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Report on

THE DISTRIBUTIVE TRADES: WHOLESALE AND RETAIL INDUSTRIES OF THE 1980s

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THE DISTRIBUTIVE TRADES:

WHOLESALE AND RETAIL INDUSTRIES OF THE 1980s

CONTENTS

I. SUMMARY

The distributive trades sector is large, diverse, important and neglected. There are over 230,000 wholesale, retail and trading house establishments in Canada, as compared to about 50,000 manufacturing establishments. More than 12 per cent of the Real Domestic Product (1977) stems from the activities of the distributive trades, as compared to 9.6 per cent from transportation, storage and communications -- another important service industry sector. Within the goods-producing sector,[1] construction accounts for 6.5 per cent; transportation equipment for 2.8 per cent; and textile, knitting and clothing combined for 1.6 per cent.

The distributive trades employ nearly eight times as many people as textile, knitting and clothing, and more than nine times as many as the transportation equipment industries. Nearly one out of every five employed Canadians (17 per cent) works in the distribution system, and unlike the concentration of manufacturing employment in specific regions and locations, employment in the distributive trades takes place in small as well as large communities in every part of Canada. Yet in spite of the size and extent of the sector, government lacks information about it and may seem to be both indifferent to its problems and unaware of the changes taking place in it.

II. THE DISTRIBUTIVE TRADES IN PERSPECTIVE

The distributive trades sector is defined as the wholesale and retail trades.[2] It includes all firms that distribute goods from manufacturers and primary producers (or both) in the market channels supplying consumers in Canada as well as foreign markets. The sector is composed of a wide assortment of wholesale and retail entities which serve particular types of markets. Each firm makes its decisions on the basis of factors such as the types and range of products it carries, its size, location, market philosophy, and its perception of consumer demand and service requirements. These decisions usually result in specialization: even the largest corporations specialize by carrying particular commodity lines and locating in particular regions, although there is a growing trend towards generalized product mix among them.

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1 The industries that are included in the goods-producing sector are listed in Table VII, p.12.

2 For purposes of this report, the term "wholesale" includes wholesalers, brokers, jobbers, commission agents and the other forms of businesses which make up the link between manufacturers and retailer.

Characteristics of the Distributive Trades

In simplest terms, the distributive trades provide the market channels through which production is transformed into consumption. Their function ensures that consumers can buy the products they want at the time and place best suited to their needs. How the various activities are carried out by a particular firm depends on the commodity or commodities it carries, the distance from its supply, the size of the other firms interacting with it, their competing philosophies as related to their perception of the marketplace, and the firm's social and economic environment. The various kinds of retail distributors represent market responses to consumer perception of quality and price: they range from discount stores through to very expensive retail outlets. Because they serve all possible consumer expenditure levels, there is a definite stratification of retail outlets within any community. Firms in the distributive trades tend to stay within their strata because to do otherwise would necessitate changes in image, consumers, suppliers, etc. The chief exception are the large chains: they sometimes create more than one image, each aimed at a different consumer market. This combination of factors means that there are literally hundreds of different marketing channels, all of which are "optimum" only for particular firms at particular times in their business evolution.

Some retailers are broadening their market appeal by selling additional services such as insurance or travel. While this type of activity is found mainly outside the retail sector, it is seen by retailers as a move toward "one-stop" shopping.

All aspects of the behaviour of the distributive trades are based on the concepts of demand translation and service. A retailer's survival depends on an ability to perceive consumer demand and predict its trend. This anticipated demand is then communicated back to the production system, largely through buying patterns, but increasingly by product specification.

A Competitive Environment

A fuller understanding of the sector's behavioural patterns and the possibilities for partnership can be obtained by realizing that a firm in the distributive trades operates in an intensely competitive environment. This is true of both the wholesale and the retail trades.

Wholesalers face competition from other types of business as much as from firms with an exclusively wholesale function. They stay in business only as long as they ensure that (i) the retailer receives the right quantity of a product at the right price, time and place, and (ii) the manufacturer sells the product according to its production schedule. The wholesaler must constantly maintain and improve company efficiency to guard against the tendency of both retailers and manufacturers to assume part or all of the wholesaler function in order to "eliminate the middleman."

A wholesale company overcomes competition by specializing in a particular type of goods, which it assembles, stores and delivers. Consequently there are several types of wholesalers: the general-merchandise, who carry a broad assortment of unrelated products; the general line, who supply one complete product line; and the specialty, who handle only a limited number of items. Yet another type of wholesaler is the full-service wholesaler: these businesses not only supply products, but offer a full range of services.

Wholesalers perform market functions at a lower cost than manufacturers or retailers. They flourish by providing small and medium-sized manufacturers and retailers with such services as buying for customers and selling for suppliers, assembly, delivery, warehousing, credit, assumption of risk, and to an increasing extent provision of advice on the various "how-to" aspects of distribution. They maintain their competitive edge by providing an economical transfer of goods and by including a greater and greater degree of service in their transaction price.

A wholesale firm generally exists as an independent business, but it can also be an arm of a larger corporation (either retailer or manufacturer); or it may belong to a group of manufacturers or retailers who have banded together into a co-operative or voluntary association.

Competition in retailing occurs in a number of different ways. In the first place, entry into retailing is relatively easy. Capital costs are low, and inventory is obtainable on credit. Superficially, even the requisite skills appear to be within the capability of most people. In addition, opportunities for entry are perceived to exist because of new products, concepts and locations. Retailing, and by extension, parts of the service industry have become the most accessible business opportunity for many individuals: thus great competitive pressure exists in retailing on the basis of numbers alone.

Competition also occurs between firms already in the industry. All retailers are constantly expanding or reducing their product mix in response to the economic climate and changes in demand and supply. Some stores are trying to capture a market share in a greater range of commodities by adding lines not normally associated with them: food stores, for example. Other retailers are specializing in a narrower product mix in order to capture a larger share of a smaller market base.

