



Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

[See a sample reprint in PDF format.](#)

[Order a reprint of this article now](#)

THE WALL STREET JOURNAL.

WSJ.com

BUSINESS | MAY 19, 2010

Strong Loonie Sets Off a Retail Tiff

By PHRED DVORAK And ANDY GEORGIADES

TORONTO — **Sears Canada Inc.** is battling its suppliers over who should reap the benefits of Canada's strengthening currency, in a sign of how foreign-exchange fluctuations are squeezing businesses up north.

The Toronto-based retailer, which is publicly traded but majority owned by **Sears Holdings Corp.** of the U.S., has told many suppliers it is permanently reducing what it pays them by about 10%. It argues that since the stronger Canadian dollar means vendors pay less for a product, be it a grill or a shirt, Sears should pay less too. It also wants some "retroactive recovery" of what it has paid so far, according to an April letter viewed by The Wall Street Journal.

Sears Canada says it needs to lower its prices, as U.S. retailers are luring away shoppers whose Canadian dollars go further south of the border

Sears Canada confirms it sent such letters but won't comment on their content.

The suppliers are fighting back. During the past two days, two associations representing Canadian apparel vendors have fired off letters to Sears Canada, asking it to rescind its demands. Those demands are "predatory practice" and a "cash grab," wrote National Apparel Bureau President David Schachter, in his May 17 letter. Sears Canada should be worrying about ways to "help Sears become a first class retailer and not in creating strategies to gouge your 'partners,'" he wrote.

The fracas is an extreme example of a broader problem in Canada, as the value of its dollar soars against that of its U.S. cousin. On Tuesday, the Canadian dollar was worth about 96.4 U.S. cents. At the beginning of 2009 it was closer to 80 cents. Much of what Canadian companies buy to stock shelves and feed factories—from Weber grills to iron ore—is produced outside of Canada and originally priced in U.S. dollars. When the loonie, as the Canadian currency is dubbed, appreciates against the greenback, those goods become cheaper in Canadian dollars — in theory, lowering costs for Canadian businesses that buy imports.

But cost savings aren't always passed along the supply chain smoothly or quickly, leaving gaps in the prices of what items cost in Canadian versus U.S. dollars. Some of the starkest gaps are in retail, where import duties and higher costs for transportation and overhead conspire to boost Canadian prices to begin with.

That leaves consumers wondering why it costs \$29.99 for a Levi's 505 at Sears in the U.S., for instance, but at Sears Canada they are C\$70, or about \$67.50.

Other businesses also are seeking a slice. Mel Svendsen, chief executive of a Calgary-based spring and suspension maker, is pushing the company's steel suppliers for lower prices on future contracts.

In June 2008, during the last period the loonie and greenback were hovering around parity, retail prices in Canada were around 18% higher than in the U.S., a study by economists at BMO Capital Markets found.

That price gap prompted sent hordes of Canadian shoppers south of the border to look for bargains—something some retailers fear could happen again.

In its letter to suppliers, Sears Canada said price disparities are putting "significant pressure" on its business and driving customers to U.S. rivals, either across the border or online. "We're trying to achieve lower prices for customers and we're asking our suppliers to engage in that with us," says Sears Canada spokesman Vincent Power

This isn't the first time Sears Canada has squeezed its suppliers. In late 2007, when the Canadian and U.S. dollars last hit parity, Sears Canada announced it would reduce promised payments to suppliers by around 5% and ask for money back. Some apparel suppliers are still fighting Sears Canada to retrieve payments from that time, says the National Apparel Bureau's Mr. Schachter.

Not all suppliers benefit from the increased purchasing power of a stronger loonie, Mr. Schachter says. Some buy products domestically, in Canadian dollars; most vendors who do import also buy futures contracts that guarantee they can exchange Canadian dollars for U.S. at fixed prices, he says.

One supplier of women's apparel who got the letter says his company set prices at the end of last year for clothes that get shipped in July. But he says the company also locked in a futures contract to buy U.S. dollars in July at the exchange rate at the end of the year, so he's not getting a foreign-exchange windfall.

Suppliers have to honor contracts despite unpredictable events that drive up costs, says one toy vendor who got the Sears Canada letter. Sears Canada ought to honor its commitments too, he says.

Copyright 2009 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com