

National Post

Small businesses can maintain prices by offering something unique

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Price is the one indicator of quality everyone understands. Higher prices often indicate higher quality, and customers visit small businesses because they value quality over price. Even in tough economic times, a small business can maintain higher prices by using out-of-the-box thinking, such as:

- Find unique products that big box stores don't carry and source from different vendors than your competition.
- Privatelabel your product lines whenever possible. It adds perceived value and justifies higher costs.
- Carry unusual sizes. When customers can't compare apples to apples, small businesses' products become the apple of their customer's eye. Competing against big box store prices is a losing battle. Flaunt your uniqueness, be proud of your prices and treat customers to your personal touch -- They'll keep coming back for more.

Financial Post - Andy Buyting blogs at myretailer.ca, a resource for Canadian small, retail businesses.

Banks Place Their Bets; TD, CIBC leading the way in global trend to rein in risky trading

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Byline: Eoin Callan

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In the executive suites of Bay Street's bank towers, industry chieftains have been huddling with their top managers to make tough calls about which units within their banks should get the lion's share of capital -- a scarce commodity since the onset of the credit crisis.

Participants in these internal bank negotiations tend to agree that managers who run the street-level branch networks have been gaining the upper hand.

With a premium on retail deposits as a reliable source of funding in uncertain times, most of the country's top banks have been favouring their retail franchises.

But some are going further, putting their riskier trading operations on a crash diet, starving them of cash as part of a strategy to shrink the units down to a more manageable size.

Leading this trend are Ed Clark, chief executive of Toronto-Dominion Bank, and Gerry McCaughey, chief executive of Canadian Imperial Bank of Commerce, who have positioned themselves at the crest of a wave sweeping the global banking industry.

As international policymakers prepare to force banks to reduce risky trading activity and embrace a more balanced business model, TD and CIBC are taking the leap on their own.

TD's Mr. Clark says his bank is going to give up the industry-wide practice of placing casino-like bets with the bank's own capital. The 61-year-old's decision to halt this profitable-but-risky activity -- known as proprietary trading--makes TD one of only two big banks in the world to make such an explicit pledge, along with Germany's Deutsche Bank.

Mr. Clark says the "wholesale" side of his bank, which advises institutional clients and handles market trades, should not behave like "a hedge fund in disguise."

He wants to stick to activity that produces economic value as the core of new banking model that is emerging from the financial crisis

"Our simple test is to ask: Would the Gross National Product of Canada go down if we eliminated our wholesale activity?" he says.

Under Mr. Clark's direction, the proportion of the bank's income derived from capital market operations has undergone a staggering drop.

Last year it fell from a peak of more than 50% to a mere 2% amid cutbacks and investment losses.

The bank's internal target for the future is thought to be below 15%, with retail banking pegged to account for a whopping 85% of income.

This same big shift from wholesale to retail is also underway on the other side of Bay Street at CIBC, where top managers are working on transforming the bank into a business that looks more like a "utility," according to a person familiar with executives' thinking.

Retail operations accounted for all of last year's profits as Canada's fifth-largest bank wrote off investments, and the contribution from wholesale banking appears set to hug low double digits for the foreseeable future.

The idea behind this model is that banks will perform steadily during economic downturns, benefit from updrafts and be spared the periodic blowouts that have plagued Bay Street for decades.

In theory, this kind of stability is what Canadian institutional investors crave, and there is some evidence that banks such as TD are winning backing for their strategy.

When the Ontario Teachers' Pension Plan recently revealed its biggest stock holdings, all of the usual Bay Street suspects were missing, save TD.

This is a sign the \$100-billion pension fund views the bank as promising the best return for the least risk, despite TD's heavy exposure to beleaguered U. S. consumers.

The downside for investors is that as banks become more like utilities they will sacrifice growth.

As others beat a hasty retreat, Royal Bank of Canada has shown it is not afraid to step forward and grab market share on Wall Street from weakened foreign rivals. Pride in having the biggest and the best capital markets operation among Canada's banks remains a strong part of its internal culture.

The country's largest bank saw the contribution of wholesale banking to income reach levels above 40% in the first quarter of 2009, according to the bank's adjusted figures.

RBC also appears likely to apportion a healthy share of capital to the profitable unit as world markets recover. Yet the bank remains firmly committed to a long-standing target under Gord Nixon, chief executive, of deriving 20% to 30% of income from wholesale banking, and 70 to 80% from retail.

"We believe the model of 25/75 is extremely appropriate for the new world," Mr. Nixon says.

The RBC model is designed to allow the bank to remain a competitive global player while minimizing earnings volatility and keeping liquidity risk under control -- and may be a template for U. S. banks.

"We think a lot of banks are going to move toward that model," Mr. Nixon says.

Up at the top of Bay Street, Bill Downe, chief executive of Bank of Montreal, agrees.

"I have a very strong view. I think that the universal banking model is a necessary model," says the head of Canada's fourth-largest bank.