Long-term retail strategy is based on anticipated population changes and economic conditions. All large companies have five to ten-year plans for expansion into new markets and locations, and the competition for future choice locations is intense.

Concentration

The wholesale industry is fragmented: no individual firm holds more than two per cent of the market, even though some general merchandise wholesalers have very substantial dollar sales (see Table I, p. 5).

Within the general merchandise category, however, there has been some concentration. An example is hardware lines, where high stock-keeping costs are a major contributing factor. A number of technologically sophisticated wholesalers have developed in this area and one firm has captured 10 per cent of the market.[1] This is not unusual in hardline goods, where manufacturers are relinquishing the wholesale function.

In food, the 10 largest wholesale firms accounted for $4.8[1] billion of a total market of $11.6 billion in 1978.[2] Most of the large firms in this field are closely identified with, and provide a number of services and price advantages to, the independent segment of the retail grocery market.

The wholesale pharmaceutical industry is a little more concentrated with nine companies accounting for 51 per cent of the market in 1978.[3] Again, these wholesalers support the independent retailer. As well, there are many small distributors of specialized drug products and most pharmaceutical manufacturers have a direct selling arm to retailers.

There is a greater degree of concentration at the retail level of the general merchandise area: one corporation has 11 per cent of the market. In department store sales, the Hudson's Bay Company, Sears and Eaton's have a combined market share of more than 75 per

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1 Dun and Bradstreet, Annual Reports, and Distribution Services Branch (D.S.B.) estimates.

2 Statistics Canada, Catalogue No. 63-008.

3 Dun and Bradstreet, Annual Reports, and Distribution Services Branch estimates.

TABLE I
PER CENT DISTRIBUTION OF NUMBER OF ESTABLISHMENTS FOR WHOLESALE AND RETAIL TRADE BY SALES GROUP in 1978

TOTAL SALES	UP TO 99.9$T	100$T TO 499.9$T	500$T TO 999.9$T	1$M TO 4.9$M	5$M TO 9.9$M	10$M AND UP	N/R	TOTAL
WHOLESALE TRADE - TOTAL	16.1	27.6	11.2	15.5	2.3	2.0	25.2	100
Food	11.3	23.9	12.5	20.3	4.0	4.2	23.8	100
Drugs and Sundries	15.2	22.2	9.6	14.4	3.6	3.6	31.6	100
General Merchandise	14.7	25.4	10.5	15.0	2.5	1.5	30.2	100
Other	16.8	28.4	11.2	15.1	2.1	1.8	24.6	100
RETAIL TRADE - TOTAL	34.3	34.1	5.6	4.3	0.5	0.4	20.9	100
Food	33.3	32.2	5.0	3.3	0.2	0.2	25.8	100
Drugs, etc.	10.0	51.6	14.1	7.7	0.4	0.3	16.0	100
General Merchandise	38.7	33.4	5.4	3.4	0.3	0.2	18.5	100
Automotive and Alcohol	27.6	36.9	6.3	7.5	1.4	0.8	19.4	100

Source: Dun and Bradstreet, June, 1979.

cent.[2] Competition is beginning to increase from specialty chain retailers who compete directly with department stores on a commodity basis.

Gross sales of the five largest grocery chains were approximately $8.4 billion during the 1978 fiscal year.[1] This total reflects consolidated sales of the chains and their subsidiaries and so cannot be compared directly to the total sales of $16.3 billion by supermarkets and grocery stores.[3] It is estimated that the chains held 60 per cent of the market in 1978, down slightly from 1977.[4] Competition from convenience store chains and specialty stores is growing.

The market share of chain stores in drug retailing is estimated at 49.5 per cent in 1979, with franchise groups accounting for 56.8 per cent of this total.[5]

Regional Distribution

Regional shares of sales are, of course, closely tied to the size, density and income of the population. Large urban centres have more retail outlets and a greater sales volume than their population would suggest. The most densely populated provinces, Ontario and Quebec, account for more than 60 per cent of retail sales, but Ontario's share has declined over the last decade. During the same period Alberta's share has increased steadily (see Table II, p. 7). The growth rate of retail sales fluctuates both nationally and regionally, with Ontario and Manitoba having the lowest regional growth rates in 1979 (see Table III, p. 8).

III. PAST PERFORMANCE

In 1979 the distributive trades sector was made up of some 230,000 firms (see Table IV, p. 9), employed more than 1.8 million persons (see Table V, p. 10) and reported sales in excess of $160 billion (see Table VI, p. 11). Its contribution to the Gross Domestic Product was a little more than 11 per cent (see Table VII, p. 12).

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1 Dun and Bradstreet, Annual Reports, and Distribution Services Branch estimates.

2 Individual company annual reports and Statistics Canada, Department Store Sales and Stocks, Catalogue 63-002.

3 Statistics Canada, Catalogue No. 63-005.

4 Maclean-Hunter Research Bureau, based on Statistics Canada data.

5 Estimated by Distribution Services Branch.

TABLE II

PER CENT DISTRIBUTION OF ANNUAL RETAIL SALES

IN CANADA BY REGION BETWEEN 1960 AND 1979

ANNUAL AVERAGE
(%)

	1960-1964	1965-1969	1970-1974	1975-1979
Canada	100.0	100.0	100.0	100.0
Atlantic Provinces	8.4	8.2	8.2	8.1
Quebec	25.6	25.9	25.2	25.2
Ontario	38.2	38.2	38.2	36.6
Manitoba	4.7	4.4	4.4	4.1
Saskatchewan	4.8	4.4	3.9	4.3
Alberta	8.0	7.9	8.1	9.6
Prairie Provinces - Total	17.5	16.6	16.4	17.9
British Columbia, Yukon and the Northwest Territories	10.3	11.1	12.0	12.0

