

# Shopping around

Canadian-based retailer The North West Company uses ingenuity in supply-chain logistics and market localization to thrive in far-flung communities, says CEO Edward Kennedy

By Karen Burdette

When you're leaving environments in extreme climates that are far away from head office, you necessarily have to deal with unique challenges. You might say the unexpected is the norm. Making your stores feel a genuine part of small, isolated communities is a considerable task. So are recruiting and retaining staff. These are some of the matters that have preoccupied Edward Kennedy, CEO of Winnipeg-based The North West Company (NYSE: NWG).

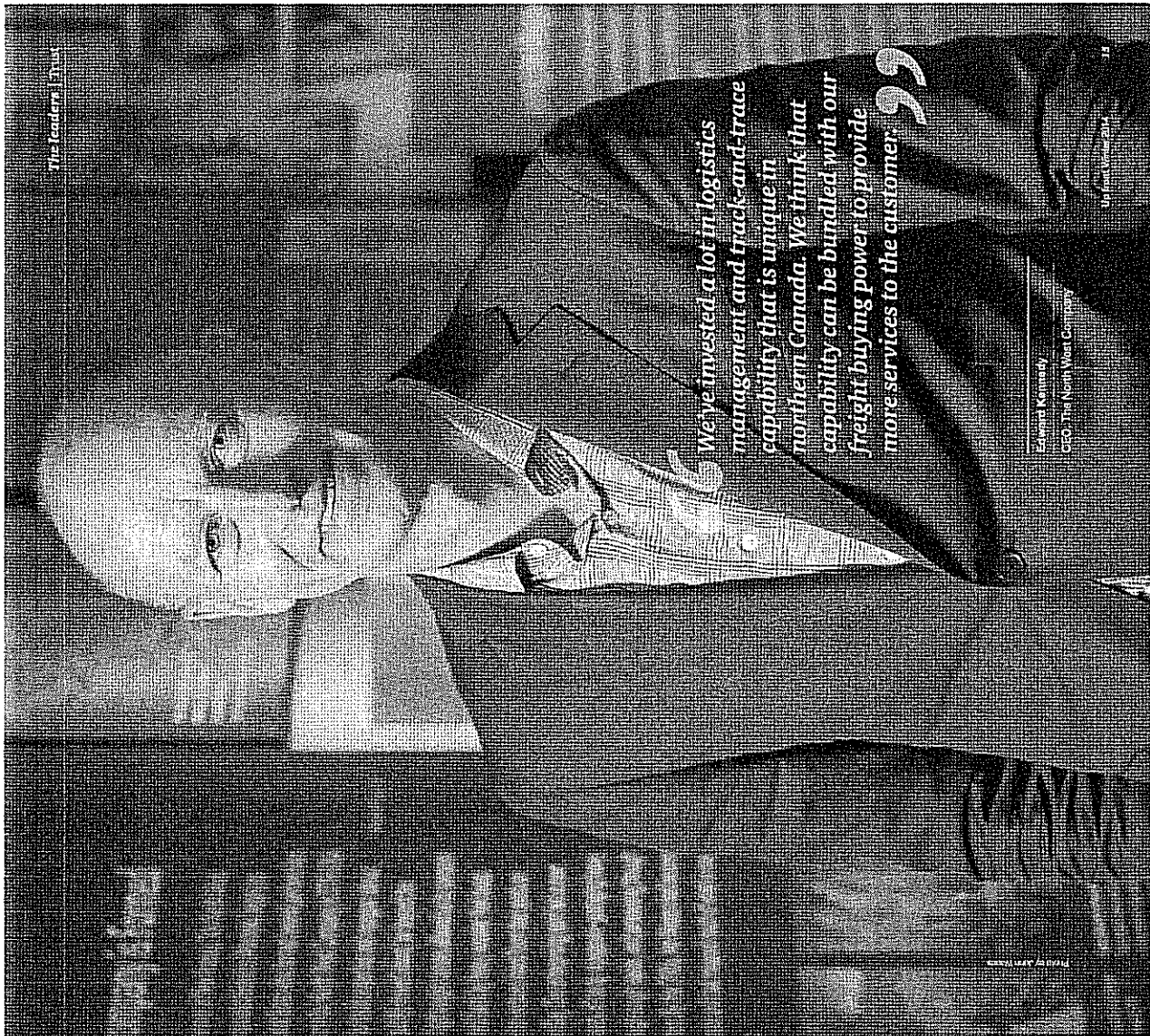
Founded as a fur-trade enterprise more than 300 years ago, today the company operates 276 stores in Canada, Alaska, the South Pacific and the Caribbean under the Northern, NorthStar, Giant Tiger, AC Value Centre and Cozi-Us labels. For those challenges and others, Kennedy has found original solutions—solutions that have helped put his company on a path to double-digit growth. Kennedy says that the tasks of serving remote, lightly populated communities almost guarantee a creative, problem-solving portfolio. “As you get into these remote settings and the market nature becomes second-hand in nature, community and political issues, lack of infrastructure, whether anything comparable exist to become incredibly complex.”

