Canadian E-commerce Presents New Opportunities for U.S. Businesses

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PRG
PEERLESS RESEARCH GROUP

On behalf of:

Logistics MANAGEMENT

Canada is far and away the largest trading partner of the United States. That makes economic, political, and geographic sense, given the longstanding history of free trade, political stability, and friendly relations between the two North American allies. The U.S. Census Bureau reports that in 2012, $292 billion in goods were exported to Canada from the U.S.

A common misconception is that the Canadian logistics market is simply an extension of the U.S. market. It isn't; and believing Canada is a simple "extension" is the root cause of most mistakes made in cross-border shipping. Moving shipments into Canada can be a challenge. Or, more accurately, it can be a series of challenges.

The rise in B2C, as well as B2B e-commerce, has brought those challenges to an increasing number of U.S. businesses exporting products to Canada. These operational challenges are familiar to businesses currently exporting to Canada, but can now be viewed as new challenges for e-commerce businesses based in the "lower 48." These include transit times that can be difficult to measure in days, much less hours; lengthy delays at the border due to incomplete or incorrect customs paperwork, and multiple handoffs among carriers are not uncommon.

As Canada's total population of nearly 35 million is spread across a large geographic area, logistics costs can also be higher because of the difficulties in building freight "density" into their operations. Unlike the U.S. where shippers operate from hundreds of facilities in a hub-and-spoke network, Canadian freight operators have fewer distribution hubs.

The Canadian freight market has its own unique characteristics. In the U.S. where large operators have a national footprint, the freight carrier market in Canada is fragmented with only a few truly national carriers; many trucking operators are smaller regional-type carriers. Additionally, Canada has no true national LTL carriers. Instead, it has mostly regional LTL carriers that service specific niche markets, domestic or cross-border.

Carriers specializing in the Western provinces, for example, often have limited coverage in the Eastern provinces of Quebec and Ontario. Freight distribution from Central Canada to Western Canada typically involves shipping to key break-bulk terminals such as Winnipeg, Calgary, or Vancouver and then handing off the shipment to a "beyond carrier" or carriers to serve other markets in the province.

This perceived lack of a countrywide Canadian carrier is not necessarily a correct one! There are major integrators that serve the entire Canadian landscape for both B2B and B2C shippers.

To investigate how U.S. businesses are tackling some of these challenges, a study was recently conducted by Peerless Research Group (PRG) on behalf of *Logistics Management* for Purolator International to better understand the challenges and how U.S. shippers are addressing them as they relate to cross-border hurdles, population density, working with multiple carriers, etc.

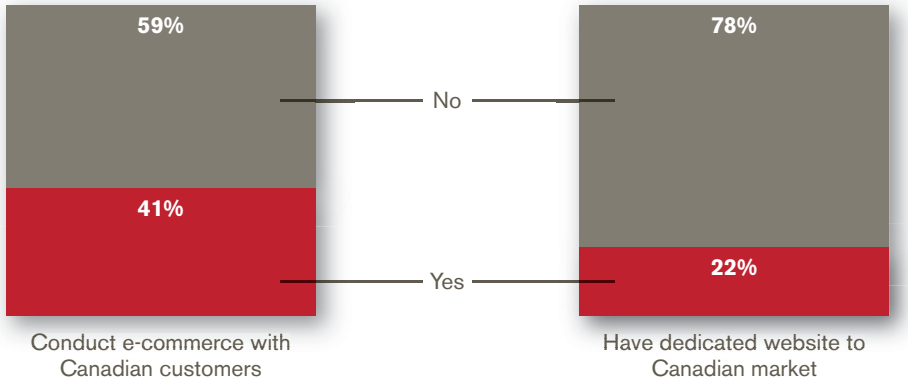
This brief identifies opportunities available to U.S. businesses for resolving Canadian logistics issues.

Sales and Distribution with Canadian Customers

To better understand the complexities and nuances of the Canadian small package and freight import sectors, we contacted 218 U.S. operators who conduct business in Canada. Of these, about 40% currently take orders over the internet from Canadian customers, and, of those, nearly one-fourth (22%) maintain a website specifically geared to the Canadian market. This concentration is a likely result of the growth of exports to Canada and the recession in 2008/2009 being less severe in Canada than the U.S.