	1974	1975	1976	1977	1978	1979
Canada	100.0	100.0	100.0	100.0	100.0	100.0
Atlantic Provinces	8.1	8.1	8.1	8.0	8.2	8.2
Quebec	25.4	25.3	25.3	25.2	25.0	25.5
Ontario	37.0	37.3	36.8	36.8	36.6	35.7
Manitoba	4.4	4.3	4.2	4.1	4.0	3.8
Saskatchewan	4.2	4.4	4.4	4.2	4.2	4.2
Alberta	8.3	8.9	9.2	9.6	9.9	10.5
Prairie Provinces - Total	17.0	17.5	17.9	17.9	18.0	18.4
British Columbia, Yukon and the Northwest Territories	12.4	11.8	11.9	12.1	12.2	12.2

Source: Statistics Canada. Retail Trade. Catalogue 63-005, (CANSIM 2431; 78; 2300), July 2, 1980.

TABLE III

PER CENT CHANGE IN ANNUAL RETAIL SALES

IN CANADA BY REGION BETWEEN 1960 AND 1979

ANNUAL AVERAGE GROWTH RATES
(%)

	1960-1964[1]	1965-1969	1970-1974	1975-1979
Canada[2]	4.3	5.2	10.4	11.5
Atlantic Provinces	3.2	6.3	10.7	11.6
Quebec	6.8	6.4	10.5	11.5
Ontario	4.0	7.5	9.4	10.7
Manitoba	1.1	6.4	11.0	8.1
Saskatchewan	0.5	2.7	13.0	11.1
Alberta	2.6	8.4	10.8	16.7
Prairie Provinces - Total	1.6	6.4	11.4	13.3
British Columbia, Yukon and the Northwest Territories	5.9	8.7	12.0	11.2

(%)

	1974	1975	1976	1977	1978	1979
Canada	16.7	14 9	11.2	7.8	11.6	11.9
Atlantic Provinces	17.5	14.6	11.0	6.4	14.0	12.1
Quebec	17.4	14.4	11.0	7.7	10.4	14.2
Ontario	14.2	15.6	10.0	7.8	10.9	9.2
Manitoba	17.0	10.2	9.8	4.4	8.5	7.8
Saskatchewan	24.2	17.8	12.5	1.9	11.9	11.5
Alberta	21.6	22.0	16.1	12.0	14.7	18.5
Prairie Provinces - Total	21.0	17.9	13.7	7.7	12.6	14.5
British Columbia, Yukon and the Northwest Territories	17.0	9.5	12.3	9.3	13.1	11.5

Source: Statistics Canada. Retail Trade. Catalogue 63-005, (CANSIM 2431; 78; 2300), June 27, 1980.

1 1960 sales figures from: B. Thériault, Retail Trade Section, Merchandising and Services Division, Statistics Canada.

2 1960 Canada total includes fuel dealers - 323.8$M; restaurants - 569.4$M; and lumber and building supply dealers - 435.9$M.

TABLE IV

NUMBER OF ESTABLISHMENTS FOR WHOLESALE AND RETAIL TRADE, TRADING HOUSES AND MANUFACTURING IN 1978

WHOLESALE TRADE - TOTAL	47,334
Drugs and Sundries	564
Food	4,382
General Merchandise[1]	4,613
Other Merchandise[2]	37,775
RETAIL TRADE - TOTAL	183,465
Drugs and Sundries	4,027
Food[3]	56,720
General Merchandise	87,083
Other[4]	35,635
TRADING HOUSES - TOTAL[5]	1,100
ALL TRADES - TOTAL	231,899
MANUFACTURING - TOTAL	52,454[6]

Source: Dun and Bradstreet, June, 1979.

1 Includes wholesalers of general merchandise (SIC 612), tobacco products (SIC 615), apparel and dry goods (SIC 617), household furniture (SIC 618).

2 Includes petroleum products (SIC 609), motor vehicles and accessories (SIC 619), lumber and building materials (SIC 626). and wholesalers, n.e.s. (SIC 602, 606, 611, 621, 622, 623, 624, 625, 626, 627, 629).

3 Includes retail food stores (SIC 631) -- 23,337; and hotels and motels (SIC 881), lodging houses and residential clubs (SIC 883), camping grounds and trailer parks (SIC 884), restaurants, caterers and taverns (SIC 886) -- 33,383.

4 Includes retailers of automotive products (SIC 652, 654, 656, 658), wine and beer stores. (SIC 696).

5 Estimated by Distribution Services Branch.

6 Canadian Manufacturers' Association total is approximately 31,500 companies (but this figure is low -- according to CMA.)

TABLE V

DISTRIBUTION OF THE EMPLOYED LABOUR FORCE

BY INDUSTRY IN CANADA DURING 1946, 1977 AND 1979

	1946		1977		1946-1977	1979	
	Number (Thousands of persons)	Proportion of Total, All Industries (Per cent)	Number (Thousands of persons)	Proportion of Total, All Industries (Per cent)	Average Annual Employment Growth Rate (Per cent)	Number (Thousands of persons)	Proportion of Total, All Industries (Per cent)
Service Industries	**1,937**	**41.5**	**6,422**	**66.6**	**4.0**	**6,904**	**66.6**
Trade - Wholesale and Retail	619	13.3	1,679	17.4	3.0	1,806	17.4
Transportation, Storage and Communications	413	8.9	819	8.0	1.8	900	8.7
Finance, Insurance and Real Estate	124	2.7	531	5.0	4.6	553	5.3
Community, Recreation, Business and Personal Services and Public Administration	781	16.7	3,393	35.2	5.2	3,645	35.1
Goods-Producing Industries	**2,729**	**58.9**	**3,226**	**33.4**	**0.6**	**3,466**	**33.4**
Primary[1]	1,372	29.4	705	7.3	-2.1	756	7.3
Secondary[2]	1,357	29.1	2,521	26.1	2.1	2,710	26.1
Manufacturing	1,148	24.6	1,888	19.6		2,070	20.0
All Industries	**4,666**	**100.0**	**9,648**	**100.0**	**2.4**	**10,370**	**100.0**

Source: Statistics Canada, Labour Force Survey, Catalogue 71-001 (CANSIM 2064), June 30, 1980.

