

Case Study

DECREASING CONSUMER SALES AS CANADIAN DOLLAR PLUMMETS

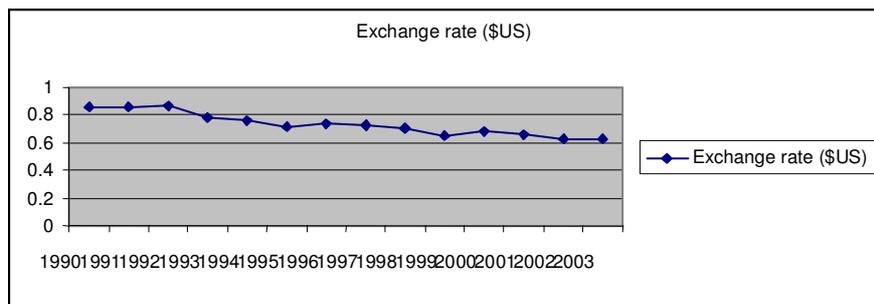
AN INTERNATIONAL CASE STUDY

Tim Lang
James Ondracek
Mohammad Saeed

IN the past decade, cross-border Canadian spending for all purposes has declined. This case centers on the decrease of Canadian visits to North Dakota and those sectors it has most affected. It also presents information concerning American visits to Canada, and what the government of Canada has done to entice them. The main point of this case concerns the United States/Canadian dollar exchange rate and how exchange rates drive cross-border business trends between the United States and Canada. Readers should be drawn to discuss what could be done to recapture the Canadian market and its importance.

Introduction

In the mid 1980's and early 1990's it was common to see flocks of Canadians heading south of the border to do their shopping. The American retailers offered much lower prices and better selection of merchandise. With the Canadian dollar valued so high, it was the smart thing to do. Canadian visitors increased steadily from 1985 to 1991. The Canadian dollar reached an all-time high of US\$0.8934 in November of 1991 and cross border shopping also reached an all-time high. Soon after this time the Canadian dollar gradually started to decline, falling to US\$0.730 in 1996, US\$0.6311 in 1998, and US\$0.623 in November of 2001. As the dollar fell, so did the number of cross-border shoppers who visited the United States. Canadians have seen their dollar decline -27.1% from 1991 to 1998 relative to the US dollar. The North American Free Trade Agreement (NAFTA) came into effect in 1993 and was expected to aide trade even more. But as the Canadian dollar fell Canadians stayed at home and still stay away today. Wilfred Richard (1996) concludes that "ten years of data demonstrate that the most important factor affecting cross-border trips to the United States is the value of the Canadian dollar." The graph below illustrates the falling Canadian dollar relative to the US dollar. All rates taken on the first business day of each year from the Bank of Canada (Bank of Canada, 2003).



* Student, Minot State University, Minot, 500 University Avenue West, Minot, North Dakota-58701, USA.

** Associate Professor, Minot State University, Minot, 500 University Avenue West, Minot, North Dakota-58701, USA.

*** Professor, Minot State University, Minot, 500 University Avenue West, Minot, North Dakota-58701, USA.

Tim Lang, James Ondracek & Mohammad Saeed

Importance of Cross Border Shopping

Cross border shopping brings in enormous revenues for those states near to the US-Canadian border. In 1991 when the dollar was so high, Canadians made 19.1 million trips into the United States. However, in 1995, the number of Canadian visits dropped significantly to 14.7 million. Day trips also declined sharply during this time, from 59 million in 1991 to 36 million in 1996 (Clark 1997).

The following graph depicts the change by major currencies around the world relative to the US dollar. All figures are taken from mapleleafweb.com (2002).

In a state like North Dakota, the importance of Canadian tourists takes on an even greater role. The state doesn't draw a huge number of visitors from the rest of the United States so Canada is a very viable market. North Dakota is bordered to the north by Manitoba and Saskatchewan. The city of Minot, ND, the focus of this case, is roughly ninety minutes from the closest port of entry.

