

340 years and counting

North West Company CEO **Ed Kennedy** dishes on the future of the Northern stalwart. It traces its roots back to 1668 with the founding of the Hudson's Bay Company.

An integral part of the Northern economy, Winnipeg's North West Company owns 45 Northern Stores across the three territories, plus three North-Marts, in Inuvik, Hay River and Iqaluit. These operations brought in half of the company's revenues in 2007, totalling \$640-million. The company has also branched out recently, buying Cost-U-Less, a series of 12 mid-sized warehouse stores in the U.S. territories, the Caribbean and the South Pacific.

On being able to trace the roots of the company back so far:

Companies tend to come and go, so the fact that we've been part of a continuous enterprise for 340 years now is something that motivates us. We can look back and say that we helped build and continue this enterprise. It's authentic in the sense that a lot of companies look for roots that go back as long as they can.

On breaking away from the Hudson's Bay Company 20 years ago:

At the time, the HBC was a conglomerate. They had oil and gas holdings, they were in the wholesale business, they'd moved into urban department stores, and, in the 1970s, had acquired Zellers. Conglomerates were falling out of favour. Some of its businesses were slowing down and high interest rates were affecting them. It had also made what turned out to be poor investments when it tried to stretch its department stores into communities like Yorkton, Saskatchewan. The whole rural area of its business was an increasingly small part of its business.

As the '80s moved along, it looked at refocusing. For them, the core part of the business was Zellers and the Hudson's Bay divisions. It dwarfed the Northern Stores division, which had important historical roots and some dedicated people and loyal customers, but was not being invested in the way that we think it

has been since. One person who takes a lot of credit for the purchase is Ian Sutherland, who has just retired as our chairman. His father, Hugh Sutherland, had been the managing director of the Northern Stores division in the '70s. Ed had an affection and knowledge that someone else wouldn't have had. He helped bring together some outside investors, and there were 650 employee shareholders from across the North. We still have an employee shareholder base of about the same number. There were also some insurance companies and pension funds that bought in at the time. The price was \$180-million and the equity investment was about \$36-million.

On the revenues from the Northern Stores division:

It provides about 50 per cent of the revenues. On my watch, the North will never be a relatively insignificant business, as seemed to happen with the Bay. That can't happen. There's just too much opportunity in the North. Our sales growth on same-store sales has greatly exceeded the population growth. It has to be coming from more people shopping locally.

On having very strong growth the past five or so years:

We've accelerated our growth through new product and service offerings in our Northern business – and I'd include Alaska there. We

see ourselves as an everyday-needs provider, anchored by food, but we hadn't developed some of our food categories. As mundane as it may sound, simply getting into coffee was a big deal, or expanding our grab-and-go food offerings. That's added several million dollars. We shifted about 20 per cent of our selling space away from general merchandise and into food. Most of that was refrigeration for fresh and frozen food. We gave ourselves a boost there and started to recapture some of the dollars that leave the North.

I only point that out as an example because when we look at our growth, it's achieving a lot of things like that compounded by five and 10 times. Another example would be selling cars and trucks in the North. A lot of people didn't buy them locally – they were going out of town to shop. Now we're doing quite a bit of that, especially in the eastern Arctic. We've also doubled our fuel dispensing business to 45 sites now, we've opened more post offices and we've expanded our financial service business in many different ways, through cash cards, money transfers, and the ATM business.

Population growth is still robust, especially in Nunavut and the more remote areas of the NWT. We have been able to benefit from the employment that communities have gained from resource development. We have the diamond mines, the Raglan nickel mine in northern Quebec, Meadowbank with a gold mine about to open near Baker Lake, and uranium exploration. The fishing industry has been pretty robust in Alaska. We have about 12 stores that are really reliant on commercial fishing. We've also ramped up the number of Giant Tiger [a family discount chain] stores. If you go back four years we had maybe a half dozen stores. We have 28 now.



“You can’t be a low-cost retailer if your construction costs are \$400 per square foot compared to \$65 per foot in Winnipeg, or your kilowatt-hour charge is 75 cents in Taloyoak and six cents in Winnipeg.”

THOMAS FRICKE

On the ways operating in Guam is similar to operating in, say, a community like Rankin Inlet:

Well, you have to have community consensus to be in the community. Since I’ve been here – 19 years – we’ve been invited into between 35 and 40 communities. And I use the word ‘invited’ because they didn’t need to have us. They may have had a band store or a Co-op store, and it’s usually political and it’s a community issue: “Are we going to add a Northern Store?” If we’re able to show we can reduce price, provide consistent service, or employ more people locally, the answer may be ‘Yes.’