1 Includes agriculture, forestry, fishing and mining.

2 Includes construction and manufacturing.

TABLE VI

WHOLESALE AND RETAIL TRADE,

TRADING HOUSES SALES AND MANUFACTURING SHIPMENTS DURING 1979

	$ Million
WHOLESALE TRADE - TOTAL[1a]	72,574
Automotive	5,767
Drugs and Sundries	990
Food	14,617
General Merchandise	51,200
RETAIL TRADE - TOTAL[b]	89,306
Automotive	23,546
Drugs and Sundries[2]	2,398
Food[3]	28,810
Alcoholic Beverages[4]	3,242
General Merchandise	28,310
TRADING HOUSES - TOTAL[c]	5,000
ALL TRADES - TOTAL	161,559
MANUFACTURING - TOTAL[d]	150,249

Sources: a Statistics Canada, Wholesale Trade, Catalogue 63-008, (CANSIM 114), 1979.

b Statistics Canada, Retail Trade, Catalogue 63-005, (CANSIM 2300), 1979.

c Estimated by Distribution Services Branch.

d Statistics Canada, Inventories, Shipments and Orders in Manufacturing Industries (Catalogue 31-001), 1979.

1 Excludes SIC 606 (coal and coke products).

2 Includes drug stores including proprietary stores.

3 Includes annual sales of $19,488 M from Statistics Canada, Retail Trade, Catalogue 63-005; and annual sales of $9,322 M from Dun and Bradstreet (Datacrown) to cover sales by hotels and motels, lodging and clubs, campgrounds and trailer camps, and restaurants and taverns.

4 Includes annual sales of liquor, wine and beer (except in Quebec, where beer is sold in grocery stores).

TABLE VII

PER CENT DISTRIBUTION OF

GROSS DOMESTIC PRODUCT BY SECTOR IN

SELECTED YEARS BETWEEN 1951 AND 1978

	%						
	1951	1961	1971	1975	1976	1977	1978
Goods-Producing[1] Sector	53.4	41.3	37.5	38.0	36.6	35.9	35.6
Manufacturing	29.5	26.0	22.9	21.2	20.8	20.4	20.8
Other	23.9	15.4	14.6	16.8	15.8	15.5	14.8
Service Sector[2]	45.6	58.7	62.5	62.0	63.4	64.1	64.2
Trade	10.9	12.7	11.9	12.1	12.0	11.3	11.3
Wholesale Trade	3.9	4.8	5.1	5.1	5.1	4.8	4.8
Retail Trade	7.0	7.8	6.8	6.9	6.8	6.5	6.4
Other	35.7	46.0	50.6	49.9	51.4	52.8	53.1
TOTAL ALL INDUSTRIES	100.00	100.00	100.00	100.00	100.00	100.00	100.0

Source: Statistics Canada, National Income and Expenditure Accounts, Catalogue 13-001, (CANSIM Matrix No. 563), June 27, 1980.

1 Includes agriculture, forestry, fishing, mining, construction and manufacturing.

2 Includes transportation; storage; communication; electric power, gas and water utilities; wholesale trade; retail trade; finance, insurance and real estate; public administration and defence; community, business and personal services.

While the size of the sector is impressive, its true importance is situational. Because it is the link between production and consumption, there is often very close co-operation between manufacturers and retailers when markets are being created for new products. Indeed to a certain extent, the sector determines the quality of life: when it is strong, it stimulates the economy; when it is weak, it dampens the level of economic activity.

Yet despite its size and importance in relation to other sectors, there is little contact between it and the federal government. At the same time, wholesalers and retailers have entered a period of instability and opportunity which is unprecedented in Canadian experience. The industry needs encouragement to grow and to modify its institutional arrangements in order to increase its potential to serve the Canadian economy.

Since 1975, wholesale and retail sales have grown at an average annual rate of more than one per cent (see TABLE III, p. 8). Historically, growth in the sector results from

a) Increases in per capita disposable income;
b) Population growth;
c) Expanded product mix;
d) Improved merchandise quality;
e) Aggressive merchandising.

Since 1951, the service industries of the economy have increased their share of the Gross National Product from 46.6 per cent to 64.4 per cent in 1978. During the same period the wholesale and retail trade sectors have maintained a relatively stable share with a low of 10.8 per cent in 1951 and a high of 12.7 per cent in 1961 (see Table VII, p. 12).

Employment

There has been a continuous shift in employment to the service industries over the past 30 years (see Table V, p. 10). Between 1946 and 1979, the labour force grew by about five million workers: about 3.4 million of these were employed in the service sector. During the same period employment in the trade sector increased by more than one million, while in the manufacturing industries it increased by only 0.9 million and there was an actual decline of 660,000 jobs in primary industry.

The service sector frequently is the first place of employment and it employs a higher proportion of youths, women and unskilled workers than the manufacturing sector. The importance of the sector as an employer varies from province to province, but it is particularly significant in the eastern and western regions where there is less manufacturing.

Workers in the distributive trades generally have a low level of skills. Many are first-time workers or second wage earners. There is a high degree of turnover and a low level (10 per cent) of unionization. The retail and wholesale trades employed 1.8 million workers in 1979: this represents 17.4 per cent of the employed labour force out of a total of 20.0 per cent in all manufacturing (see Table V, p. 10).