During the peak of the Canadian dollar's value, new hotels in Minot and the surrounding area were popping up and it was even tough to find a room. According to Cobb (1995) at one point in 1991-1992, Canadians occupied sixty percent of Minot hotel rooms. That number decreased to twenty percent by 1996. Change in air travel has also caused a decrease in Minot business. Direct flights to US destinations can now be made from Winnipeg, MB or Regina, SK, thus stopping residents from driving south to make air connections.

The hospitality and tourism industries are those most affected by the devaluation and improved air service. Hotels, such as Minot's Airport Inn, formally a Ramada Inn, have closed its doors due to poor business. Other hotels, such as the Select Inn and the Guest Lodge offer rooms at par to entice visitors from the north.

American Retailers Invade Canada

Another factor that initially drew Canadians to the United States was stores such as Wal-Mart and Target, which could not be found north of the border. However, Wal-Mart began penetrating Canada in 1993 and the lure of these "exotic" discount stores diminished. Canadian shoppers now seek stores such as Old Navy and American Eagle, but not to the same degree as the larger discount stores.

In 1985, there were only ten large U.S. retail companies operating in Canada. That number grew to twenty-one in 1992 and by the late 1990s it was up to about sixty-three (Thorne, 1999). The majority of U.S. retail outlets that have yet to expand into the Canadian market have merchandise available online. Online shoppers save the time and money it takes to make the trip to the actual outlet. The number of Canadians who purchase goods online has grown from 1.5% of households in 1997, to 5.5% in 1999 and to 12.7% in 2001 according to Statistics Canada (2003).

Post-Secondary Institutions

Proof of the decreased interest by Canadians in the United States can be seen in post-secondary institutions as well. Statistics from 1995 to 2002 show a decline in the number of Canadian students enrolled at Minot State University. Canadian students can no longer afford to attend schools south of the border due to the weak dollar. Tuition, as well as the cost of living has increased dramatically relative to the Canadian dollar. This illustrates the way all Canadians, not just consumers, are affected by their decreased purchasing power.

Entering and Leaving North Dakota Ports of Entry

There are eighteen ports of entry serving the state of North Dakota. Three of them, Dunseith, Portal, and Pembina are open twenty-four hours a day. Canadians casually visiting North Dakota are allowed to bring back \$75 worth of merchandise; those staying for two or more nights can bring back a total of \$200 worth of goods. For the visitor who stays at least two nights one carton of cigarettes or one log of tobacco, one liter of alcohol or twenty-four bottles of beer are also allowed. Any illegal drugs, firearms, or fireworks are banned, as are most fresh fruit, vegetables, and plants. Anyone with a criminal record is also not permitted into the United States.

Most Popular US Destinations

In 1999, Canadians spent an average of 2.2 nights per visit to the US. New York is the state that is most visited by Canadians with over 2,333,000 visits in 2000 and a total of \$644 million spent in the state. Florida was next with 1,967,000 visits, but Canadians spent a whopping \$2,110 million. Minnesota and Montana ranked 11th and 13th respectively. North Dakota ranks 19th in this category due to the rather low populations in the neighboring provinces. However, the impact of dollars spent by Canadians in North Dakota may be the greatest in the United States.

September 11 Impacts

The tragic incidents of September 11 have greatly increased security on both sides of the border, and for good reason. Travelers are now searched extensively and are expected to have photo identification for entry and a passport is suggested. Armed military personnel now face Canadians when they cross into the United States. Added security has increased the time required to cross the border. Stories of long waits, sometimes a few hours deter visitors.

These stories of long waits may be true for border crossings in populated areas but it is not true for North Dakota crossings. However, many Canadians are fearful of future terrorist attacks and are unwilling to visit the US. Security did start to become more lenient at the US/Canada border but the spring 2003 war with Iraq has put both governments on high alert again. Canada has taken a stand against the war with Iraq, which could affect relations between the two countries and might cause another sharp decrease in travel. The United States and Canada have been each others greatest allies and trading partners for many years and it would be very harmful for both economies if a negative impact occurred.