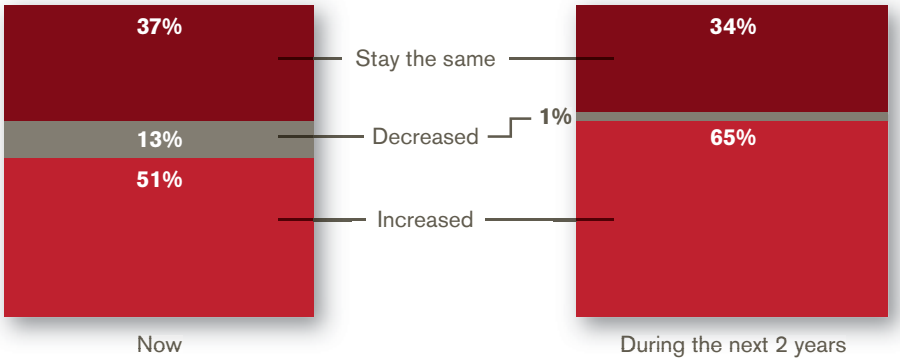
The majority claim their Canadian sales volumes have either grown in the past two years (51%) or stayed level (37%). And, the Canadian market should continue to be fertile territory for U.S. businesses. Two-thirds of respondents (65%) expect Canadian sales volumes to increase in the next two years.

E-commerce activity with Canadian customers



These manufacturers ship to a variety of distribution channels in Canada. Slightly more than half (51%) ship to distributors located in Canada, 43% send to brick-and-mortar storefronts, while another 21% ship to their own Canadian-based facilities.

Level of sales activity with Canadian customers



Approximately one-third (35%) ship direct to customers resulting from online orders. When asked what percent of overall web-based sales are from Canadian customers, more than one-fourth (26%) attribute at least 10% of their online revenues to Canadian businesses while an additional one out of four (26%) U.S. businesses report between 5% and 9% of their online revenues to be from Canadian e-commerce activity.

As Canadian sales volume for U.S. businesses continues to show growth and online order processing serves as a prominent sales channel development, U.S. businesses are primed to expand their Canadian business.

Shipping to Canada

Those doing business in Canada ship across the U.S.-Canadian border with relatively high frequency. Nearly two out of three (62%) ship at least weekly with more than one in four companies (27%) dispatching goods on a daily basis. Slightly fewer than 20% of those we interviewed ship at least a few times per month.

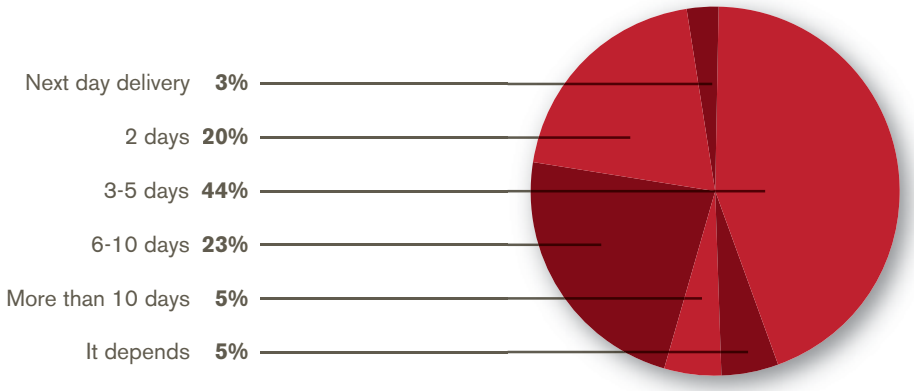
Average transit times vary as well but rapid delivery schedules are important. Two out of three look to deliver within a five day window with most (44%) opting for a 3-day to 5-day timeline. One in four looks to ship more rapidly, selecting either next day (3%) or a two day delivery (24%).

There is still the need to balance between meeting customer expectations with cost by offering expedited shipping for a cost or ground service at no charge.

"We now ship longer transit times in exchange for lower shipping costs. The savings are passed along to Canadian customers."