Capital Stock

The rate of growth in capital stock has been lower in the trade sector than in manufacturing (see Table VIII, p. 15). As a result, the capital stock in the wholesale and retail trades as a percentage of manufacturing has been falling steadily since 1961 when it was about 30 per cent. In 1979 it was estimated at 23.4 per cent.

The growth rate of new investment fluctuated considerably: it rose from 2.6 per cent in 1962 to four per cent in 1967, then gradually declined to 2.1 per cent in 1971. Significant recovery began in 1974, but with shrinking profit margins in the trade sector and the rising cost of capital, the growth rate of new capital investment fell to a record low of less than one per cent in 1979.[1]

Productivity

Output per employed worker has grown more rapidly in goods-producing than in service industries (see Table IX, p. 15).

Within the commercial services sector, output per worker in transportation and communications has increased rapidly because the industry is a heavy beneficiary of advanced technology. Its productivity has outpaced the manufacturing average by about 0.8 percentage points per year since 1950. Trade follows: the increase in output per trade worker has averaged 2.1 per cent a year over the same period; this is only slightly below the national average. The productivity of other components of the service industries are also below national averages. Lower productivity by the commercial service sector is caused by several factors: these include the lower rate of capital employed per worker, the lower level of training and required skills and the faster decline in the hours of work per employee.

Between 1950 and 1977, plant and equipment purchases in the service and goods-producing industries were about the same. However because employment in the service sector rose more quickly, the annual rate of increase in capital per worker has been less than half that in

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1 Statistics Canada, Fixed Capital Flows and Stocks, Catalogue 15-568 (1926-1978) and 13-211 (1972-1978).

TABLE VIII

ANNUAL GROWTH IN GROSS CAPITAL STOCK AND CAPITAL INTENSITY IN TRADE AND MANUFACTURING IN SELECTED YEARS

Year	Growth in Gross Capital Stock (%) Trade (Current) ($)	Trade (Constant) (1971 $)	Manufacturing (Current) ($)	Manufacturing (Constant) (1971 $)	Capital Intensity in Trade vs. Manufacturing: Trade as % of Manufacturing Stock (Current) ($)	(Constant) (1971 $)
1961	4.9	3.9	4.7	2.6	30.6	29.9
1965	5.9	3.0	12.0	6.1	26.8	28.9
1971	7.6	2.1	10.1	5.0	24.8	24.8
1975	15.4	3.7	19.5	4.7	22.9	23.9
1976	12.5	3.6	13.5	4.2	22.7	23.8
1977	10.7	3.3	11.2	3.8	22.6	23.6
1978	9.0	2.7	11.6	3.2	22.1	23.5
1979	11.9	2.1	12.6	2.7	21.9	23.4

Source: Derived from Statistics Canada, Fixed Capital Flows and Stocks, Catalogue 15-568 (1926-1978) and 13-211 (1972-1978).

TABLE IX

PERCENTAGE CHANGE IN REAL OUTPUT, EMPLOYMENT, MAN-HOURS OUTPUT PER WORKER AND PER MAN-HOUR, AND CAPITAL/LABOUR RATIO BY SECTOR IN CANADA BETWEEN 1950 AND 1977

	Average Annual Rates (%) Real Output	Employment	Output per Worker	Man-hours	Output per man-hour	Net capital per employed Worker
All industries[1]	4.7	2.5	2.2	1.8	2.9	3.1
Goods sector	4.5	0.8	3.7	0.2	4.3	4.6
Service sector	4.9	4.0	0.9	3.1	1.8	2.0
Commercial service sector[2]	5.1	2.8	2.3	2.2	2.9	2.3

Source: Economic Council of Canada Data Bank.

1 Total output for all industries excludes owner-occupied dwelling rents.

2 The commercial service sector includes wholesale and retail trade, finance, insurance and real estate, and transportation and communications.

the goods-producing sector. In 1977 the service sector had about 37 per cent less capital in plant, machinery and equipment per worker than the goods sector.[1]

Although productivity gains have been lower, workers in the service industries have managed to obtain wage increases of almost the same percentage as workers in the goods-producing sectors. As a result, the relative cost of labour in the service sector has increased nearly twice as fast as its productivity.

The distributive trades have had to be concerned with efficiency and cost savings, but until the mid-seventies they tended to concentrate on pricing, rather than on cost-reduction mechanisms to maintain acceptable levels of profit. Today, rapidly rising costs and consumer resistance to price increases have made efficiency their paramount objective. This has created a wide range of new business format and control initiatives and a new attention to cost-saving detail.

Gross Margins

Gross margins[2] in the retail trades have been shrinking, according to an analysis by Statistics Canada.[3] For the sector as a whole, gross margins over the past five years have fallen from 26.7 per cent to 24.2 per cent.

Supermarkets have tended to have even lower gross margins, some as low as 19 per cent. Some of this decrease may have been supported by productivity gains, but most of it occurred at a time of rapidly rising unit costs of labour, energy and land. The reduction in gross margins is also due to higher prices and the reluctance of retailers to pass all cost increases on to the consumer.

Gross margins are also falling in wholesaling: they are now at 17.7 per cent, down from 20 per cent five years ago.[3] Wholesale

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1 In 1977 the service sector had invested about $52,000 in gross capital per worker, while the comparable figure for the goods sector was about $83,000. These figures are based on Statistics Canada mid-year estimates of gross capital stock in current dollars (see Statistics Canada, Catalogue No. 13-568, 1926-1978).

2 Gross Margin = Net sales minus the cost of goods sold.

3 Statistics Canada, Industrial Corporations (Catalogue 61-003), 1979.

margins are lower from the outset because the marketing effort at the wholesale level does not require the high corporate profile of the retail trade.

It is interesting that gross margins for the total economy have, for the most part, remained unchanged throughout this five-year period. This indicates that cost increases occurring in the manufacturing and other sectors have generally been passed on. This has not been done by the distributive trades, which have borne the negative effects of rapidly rising prices to a greater extent than other sectors.