New Visitors to Canada

The strong American dollar has caused a new influx of visitors from the US to Canada. After September 11, the Hotel Association of Canada led the tourism industry by adding 25 million dollars to their near market, especially rubber trade-auto travel (Baker, 2003).

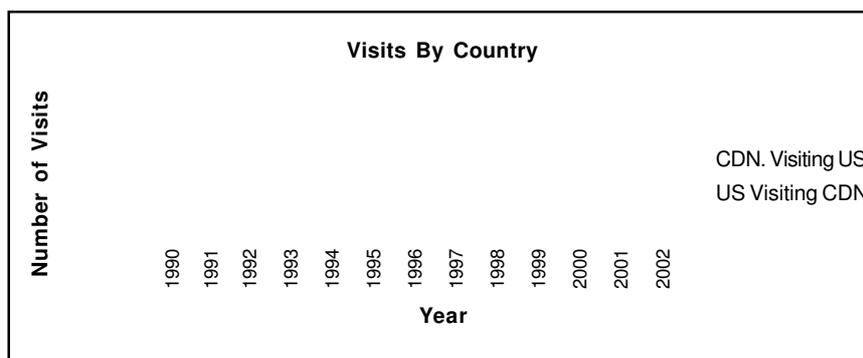
North Dakota Business

Statistics show that Americans visiting Canada on average stay for fewer days but residents of North Dakota spent \$32 million in Canada in 2001. Canadians spent about the same amount in North Dakota but they still make about 8,000 more trips. The following data illustrates the change in visitors to each

Tim Lang, James Ondracek & Mohammad Saeed

country from 1990 to 2003 and lists the exchange rates of that year. Visitors are measured in thousands. 2003 numbers are projections. Figures reflect total visits by Canadians to the United States and US visits to Canada.

Year	Exchange Rate (\$US)	CDN. Visiting US	US Visiting CDN
1990	0.862	17,262	12,253
1991	0.864	19,113	12,003
1992	0.869	18,598	11,818
1993	0.782	17,293	12,024
1994	0.759	14,970	12,542
1995	0.713	14,663	13,005
1996	0.737	15,301	12,909
1997	0.728	15,127	13,401
1998	0.702	13,422	14,880
1999	0.655	14,110	15,276
2000	0.689	14,648	15,188
2001	0.668	13,507	15,561
2002	0.626	13,622	16,028
2003	0.635	14,739	16,521



The number of Canadian visitors to the United States has dropped dramatically from its peak in 1991 of 19,113,000. In 2002, the number of visitors was 13,622,000, a decrease of 28.7% from its high. The number of Americans visiting Canada has gone from 12,253,000 in 1990 to 16,028,000 in 2002, and increase of 30.8% over that span. In terms of total spending on merchandise by Canadians in the United States, an increase of 8% actually occurred from 1990 to 1999, while an 18% decrease in the number of visitors occurred over that time. Obviously the ones hurt by the decreased number of visitors is the hospitality and service industry. A per person spending breakdown shows an increase of \$30 (\$53 to \$83), from 1998 to 1999 (Clark 1997). So Canadians are spending more on average but visiting less, thus, tourism is the industry that gets hit hardest.

Benefits of the Weak Canadian Dollar

Actually, the weak dollar has many benefits to the Canadian economy. It forces residents to shop within the country in order to save money and this increases the purchases of Canadian made products. International tourism is also aided as visitors to Canada can now get more for less.

Attracting Americans

To stimulate US spending in Canada, provinces also offer a total tax rebate to American visitors on goods purchased in Canada. After the first six months of this new program, crossings were up fifty percent at the Emerson port located in Manitoba.