—Manager, Distribution Services; Paper Goods; Annual Revenues—$50M-$100M

Transit times offered to Canadian customers



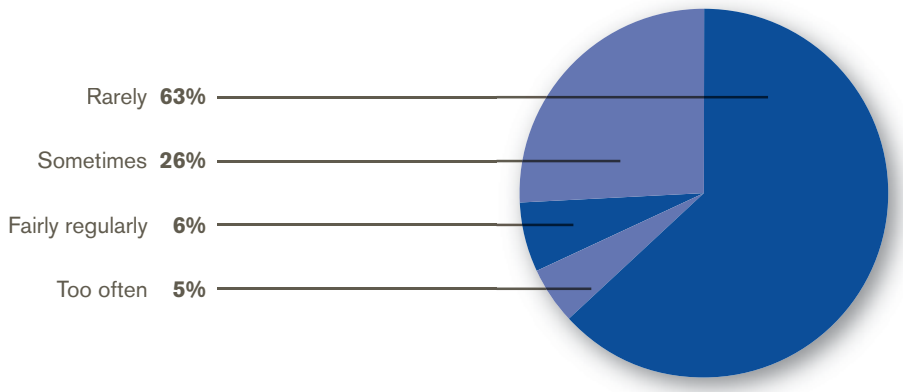
These Canada-bound shipments tend to be handled by a variety of carriers. Small package carriers, either express, courier, or postage are widely used. In addition, LTL (57%) are also a provider choice when shipping to Canada. Postal services (35%), freight forwarders (31%), 3PLs (26%), full truckload providers (25%), or air freight services (23%) are also common solutions for those shipping to Canada.

Problems Encountered During Cross-Border Shipping

Four in 10 respondents say they have experienced problems at some point shipping from the U.S. to Canada. While nearly two-thirds say they experience cross-border issues infrequently, problems for the remaining occur all too frequently.

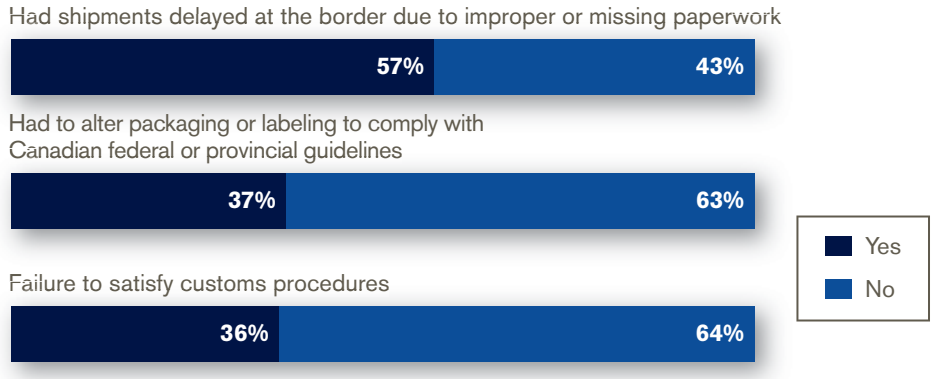
For B2B shippers, these delays can have a dramatic impact on manufacturing timelines, and business flow. For the B2C shipper, this can have a negative impact on customer service and increased returns.

Frequency of cross-border issues



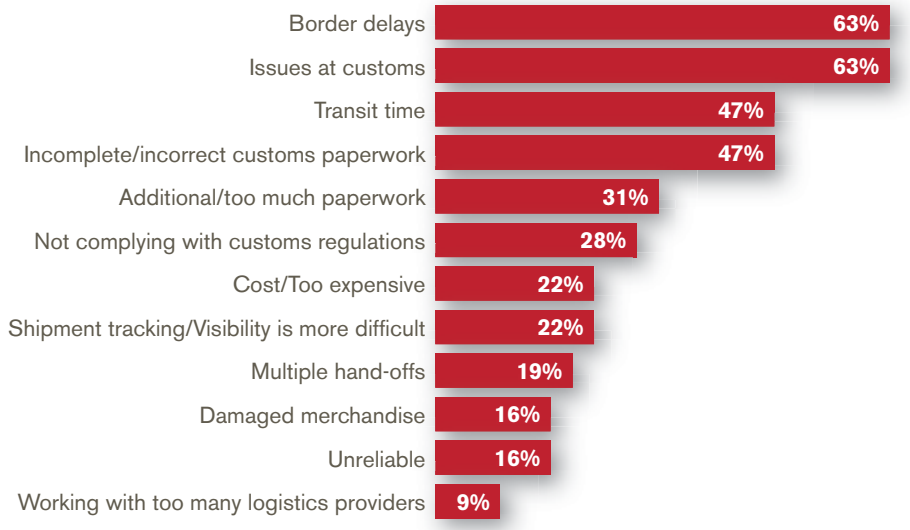
Shipment delays resulting from improper paperwork, noncompliant packaging, or just a failure to satisfy border procedures are all roadblocks shippers have faced.

Transportation issues



More specifically, these complications ran the gamut with the most prevalent being border interruptions (63%), transit time delays (47%), or incomplete or incorrect customs paperwork (47%). Non-compliance with customs regulations (28%), unexpected expenses (22%), and tracking multiple parcel handoffs (19%) were also common impediments.