Debt

The short-term debt load (short-term liabilities) of the distributive trades is extremely high. The Canadian average for all retail trade is 136 per cent and for wholesale trade 182 per cent, as compared to 68 per cent for all manufacturing.[1] This reflects the importance of inventory rather than fixed assets in a typical distribution business.

The cost of debt is extremely volatile in the current economic environment as most of it is short-term and susceptible to the fluctuations in interest rates. This means that any increases in prime rates have a more severe effect on the viability of firms in retail and wholesale than on manufacturing companies. The value of defaults through bankruptcy has doubled between 1977 and 1978 to $185 million: this represents 30 per cent of the national total. The comparable figures for manufacturing are $88 million and 14 per cent.[2]

Rates of Return

Statistics available on rates of return cover only the top one-third of companies in distribution services. While the figures are not indicative of the total sector, they are nevertheless significant. In 1977 the after-tax return on capital employed for larger retailers was 15.5 per cent, as compared to 6.8 per cent for manufacturing; for the wholesale trade it was 8.1 per cent.[3]

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1 Statistics Canada, Corporation Financial Statistics, Catalogue No. 61-207, 1977, Table 2A.

2 Statistics Canada, Commercial Failures (Catalogue 61-002), 1979.

3 Statistics Canada, Corporation Financial Statistics, Catalogue No. 61-207, 1977, pp. 201, 205 and 209.

IV. MEDIUM-TERM OUTLOOK

The prospects of the wholesale and retail sector will vary with changes in the disposable income and the share allocated to consumer goods. With rising energy prices and high interest rates, the share of disposable income spent on energy, shelter and debt servicing will increase. Consequently the total market is not likely to grow substantially in the foreseeable future, so that any absolute increase in the market share of individual companies will be at the expense of other companies competing in the same subsector. A recent market innovation has been the move by retailers into the sale of services in an attempt to enhance their market share. The regional exceptions are Alberta and British Columbia where population and income are increasing at a fast rate.

The reverse scenario is equally valid. If consumer expenditures increase, then the distributive trades will have sufficient leeway to change any number of factors: they could reduce their substantial debt load, invest in new technologies and offer more services as well as increase volume buying and selling. Long-term strategic planning is not a strong tradition of the retailing community; however, many members are making decisions on the basis of a pessimistic outlook for at least the next two to three years.

Labour, Technology and Productivity

It has generally been assumed that output and employment in the distributive trades sector were relatively stable and that the relationship between them, "labour productivity," was relatively constant. This assumption was based on limited statistical knowledge and the further assumption that little technological change would take place in the sector.

The medium-term outlook cannot continue to rely on the latter assumption. With the advent of electronic data and communications systems, a great potential now exists for technological and managerial change in retailing and wholesaling. As well, pressure for growth in real wages has hit the labour-intensive service sector heavily. This has forced competitive managers to concentrate on reducing costs - in particular the cost of their labour input.

In wholesaling, computerization and automation are used increasingly to handle a more varied product mix. Growth in sales may maintain job creation, but it is doing so at a decreasing rate. As wholesalers become more efficient, they may capture some of the distributive functions from manufacturers and retailers and reduce the labour requirements in those sectors.

Technical advances in the retail sector are just beginning to affect employment. Full scanning systems coupled with electronic cash registers will enhance efficiency greatly and eliminate some job requirements. This is already taking place in the food subsector which has gone farther with labour-saving devices than other subsectors. Technical advances will undoubtedly dampen the historical trends of job creation.

The rapid growth of the western provinces and the relative decline of central Canada is leading to a redistribution of opportunities and labour requirements across the country. Quebec and Ontario have to be judged as mature markets, with new jobs created through displacement only. They may even be over-stored: future adjustments may well lead to a stabilization in jobs over the next few years. Alberta and British Columbia will continue to create jobs in the distributive trades at a moderate rate.

In response to a rapidly growing consumer demand in the 1970s, the sector expanded through job creation (3.0 per cent annually; see Table V, p. 10) and concentrated on investment in space rather than improved technology. This led to a deterioration in labour productivity, but has been advantageous to the overall Canadian economy in that large numbers of people who would otherwise have been at home or unemployed were contributing to the Gross National Product.

There is an increasing amount of evidence that the distributive trades are reassessing their productivity and labour requirements completely. This is the result of a basic levelling in the growth of consumer demand caused by slow growth in population and consumer spending. Consequently efforts to raise productivity and cut costs are now the central themes in corporate strategies.

Investment in technology rather than space will be intensified. The large number of firms in this sector makes the transition to productive maturity a long one: this factor poses inherent dangers to the smaller businesses that cannot adapt quickly, and gives large corporations a competitive advantage.

It is generally predicted that the latter half of the 1980s will experience labour shortages in the unskilled categories. Even now there are labour shortages in one or two subsectors, as, for example, in fast food outlets. By increasing their productivity, the distributive trades could be in a position to maintain services to the Canadian public when the labour shortages projected for the latter 1980s become acute.

Efficiency

Rising costs, consumer resistance to price rises and a greater concentration of suppliers are some of the reasons why the distributive trades have made improved efficiency a paramount objective. This has created a wide range of new business format and control initiatives and an attention to cost-saving detail which was not apparent five years ago. A revolution is taking place in the distributive trades: the following points illustrate the wide range of new circumstances which are causing it.

The degree of competition varies from one subsector to another and from one region to another, but all companies see expansion of market area as one of the central criteria for growth. This is the main determinant in decisions on capital investment, change in store mix, mergers, acquisitions, and the multitude of other decisions which eventually result in a healthy, competitive environment and an expansion of the national economy. These aspects of the distributive trades make them fundamentally different from the manufacturing sector: yet the criteria currently used to judge the degree of acceptability of structural changes in a sector have a manufacturing bias.

