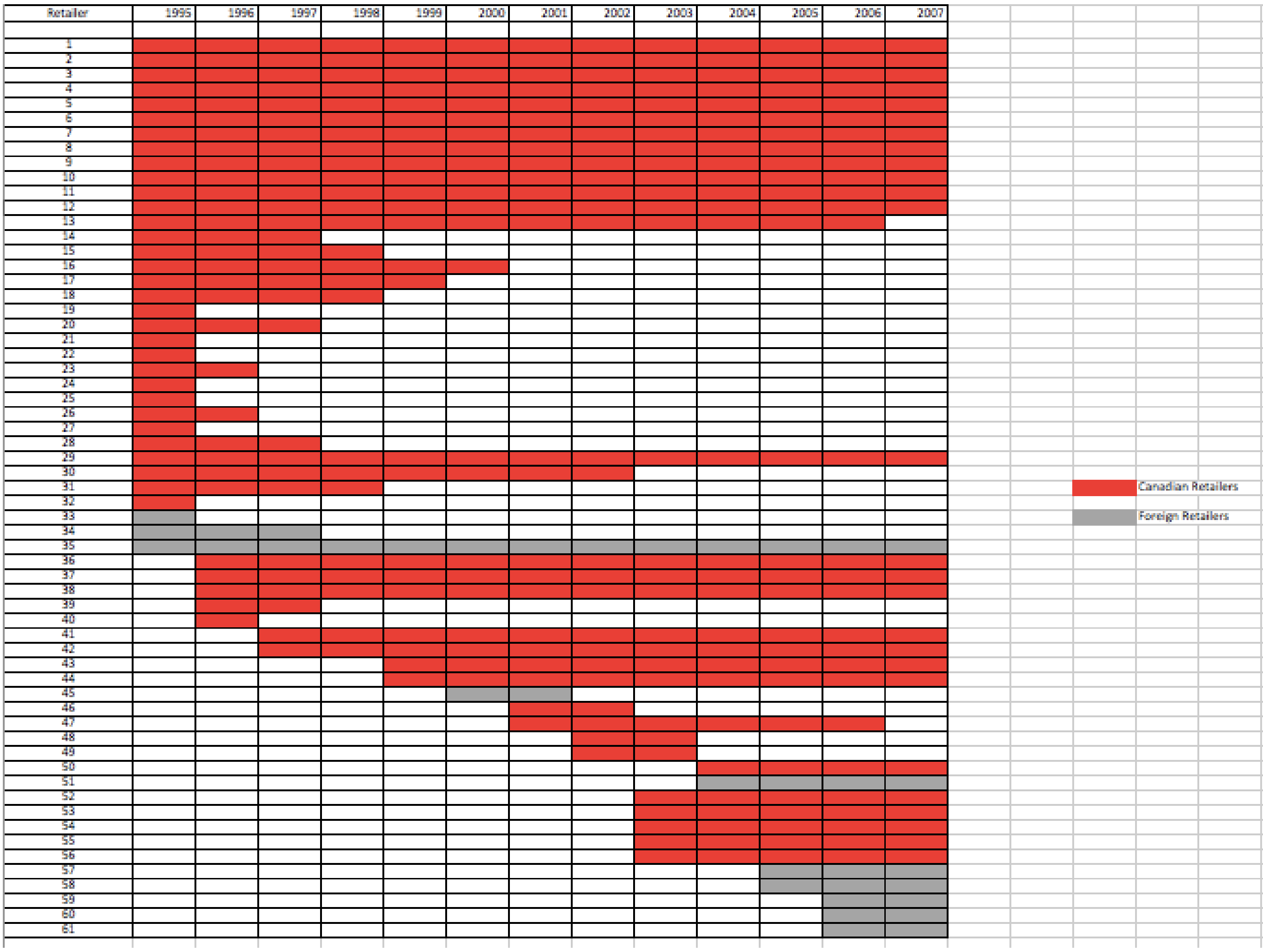
Mall 2 – Unisex, 1995 to 2007



Mall 2 – Men's Wear, 1995 to 2007



Mall 2 – Women's Wear, 1995 to 2007


Retailer
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
Canadian Retailers
Foreign Retailers