BRIDGE STRATEGY GROUP LLC

Case Study

In-Depth Consumer Insights Helps Leading Sporting Goods Manufacturer Understand and Manage U.S.-Canada Cross-Border Shopping Dynamics

Industry & Client Situation

In 2007, a leading sporting goods manufacturer had begun to hear concerns from key Canadian retailers about U.S.-Canada cross-border arbitrage. Over a three-year period, the Canadian dollar had rapidly appreciated against the U.S. dollar, resulting in significant (30-40%) price gaps across product categories between the two markets. These amplified price gaps were no longer justifiable on the basis of country-specific cost differences. Pressures from Canadian dealers asking manufacturers to rectify price lists—either by reducing Canadian prices or by raising U.S. prices—were mounting.

Because the Canadian hockey market was a major portion of its business, our client was concerned about account loss and retailer backlash, and engaged Bridge to understand and quantify the cross-border shopping issue, as well as to recommend a path forward.

Approach

Bridge adopted a consumer-centric approach to understand and quantify drivers of behavior, and leveraged its market-driven strategy expertise as well as its experience with consumer products and retail, to answer critical strategic questions including:

- Company: What is the impact of currency fluctuations on wholesale and retail prices? What happens to sales as prices and exchange rates vary? What is the relative magnitude of these shifts, and what is the estimated cross-border "leakage"?
- Consumer: What is the level of cross-border price awareness among Canadian consumers? How prevalent is cross-border shopping? What drives behavior? Who engages in the activity? How often? Where they shop? What they buy? What is the relationship between user segments (i.e. avidity) and demand elasticity?
- Market: What is the impact of cross-border shopping on retail performance? What competitive moves can be anticipated? How would retailers and competitors react to potential pricing moves or other promotional activities?

In order to answer these questions, Bridge:

- Performed in-depth interviews and conducted a quantitative survey with Canadian consumers to understand cross-border shopping behavior
- Analyzed a 5-year sales trend (by product category, price point, account type, retailer proximity to the border etc.)
- Examined prices (wholesale and retail) and margins by product/category over time
- Conducted interviews with and surveyed a select number of Canadian retailers
- Collected internal insights and perspectives from Sales, Marketing and Product groups

Results

From a consumer-centric, fact-based perspective on the cross-border shopping issue:

- Cross-border shopping is not supported by any meaningful changes in wholesale sales pattern that would suggest relative declines in volume
- Canadian consumers are generally unaware of price differences between the U.S. and Canada, and the effect of cross-border shopping is minimal—even when awareness is created through hypothetical scenarios, projected behavior is not material
- There could be other explanations to justify the observed dealer angst (e.g. cross-channel share loss within Canada)

Hence, we recommended no immediate broad pricing action to address the cross-border pricing dynamic; however, market-specific pricing opportunities could be explored.