Cross border shipping issues



"Delays at the border have increased our costs by driving up the man-hours and payroll due to shipping interruptions."

—Traffic Manager; Furniture; $500M-$1B

The unreliability in shipment schedules resulting from cross-border problems comes with extreme business consequences. The more common outcomes include:

- dissatisfied Canadian customers; increase in complaints and returns;
- delays in supplies to fulfillment centers;
- a flow of goods returned to warehouses; and
- rising costs due to the need for additional manpower, excess paperwork, etc.

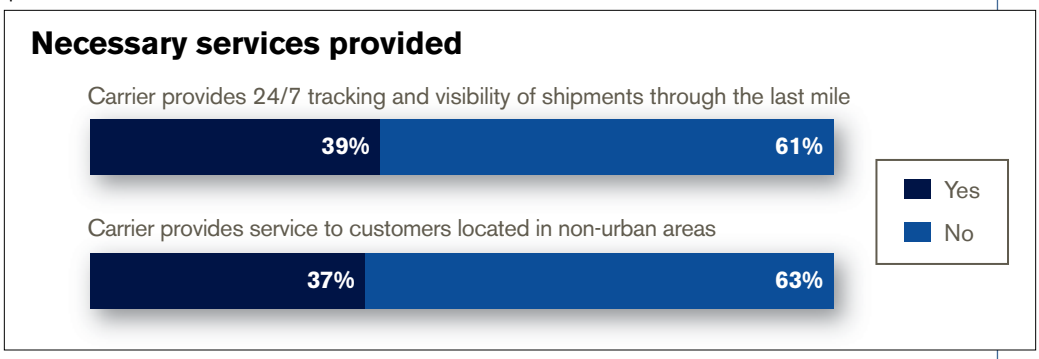
All of these can add up to a direct hit on the bottom line.

"Inconsistency! Application of taxing rules and collections by Canadian agencies creates confusion and resentment from the consumer and our customers direct their frustrations toward us."

—Operations Manager; Retail; $50M-$100M

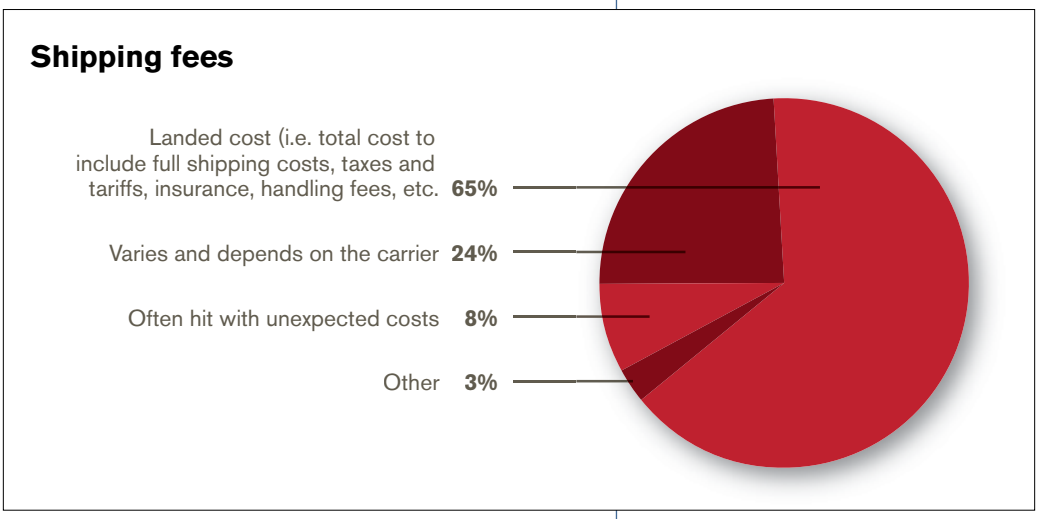
Logistics Providers Who Deliver

Despite some of these problems, a huge majority of U.S. manufacturers look favorably on their primary carrier. Three out of every four (75%) rate their carriers' expertise in navigating the Canadian market as excellent or very good while only 5% consider their main provider to be doing only a fair to poor job. This level of performance supports the value in relying on providers who possess the proper knowledge in negotiating any customs predicaments.



Two-thirds of these shippers (65%) say carriers submit a full "landed" cost—that is, total cost to include complete shipping fees, taxes, and tariffs. Some contend this information varies by carrier while others assert they were hit with additional, unexpected costs in trans-border shipments.