Spring Break Boom

Another factor is the lower legal drinking age in Canada. In Manitoba the legal drinking age is eighteen and Saskatchewan is nineteen. American spring breaks see many students traveling north, rather than south, for an inexpensive holiday. The lure of being permitted into nightclubs has many university and college students heading for centers like Brandon and Winnipeg, which have both watched business boom during these times. Weekend travel to Canada for this age group has also picked up, as Manitoba sees a great influx of 18-20 year olds crossing the border on the weekends (Baker, 2003). For now the seesaw of border shopping has now appeared to be favoring Canadians.

The Strong American Dollar/The Weak Canadian Dollar

The fact that the American dollar has been so strong over this period is a result of good US economic fundamentals. High growth, low unemployment, and high demand for stocks and bonds in the United States have contributed to the strong American dollar. Canada's economy is still highly dependent on commodities. When commodity prices decline, investment in Canada is discouraged and unemployment is higher. Canadian government debt is very high while interest rates have been very low. Overall, Canada's economy is weaker and less attractive

Recapturing the Canadian Market

So is there any way of swinging the pendulum back to the United States that is attracting more Canadian visits to North Dakota? With the weak Canadian dollar and increased security, most would say no. That the only way a significant change can occur is through a drastic strengthening of the Canadian dollar. Although it is trading slightly higher than in the last several months, it is a far cry from its peak. All figures taken from the Bank of Canada (2003).

Month	Exchange Rate (US\$)
Aug. 1, 2002	0.628
Sept. 3, 2002	0.644
Oct. 1, 2002	0.632
Nov. 1, 2002	0.642
Dec. 2, 2002	0.643
Jan. 2, 2003	0.638
Feb. 3, 2003	0.659
Mar. 3, 2003	0.674
Apr. 1, 2003	0.678

However, one area that could be greatly improved is advertising in Canada to lure Canadians to visit North Dakota. In the early 1990's, many Minot business advertised extensively in Canada. Currently, little advertising is done and even business that offers rebates don't make enough effort to make it known.

"Canadian at par" is a tool that was first introduced in the late 1980's and is one that may be impossible

Tim Lang, James Ondracek & Mohammad Saeed

to do at the current time. Some Minot hotels are still using it but others, especially those located in more popular centralized locations, have opted not to. The loss on exchange is high, but it is better to have rooms occupied than vacant.

One industry for which many Canadians drive south for is gaming. Casinos such as Four Bear's, located near New Town, ND and Sky Dancer, located near Belcourt, ND have gone to great lengths to lure Canadians to their establishments by offering tour packages, hotel discounts, and at par offerings. Although slot machines are legal in the province of Manitoba, card games are not and many tourists are drawn south for that reason.

There does not seem to be much hope to attract college students from Canada to North Dakota for casual visits. North Dakota's drinking age is 21, higher than either Manitoba or Saskatchewan. Lowering the drinking age would not benefit North Dakota enough to outweigh the negative affects.

Government Action

If the State of North Dakota believes the Canadian market is important, measures should be taken to recapture it. North Dakota does not have the warm temperatures or large cities as some states do but it does have an advantage in terms of location. A better measurement of the loss of Canadian business for all North Dakota industries is the first step. No one knows the amount Canadians spend on food, gas and other items that are not claimed at the border. Policies and plans should then be put in place to solve the problem and restart the once vibrant Canadian trade. This is too drastic of a loss to just sit idle and wait for the Canadian dollar to correct itself, because it is not known if it ever will hit its peak ever again. A tax rebate is one idea has had success north of the border and one that could spur more interest from Canadian shoppers.

Closing

The once lucrative Canadian market that occupied North Dakota's hotels and shops appears to be a distant memory. The boom that caused expansion is now just a thing of the past. With no end in sight for the weak Canadian dollar, it will be up to North Dakota businesses and government to entice the visitors back. It is a fact that Canadians enjoy visiting the United States. North Dakota may not have the same excitement as other states, but it is unique and different for Canadian travelers. But for now it appears the Canadian dollar's low value will keep them away.