The complex relationships between the retailer, his supplier and the consumer have been interpreted at the government level from the viewpoint of supplier and consumer only. Obligations have been placed on the retailer for which there is no compensation and which entail considerable loss in efficiency. In addition, retailers have had "bad press": the suspicion always exists that the retailers' market conduct is nefarious - note the various provincial price inquiries directed against the retailer, as for example those in British Columbia and Ontario on the retail food industry. These suspicions have not disappeared even though it has been proved consistently that retail profits are not excessive.

With rapidly rising energy costs, most large companies have hired specialists to co-ordinate energy conservation programs. One development is the computer-controlled energy management systems. Unfortunately, given the large number of firms in the sector, the dissemination of knowledge on the efficient conservation programs is going to be very slow.

The additional cost of transportation is changing supply patterns and shipping requirements: this is exacerbating supplier-retailer relationships to a certain extent, but it also presents an opportunity to create more efficient movement of commodities.

Management

The distributive trade sector as a whole is going through a period of turmoil unprecedented in the Canadian experience. Managers can no longer complacently assume that business will continue in the future as it has in the past. Today, complacency results in being bought out or forced out of the market. The last several years have seen little or no real growth in retail sales over and above floor space increases, which has meant that the competitive situation within the retail trades is becoming even more fierce. In addition, the last two years have seen a growing consumer resistance to rising prices. The early 1980s will be a time when managers will have to interpret and adjust to a new environment governed by factors such as:

a) A rapidly changing consumer lifestyle and growth in the variety and sophistication of consumer demand (including a possible overall downgrading of consumer expectations);

b) A geographic supply area which is expanding outside normal channels and familiar business practices;

c) New areas in management-labour relations (including technological labour displacement);

d) An economic environment which is basically outside the experience of managers but whose impact pervades their business enterprise.

Many managers will be unable to cope effectively with these changes. The rest will respond by changing supply patterns and merchandising techniques, shifting investment and controlling costs by improving both efficiency and productivity. Retailers will gradually shift to more highly skilled labour as they incorporate new technology into their businesses. Managers will spend more and more time outside the firm to ensure adequate supplies, preferably from domestic manufacturers who are willing and able to change their commodity lines: otherwise they will have to turn to imports. Productivity improvements through the development of skilled labour and management are receiving greater attention in large firms, but remain a real problem for small and medium-sized retailers. This process will create a new type of entrepreneur who is already beginning to affect business practices in this country. This stimulation within the retail trades will provide concepts and products which are bound to be beneficial to the whole Canadian economy.

V. INVESTMENT CLIMATE

The health of this sector is closely tied to the general well-being of the consuming public and the general economic conditions. Consequently economic and social developments which affect profits and the availability of (and demand for) funds for inventory, new store developments and improved technology, will also affect the investment climate in the sector.

Profitability

The profits of the distributive trades are, and will continue to be, squeezed by inflation and unemployment. Rapidly rising prices are being passed on by manufacturers and importers; this leads to an increase in the cost of equipment and inventory. At the same time consumers are resisting price increases, cutting back on volume, and substituting low for high-value commodities or buying better-quality, more durable products. This process has shrunk gross margins to the point where many firms are in serious financial trouble, and the trend is likely to continue until there is a turnaround in the economy. Until this happens, there is little incentive for new investment. These negative influences are partly offset by an increased emphasis on improvement of productivity and tentative moves to capture a market share in other countries, as well as by the buoyancy in Alberta and British Columbia.

Financing

The need for future financing comes from three sources, each of which exhibits contradictory trends for capital requirements.

First, inventory financing continues to be the major requirement for most wholesale and retail businesses. Because of the current economic situation, a shift is taking place in the way the buyer and the supplier relate to each other over credit. This is creating problems that have not been resolved. Many manufacturers and other suppliers would like to tighten and reduce credit to the distributive trades, but attempts to do so have reduced their sales at a time when there is already a downward pressure on volumes. Retailers also want to reduce their requirements for inventory capital financing, but they want to do so by reducing volumes rather than by changing the financial arrangements with their suppliers. The adjustments to this problem will be as varied as the number of businesses involved but could cause a fundamental shift in the way business is conducted in the country.

The second area of investment financing consists of the long-term capital requirements for new stores, warehouses, etc. These requirements have been reduced and will continue to decline as retailers in central Canada respond to the slow market growth. Expansion will continue in Alberta and British Columbia, but this will not change the overall downward trend in demand for long-term investment significantly. Developers control a major proportion of the capital funds needed for future expansion. It is now generally recognized that further large regional shopping centre developments will be carried out very selectively in the East although they are still common in the West. Community strip plazas will continue to be built, however, and existing urban space will continue to be refurbished or upgraded for retail purposes. This change will decrease capital requirements generally, but again, it will be felt more acutely in central Canada than elsewhere.

Thirdly, financing is needed for technological improvements in existing firms. Most large companies can finance this investment because the savings generated by reduced labour and other operating costs, such as energy, will be large enough to pay for it. However small businesses, which make up the vast majority of retail firms, may not benefit from "efficiency savings" to the same extent and could very well fail to obtain the funds required for technological improvements. Solutions to the funding problem could be found in leasing or technical groupings by the small retailers.

VI. DISTRIBUTION CHANNELS

The changed economic and social conditions that have led to tighter inventory control, less new expansion and an increase in the use of computer technology have also affected the channels of distribution. The distinct role of the different sectors and the established routes from manufacturers through wholesalers and retailers to consumers are changing in two ways.

First, shrinking gross margins have made retailers more responsive to what consumers want. They will spend time and money to ensure that manufacturers provide goods satisfying given specifications. In some cases, retailers will help organize production lines to ensure that the goods have uniform characteristics and are in stable supply. Increasingly, success demands that manufacturers keep the lines of communication with wholesalers and retailers open, and that they be willing to adapt to new methods and products.