Providing features such as full landed costs and last mile delivery enables shippers to leverage their carriers to better serve their own customers' needs.



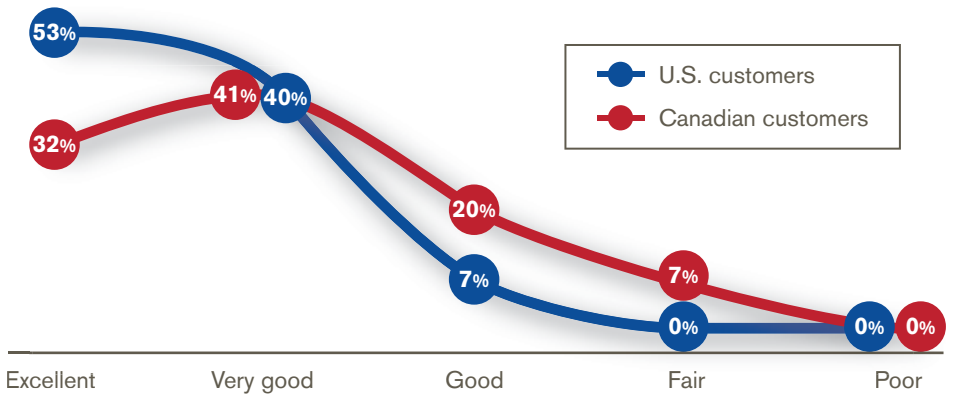
Reasons for Shippers' Dissatisfaction with Carriers

Business-to-business and business-to-consumer U.S. manufacturers shipping both domestically as well as to Canada believe their level of service to U.S. customers is superior to what they are able to provide their Canadian customers. Nearly all (93%) rate their service to U.S. clients as excellent or very good. In comparison, roughly three out of four (73%) consider the quality of their service to their Canadian clientele to be as strong.

"Simplifying the cross-border clearance and cutting associated costs are the greatest hurdles to conducting B2C transactions from the U.S. to Canada."

—Operations and Logistics Manager; Computers and Electronics; $100M-$250M

Evaluating customer service provided to…



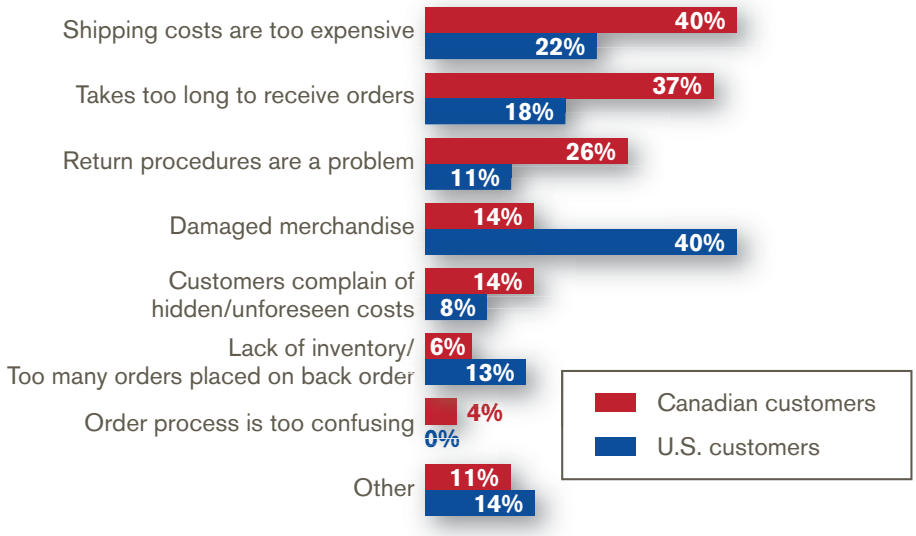
"Delivery to Canada is unreliable. If someone needs a specific delivery date it is hard to be sure that you can meet it."

—VP, General Manager; Consumer Products; $50M-$100M

The most common complaint from Canadian customers is the high cost of shipping (40%) followed by problems with returned (26%) or damaged (14%) merchandise, unforeseen or unexpected shipping costs (22%), and lack of inventory or too many back orders (6%).

By contrast, manufacturers' most common complaint received from their U.S. customers are about damaged merchandise (40%), shipping costs (22%), timeline for receiving orders (18%), a lack of inventory or too many back orders (13%), and issues with returns (12%).