References

- Baker (2003), "*Personal correspondence concerning US/Canadian Tourism*", March.
- Bank of Canada (2003), "*Exchange Rate Look Up*", Retrieved March 2, from the World Wide Web: <http://www.bankofcanada.ca>
- Clark, Warren (1997 Summer), "*Trading Travelers*", Canadian Social Trends-Statistics Canada Catalogue, Retrieved February 10, 2003 from the World Wide Web: <http://www.statscan.ca>
- Cobb, Kathy (1995 April), "*Exchange rate*", regulations depress cross border retail trade, [Abstract] Fedgazette, Retrieved February 4, 2003 from the World Wide Web: <http://minneapolisfed.org/pubs/fedgaz/95-04/rou954.cfm>
- Mapleleafweb (2002 March 7), "*Loonie in the Crosshairs: The Canadian dollars decade of decline, Retrieved March 24*", 2003 from World Wide Web: http://www.mapleleafweb.com/features/economy/low_dollar.htm
- Richard, Wilfred E. (1996 Winter), "*Cross border tourism and shopping: the policy alternatives*", Retrieved March 25, 2003 from the World Wide Web: <http://www.usm.maine.edu/cber/mbi/winter96/tourism.htm>
- Thorne, Susan (1999 February), "*Dollar differential keeping Canadian shoppers at home*", Retrieved March 25, 2003 from the World Wide Web: <http://www.icsc.org/srch/sct/current/sct9902/17.htm>

Questions

- 1. What steps can businesses and government take to solve the problem of the decrease in numbers of Canadian visitors?**

Businesses can up the amount of advertising done in Canada and offer rebates to visitors. Governments have the ability to offer tax rebates, as done in Canada, as well as attending trade shows, etc. in Canada. The tourism branch of the government should be brainstorming different ideas and making other government officials aware of the trend of decreased visitors from Canada.

- 2. How important is cross-border shopping to North Dakota? Does it have greater or less importance than in other states that border Canada?**

It is of greater importance because visitors from the rest of the United States and the rest of the world don't visit North Dakota as often as other states. North Dakota is a small state that lacks the big city atmosphere of New York, Michigan, or Washington. The weekend visitors that once came to the United States from Canada contribute significantly to the tourist industry and the overall economy of North Dakota. Since there are no real drawing points to entice visitors from elsewhere, Canada is the most viable option.

- 3. If the Canadian dollar continues to be valued low, is there any way to even out the playing field in terms of purchasing power of Canadians shopping/visiting in North Dakota?**

The only way would be to offer rebates and discounts to make the Canadian dollar worth more in terms of spending in the United States. The loss on this could be too great so there may not be a way to level out the purchasing power, but there may be a way to close the gap.

- 4. How much impact do the events of September 11th have on visits, and do you think the war with Iraq will have any negative implications?**

The September 11th incidents do continue to have a negative impact, but more on air travel than tire travel. Border crossing time at ports in North Dakota never really got to the point of some other larger ports, but many tourists think they did and continue to think they do. The war with Iraq has already had some implications, as stories of Canadian vehicles being vandalized spread across Canada. There could be some severe impacts still coming from it, depending on how both governments handle the situation.

Disclaimer

This case study is purely for discussion purposes and is not meant to present this topic in any other way but for those sole purposes. The information included should be used to examine the trends in Canadians visiting the United States and what may have caused this to occur.

Teaching Note

This case can be used in the areas of marketing, public policy, tourism, economic development, international business, and even finance. In addition, this case has many potential users who will benefit. Anyone who is involved in business in North Dakota or studies it should be aware of the trend.

The Canadian market is one that is very important to the economy of North Dakota, not just for the tourism and hospitality industries. There are many stakeholders who have watched cross-border business decrease. Concentrated efforts are needed to promote cross-border business.

North Dakota is experiencing population losses. Increased business could lead to more young people staying in North Dakota to work instead of going elsewhere.