Adaptability and staffing flexibility, he says, are key. “Cross-training is incredibly important.

Everybody can back up at least two others. A lot of ingenuity comes into play. That's the skill set we try to refine over the years,” Kennedy says.

Other chains might not find small communities worth their while, but North West has used its history in the North to hone a unique set of logistics skills. Systems and redundancies are built into the company's supply-chain management. It's a matter where it can cost six, seven or eight dollars in freight shipping to bring in a carton of milk, “our freight spend is bigger and the unpredictability is higher,” says Kennedy. “We learned that hundreds of thousands of dollars in spoiled milk is something to cry over.”

Information bandwidth has helped cut risk versus, Kennedy says. “Our store employees risk to mitigate with communications. You can get instant information that feeds us back to root causes. If we have an inventory-planning situation where the manager on the algorithm they're using isn't synced up with the sales, we go back and address that on a real-time basis. Whether we change the way we order merchandise, load our planes or get bigger planes, for example, we're able to better manage inventory,” Kennedy says. Differences are systematically passed on to the customer as cost savings.



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Edward Kennedy  
CEO, The North West Company



E-commerce development might suggest that online shopping will take a big bite of North West's local retail presence, but the company has come to understand that, in the communities it serves, the role of the store goes beyond everyday products and services like groceries. "A social purpose is served in a small town with a tactile shopping experience." For most areas, small-town shoppers might not want express lanes, like urban shoppers. "They don't necessarily want a short line, because it's a chance to talk and spend time with their neighbors. With other retailers, productivity is measured by how many items you scan per minute. If you go too loud on that, you'll go upside-down on the tightest track called northern time, or retail time in the north."

North West is committed to food education in its locations, which include some of Canada's highest incidences of obesity and related diseases. Kennedy champions federal government programs like Nutrition North Canada that have helped bring down the traditionally high price of nutritious food in those parts. North West also develops healthy eat-saving recipes for its customers.

North West's foray into foreign markets like Alaska, Guam, and the Caribbean might sound surprising, considering its northern legacy. But foreign interests account for 40 per cent of North West's business and are driving the company's growth. Was it simply as easy as applying northern success to southern markets, what Kennedy jokingly called something "blizzards for typhoons"? While he says some business synergies, Kennedy says, "You build on what can't be learned." This means a market strategy that is localized and

"very granular." For example, the company uses a decentralized approach in buying. "We don't superimpose products from the U.S. onto, say, Fiji. There's a mix." Store and regional managers source local items. "Their ideas for sourcing, combined with the buying power of our international buying office in Seattle, bring the best of all worlds."

The company builds an authentic presence in its communities, including through philanthropy, such as local food banks. For example, Kennedy contrasts his Co-op's less warehouse stores with a franchise-owned counterpart on the islands they serve. "They haven't done the education for doing scratch their head and wonder why we spend so much time. But it's just part of our makeup. I can't tell you that it always translates into X number of shoppers coming through, but it resonates with customers who want to be listened to." It also resonates with staff, he adds.

North West is focused on sales momentum, growing horizontally by taking the shopping basket and limiting its "Abuse in Store" strategy, which involves tailoring specific services to the needs of the community. "What seems to be under-served today that you could add to your mix and product or services over time?" Kennedy asks of local proprietors, considering everything from pharmacy to financial services, a coffee shop or a post office. "We've invested a lot in logistics management and track-and-trace capability that is unique in northern Canada. We think that capability can be harnessed with our freight buying power to provide more services to the customer," Kennedy says.



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Kennedy looks at remote healthcare as one potential area for growth. "Health needs to be paraprofessionals trained. It gets introduced in a hurry." And this creates inefficiencies, he believes. "We need nurses, more technicians who can take blood samples and then get into more remote medicine delivery, so doctors don't spend time flying. They can do video diagnosis." It's that thinking the company uses in its own stores and is trying to adapt to new service areas.

"If we can keep getting it right, this is where we have a lot to offer." Kennedy believes. "I've got an angle with these issues; when I think up their brands, because it's an adjunct to what they do, it's the core part of what we are."