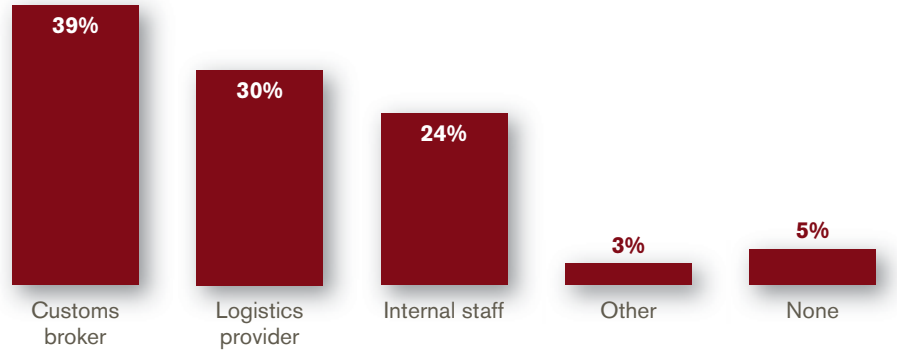
Greatest frustrations expressed from…



Solutions to Canadian Cross-Border Issues

In order to navigate these border issues, approximately 7 out of 10 organizations in our study rely on a third-party such as a customs broker (39%) or logistics provider (30%) to help solve the problems. Another one-fourth work to resolve these hassles in-house.

Resource relied upon to handle border issues



"By knowing the tariffs and customer regulations, customs brokers have helped us keep our shipments in compliance."

—Project Leader; Automotives; $2.5B+

In particular, shippers list the following as reasons for using brokers or logistics providers to handle their cross-border procedures:

- expertise in export documentation and paperwork expertise;
- ability to obtain pre-clearance for shipments;
- understanding Canadian requirements; and
- technology and their ability to use electronic data when shipping.

"We have used logistics providers to make the border crossing somewhat easier. But shipping costs still make it almost prohibitive to ship parcels to Canada."

—Principal Owner; Furniture, e-commerce; <$50M

Conclusion

E-commerce shipping to Canada is experiencing solid growth, but higher costs and some level of dissatisfaction in cross-border logistics are headaches for logistics and transportation managers. The lack of a coordinated Canadian freight network, additional paperwork and related transactional costs, and damaged goods are persistent problems for U.S. exporters. Shippers can avoid these obstacles by utilizing a logistics or customs broker with experience in and knowledge of the Canadian market and partnering with a carrier who is willing to tailor services to facilitate cross-border shipments.

Methodology

This research was conducted by Peerless Research Group (PRG) on behalf of *Logistics Management* magazine for *Purolator International, Inc.*, a provider of U.S./Canada supply chain shipping solutions. The study was executed in July 2013, and administered over the Internet among subscribers to *Logistics Management* magazine. Respondents were pre-qualified for being involved in decisions regarding the usage of logistics, shipping services and freight carriers for their company. Participants were further screened for working at a company that either currently ships or will be shipping from the U.S. to Canada during the next two years and for conducting e-commerce transactions with Canadian customers.

In total, 90 top supply chain managers having logistics, warehousing, traffic, operations, or purchasing responsibilities were interviewed. A balanced cross-section of company sizes are represented in the respondent file: 45% work at companies with under $100 million in annual revenues; 31% are with companies having revenues between $100-$999 million and 24% report their organization has sales exceeding $1 billion. The companies surveyed cover manufacturing industries such as consumer goods and electronics, automotives and transportation equipment, pharmaceuticals, food and beverage, and industrial machinery.

About Purolator International Inc.

Purolator International, Inc. *is a subsidiary of Purolator Inc., Canada's largest integrated parcel and freight services delivery company. Purolator International specializes in the air and surface forwarding of Express, Freight and Parcel shipments, with supply chain solutions that include customs brokerage, fulfillment, data integration and delivery services to, from and within Canada. Purolator International is headquartered in New York and maintains 33 branches within the U.S. and Canada. Purolator International offers U.S. companies unique access to Purolator Inc.'s Canadian coverage.*

From automated solutions to 24 hour pick-up and delivery, Purolator provides customers with the services and customized solutions required to get their shipments across town or around the world. Purolator uses Canada's largest dedicated air express fleet and has an extensive service network, with more than 180 hubs, more than 130 retail centers and more than 550 authorized Shipping Agents.

With all this comes unparalleled U.S.-Canada cross-border expertise with a focus on negotiating the complexities of any and all shipping and supply chain issues for U.S. to Canada shipping, distribution through Canada and shipping from Canada to the U.S. We deliver Canada.

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