

The Road Less Traveled

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Edward Kennedy, CEO of North West Co.

The tropical waters of Guam, rich in skipjack and yellowfin tuna, might not seem to have much in common with the Northwest Territories community of Tuktoyaktuk, known for pingos and average winter temperatures of -26C. But to Edward Kennedy, CEO of Winnipeg-based North West Co., both remote territories share many similarities - among them the opportunity to sell Igloo brand coolers. "We sell the same cooler to fishing charter companies on tropical islands that we sell to seal hunters in the Arctic," says Kennedy.

Both locations are perfect examples of North West's focus on retailing in remote communities. Heading into 2009, Kennedy hopes that North West's strategy, which has been boosted by the 2007 acquisition of the Cost-U-Less chain, has set up North West to ride out the recession.

Kennedy has spent much of his 12 years at the helm of North West Co. expanding the global reach of its stores, which sell everything from produce, clothes, electronics and pharmaceuticals, as well as tax planning, auto sales and financial services, to some of the most isolated places on earth. While 29 of North West's 221 stores are Giant Tiger discount outlets, which operate in suburban communities or mid-sized cities, the company has 168 stores in remote northern communities under the banners Northern, NorthMart and AC Value Center. Its Cost-U-Less warehouse chain has 12 stores operating on islands in the Pacific and Caribbean.

Compared to its retail peers, North West's unusual constellation of outlets has fared relatively well thus far in the downturn. Net earnings were up, and same-store sales (at outlets open for more than a year), a key retail bellwether, increased 5.2% in the first three quarters of 2008. The value of North West's units was still down 19.3% in 2008, but that's much better than the overall S&P/TSX, which was down 35%.

Consumers might expect the high-profile Giant Tiger stores to be driving the growth, but in fact, it is being spurred largely by Cost-U-Less and the company's other brands. Plans to expand Giant Tiger - North West only has the rights to operate under the name in Western Canada - were slowed last year due to high realty prices in Alberta.

Instead, North West is focussing its energies on its remote stores, which make up 80% of its business. It's a natural move for Kennedy (the brother of Liberal politician Gerard Kennedy), who was raised in the rural community of The Pas, Man., giving him firsthand knowledge of the relationship between a small community and its main store. "They are counted on to make people's lives better, to reflect local tastes, traditions and cultures, and to bring the best of the outside world in locally and culturally sensitive ways," says Kennedy.

After getting his law degree, Kennedy worked in investment banking in Toronto. He worked on the file of the Hudson Bay Co.'s Northern Stores division, and was persuaded to join the company after it was bought by a management-led group in 1987. (It was later renamed North West.) The company was originally established in 1779, making it the oldest Canadian-owned retailer in the country.

Before the acquisition of Cost-U-Less, industry watchers speculated that North West's next international target would be located in a chilly and isolated place, such as the Kamchatka Peninsula in Russia's far east. But Kennedy, 49, saw more similarities and business synergies between tundra and tropics, and he believes there is ample opportunity in the island markets to expand the food and services offerings just as he has done throughout the North.

The Pacific northwest is a hub for trade to all the islands, Kennedy notes, and North West can exploit its freight-buying power along the Alaskan/South Pacific trade route. The company also has to be on guard to deal with extreme weather in areas where it operates, and it can bring this expertise to its southern operations. "We had a typhoon in Fiji the same week we had a blizzard in Labrador," he says. "In these areas, our role is to run a reliable and consistent store."

According to Tal Woolley, an analyst at RBC Capital Markets, doing business well in these hard-to-reach areas pays off in the form of steady business. "Business in the North is relatively captive," he says. "North West has a dominant share in its markets, and they are often operating in subsistence economies where people are supported by federal transfer payments. Their communities are less economically sensitive."

Kennedy points to another recent move that he says will help North West in the long run: The March 2008 acquisition of Span Alaska Enterprises Inc., a food and general merchandise distributor serving customers in rural Alaska.

While Kennedy is concerned about the recession, he says North West is likely better equipped than many retailers, given that his stores sell food and essentials, including drugs and household goods. "A big factor for us is the effect of inflation and deflation of the dollar on oil prices, and the rapidity of that change could affect our business," he says, but noted credit is a good option for many of the company's customers because most them are not overleveraged.

And even though Giant Tiger has slowed its expansion, Kennedy thinks it is likely well positioned for hard economic times. "The conventional thinking in retail," he says, "is that when people economize, it is a natural behaviour to shop at discount stores."

Kennedy, like most of his peers in the retail sector, stops short from making any bold growth predictions for 2009. But still, he's optimistic that the retailer will continue its solid performance in the coming year. "We certainly would expect to see bottom-line growth in our business," he says.