Second, the growing use of computer technology and the increasing size of some firms have led to an integration of information systems between the distribution and manufacturing sector. This trend, started in response to supply problems, is still spotty, but is likely to expand. In one way or another, retailers are becoming major decision-makers within the manufacturing process.

The strong influence of the distributive trades on manufacturing is not as apparent in manufacturing sectors with a large export component. But even here, manufacturers of consumer goods for export will seek the advice of wholesalers and retailers because of their knowledge of market characteristics and marketing challenges.

VII. EXTERNAL ORIENTATION

The constant pressure to excel, especially in a market with poor growth potential, has induced several of the larger Canadian companies to investigate the possibility of expanding beyond the domestic market. The size and diversity of the industry, its management capability, its link to the Canadian consumer and its involvement in overseas trade are all factors that can allow it to make a greater contribution towards a positive Canadian international trade and balance of payments position. This contribution can be broken into at least four inter-related areas of endeavour: import replacement, export opportunities, invisible outflows and foreign ownership.

Import Replacement

The potential for import replacement comes from two areas. First, the sector is a major buyer of materials and store equipment for its own use; second, it is also the direct buyer of consumer goods for resale. A significant portion of both types of product is imported.

In addition to the requirement for new expansion, merchandising has a constant need to revitalize existing stores by upgrading and modernizing layouts and fixtures in order to maintain the store's image and competitive position. Many of these materials and products are not bought from Canadian sources even though the Canadian market is sufficiently large to support Canadian manufacture for many items. To match retail and wholesale demand with manufacturers' supply will take concerted and united effort at a level not normally found due to the diversity and number of businesses. However, retailers are beginning to coalesce into groups or utilize groups or agencies able to understand and transmit their requirements to manufacturers. Canadian manufacturers need to be made aware of the requirements of the sector and be encouraged to establish new product lines specifically for it.

The distributive trades are most conscious of the fact that their health depends upon the prosperity of the Canadian consuming public. Thus they have supported programs and policies that would increase national prosperity. In fact, there is a constant flow of information between some retail companies and some manufacturers, but the advantages of this would be much greater if it involved all sectors - distribution, manufacturing, and where appropriate, government. Canadian production of goods for Canadian consumers would gain from faster and universal information channels between these sectors.

Export Opportunities

The Canadian wholesale and retail community has begun looking at new areas of endeavour in light of a long-term structural slow-down in the rate of growth in the domestic market. One avenue of expansion receiving increasing attention is marketing abroad; particularly into the United States, but also into other countries. It has been stressed that the basic strength of the distributive trades is their expertise in marketing and their understanding of the operation of market channels. Wholesalers in particular have the double advantage of facilities as well as a wide range of products. Some of these could be competitive in almost any market.

Two areas of hesitation are slowing down the rate of entry by this type of Canadian businessman into the export market. The first is that those who have excellent contacts for imports have not actively pushed for an effective two-way flow of commodities. The second area is felt to be a lack of the additional requisite management and management's unwillingness to participate in adventures abroad. There is a need to address these problems as most companies that have entered the international sphere do become committed to that kind of activity.

Invisible Monetary Flows and Foreign Ownership

In the service sector, Canada has the worst record for invisible monetary flows in the Organization for Economic Co-operation and Development. The recent increase in acquisitions of small retail chains by Canadian companies, primarily in the United States, represents the first steps toward the creation of Canadian-owned distribution multinationals. Because the capital-to-sales ratio is low, acquisitions in the service sector do not require as large an outflow of money as manufacturing acquisitions. The possibilities of royalties, profits and other invisible flows coming back to Canada would thus occur earlier than would normally be expected.

The trend so far has been for Canadian parents to supply some goods to their foreign acquisitions from the distribution system in Canada. While this supply practice has limits, it does provide an additional market channel for Canadian producers into markets where they may have had difficulty becoming established in the past.

There has also been a growing trend toward foreign acquisitions in the Canadian service industry. It is recognized that such acquisitions contribute little to the Canadian economy and have the potential to cause serious long-term disruptions to government objectives. This trend needs to be understood and discouraged in order to retain the dominant position of Canadians in this sector; at the same time it should be recognized that the total service sector is becoming more international in its orientation.

VIII. POLICY AND THE REGULATION PROCESS

Government policy in the past has been formulated to meet particular objectives in primary and secondary sectors or to meet social objectives; but the distributive trades have been essentially left out of policy development. This situation has come about because of the innocence with which government views the distributive trades - a situation which government is currently trying to correct through a formal consultative process. Even though the magnitude and heterogeneity of the sector seems overwhelming, government is trying to determine how policy written to solve problems in other areas will affect the distributive trades.

The regulatory process is another area where frequent and in-depth consultation is needed, even in areas where clientele other than the distributive trades are being served. Because of their function as the domestic market channel, the distributive trades can make positive comment on a wide range of regulations. In the process this can reduce possible inefficiencies or profit losses and enhance the trades' ability to service the consuming public.

The amount of work required for action to result from the consultative process is substantial, but the payoffs can be great. In addition, if and when co-operation between government and the distributive trades becomes closer, it could lead to substantial increases in the ease with which their respective objectives are met. Such co-operation requires an informed understanding by government of the business climate and the requirements of the sector, and an informed understanding of government processes and objectives by businessmen in the sector.

IX. SOCIAL CONTRIBUTIONS

The above sections have dealt mainly with the economic issues of sales, employment, investment, capital stock and location. However, the primary objective of the distributive trades is to serve consumers by ensuring that they obtain the goods and services they want, when and where they want them. The efficient execution of these functions creates a flexible society, eases the attainment of social and economic goals, and contributes to a rising standard of living for Canadians.

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