We don’t have the right to stay open because we’re local, but we know that if we’re local and doing our job, we’re going to have local employment. We’re the largest corpo-

rate taxpayer in Nunavut, so it’s good for the economy. About 50 of our stores are owned by the community and leased to us. So Cost-U-Less is similar. It’s a junior version of Costco, but in small countries and U.S. territories. They have retail, but not a lot of retail. We bring local employment, a tax base, and prevent some dollars from leaving the islands.

If we can bring the shopping options to another level, then we’re going to have an opportunity to enter these islands. And I say ‘opportunity’ because, again, a new retail player can be disruptive. There are rules and regulations on ownership. I’m talking about community consensus, or community store advisory boards, as we have in many communities.

And then there’s the cultural aspect: When you’re in a smaller, more isolated community, things move differently, the pace,

what’s really important is different. Being in a line-up at a checkout is not so bad when you’re talking to your neighbour and everyone knows each other. It’s a social event as well as a shopping event. That perspective on life is very similar whether you’re in Guam, American Samoa or Rankin Inlet.

On complaints that it charges Northerners too much for what it sells:

Prices are high, that can’t be denied. And it’s human nature to point that out. We have tourists come in and take pictures of the costs of the bananas. What does that mean? It’s a high-cost environment. You can’t be a low-cost retailer if your construction costs are \$400 per square foot compared to \$65 per foot in Winnipeg, or your kilowatt-hour charge is 75 cents in Taloyoak and six cents in Winnipeg.

And our freight ranges, per kilo, from \$1.50 to over \$5 depending on whether you're bargaining or shipping by air. It's not easy. We wrestle with it all the time. Right now we're putting heat reclamation systems into all of our stores. We've put in computer bandwidth to streamline paperwork in our offices. We've been able to improve staff efficiency through training. We try to get to the point where people will say 'That's a fair price when I consider my time and effort to shop out of town.'

On converting the company into an income trust in 1987:

We were one of the first business trusts. We had always paid a dividend, so we didn't start to take extra cash out of the business. We just converted that dividend to interest payments, and because interest payments are deductible, it was tax efficient, just as it has been for many who have followed us. The whole thing will last until 2011 – the date by which all income trusts must convert back – when we'll revert back to a dividend-paying corporation as we were before and life will go on.

On the Conservative government's controversial move to end the trust-structure option:

We're fine with that. It's a public policy decision that's been made and we'll move on. It's not fatal in any way. Things change in terms of regulation and tax policy and that's OK. Our individual investors are fully integrated in the sense that they will get a tax credit and that will offset the tax that we pay, so they won't lose anything in terms of their return. Some of the larger investors will get less because they never paid tax, they're pension funds and tax-deferred entities. That's a problem for them but that's just the way it is. We hope they'll still look at us as a good investment.

On the decision to invest in Nunavut Eastern Arctic Shipping:

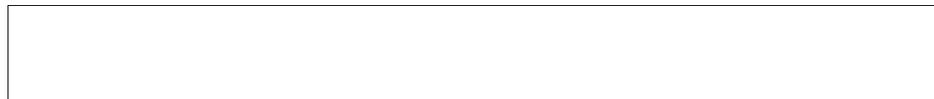
NEAS goes back about eight years. North West was a founding member. We'd been in a shipping joint venture with Logistic Corporation of Montreal since the early '90s, then we sat down with Makivik, Qikiqtaaluk and Sakku and we're now up to three ships together. It will be an interesting season coming up because a lot of the cargo we count on is tied to resource development, which looks like it's dissipating right now. We'll soon know whether some of that can be replaced with infrastructure spending. We're very proud that we have had success with a program aimed at

attracting Inuit into a crew-training program. We've had good retention there.

On its Inuit art marketing arm:

It's mostly out of Cape Dorset, but we buy in at least a dozen communities. We have a buyer in Cape Dorset and a showroom in Toronto

called Inuit Art Marketing Service. We sell it internationally in person and by web cam, in Europe, Asia and the U.S. It's a small part of the business but it does recycle some money in the community. We've had it since we bought the business from the Bay, and we're one of the larger Inuit art distributors. 



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