He says this model of having a healthy balance between a retail and wholesale banking operation combines the "virtues of a secure deposit base" with a "capacity for innovation."

"The Canadian banking system is the best example I can think of, of the universal bank functioning well," he says.

Next door on Bay Street, a similar view is taken by Rick Waugh, chief executive of Bank of Nova Scotia.

The head of Canada's most international bank has been extolling the virtues of the traditional Canadian banking model to international policymakers like Paul Volcker, the former Federal Reserve chairman who is advising U. S. President Barack Obama on redesigning the U. S. financial system.

"I have had direct talks with Paul on this," Mr. Waugh says.

Scotiabank's international orientation means it has a somewhat different risk profile than the other Bay Street institutions, with an emphasis on building retail chains in emerging markets such as Latin America and Asia.

This has prompted it to elevate risk management to the highest level within the organization, earning it a ranking as one of the top 10 most stable banks in the world, according to Oliver Wyman, the financial services consultancy.

When viewed from outside the country, analysts tend to see all of the Canadian banks as clustered relatively close together, with broadly similar models, despite degrees of difference in strategy.

Yet in executive suites on Bay Street, the credit crisis has created intense internal debate over allocation of

capital as bankers place their bets on the way forward following one of the most testing periods in history for the industry.

"At our management committee level, the engagement around that allocation process has to be high," Mr. Downe says. "The last 24 months have been an exciting time, because management action will have consequences, and if you're on your toes, will have positive consequences."

Winnipeg Free Press

COMMERCIAL REAL ESTATE Apartment-block sales sizzle Many million-plus transactions

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Byline: Murray McNeill

Apartment buildings have become the darlings of the local investment world, and the economic recession has done nothing to diminish their appeal.

"There is definitely a strong level of interest in terms of investors," Trevor Clay, a commercial real estate agent with CB Richard Ellis Chartier & Associates and a member of CB Richard Ellis' national apartment team, said in an interview.

"If it's a good product and it's priced at market value... it's sold," said Derrick Chartier, president of the Winnipeg real estate firm.

Chartier said the company recently listed a 275-suite building in Thompson. It attracted multiple inquiries and sold for close to the asking price -- more than \$14 million -- in spite of the remote location.

Clay and fellow CB Richard Ellis agent Robert Scaletta have also received multiple inquiries about two other apartment blocks they have listed for sale -- one in Winnipeg and one in Selkirk. The calls have come from other agents as well as local private investors.

Chartier said the demand for apartment blocks has been strong for the last five years.

But last year was the busiest in the last five years for apartment-building sales, according to the Wayne Johnson, a sales and leasing agent with Royal LePage Dynamic Real Estate.

Johnson, who publishes a twice-yearly report -- The Johnson Report -- on commercial real estate transactions in Winnipeg, said 40 apartment blocks, with a total of 1,258 suites, changed hands last year in the city. That was 13 more buildings and twice as many suites as in 2007.

Last year's suites total was the highest in five years, while the dollar volume of sales was the highest in at least a decade.

Johnson said 2008's dollar-volume and suites totals were bolstered by the sale of the downtown Cumberland House highrise, which has 256 suites and sold for \$12.8 million.

Nothing anywhere near that size sold in 2007.

Last year's sales also included several multi-property portfolios, which Johnson said could partly explain the jump in building sales.

However, if the first few months of 2009 are any

indication, last year wasn't the start of a new trend because product (for sale) is once again hard to come by.

"The supply definitely doesn't meet the demand, especially with larger properties," Chartier said. "There is a huge appetite for those and none on the market."

He and Clay had several possible explanations for why the demand for Manitoba apartment buildings remains so high.

For one thing, apartment buildings are generally considered a more stable investment than office, industrial or retail buildings -- especially during tough economic times.

"Everybody needs a place to live," Chartier said.

"And if you have 20 suites in an apartment block you have 20 different tenants," Clay said. "So even if one moves out, it's fairly easy to replace that one tenant..." -- especially with Winnipeg's overall apartment vacancy rate at its lowest level on record, a scant one per cent.

Because they're usually considered less risky investments, most lenders are also more willing to provide financing for apartment-block purchases, Clay said, and often at reduced lending rates.

One local commercial mortgage broker -- Ron Margolis of Margolis Capital Group Inc. -- said that's particularly true with apartment blocks in Manitoba, which didn't see the kind of price run-ups and overbuilding that cities like Calgary and Toronto experienced during the recent real estate boom.

"Lenders are viewing our market as one they're very comfortable being in," Margolis said. "It's very balanced."

He also noted the interest rate on some Canada Mortgage and Housing Corp.-insured apartment mortgages has fallen to about 3.5 per cent from 4.5 to five per cent a year ago.

"I've even seen deals in the 3.1 or 3.2 range," he said.

"It's lower now that I think it's ever been."

CMHC-insured apartment mortgages also require smaller down payments -- as little as 15 per cent compared to 25 or 30 per cent for many commercial buildings, Johnson said. That also appeals to investors.

Know of any newsworthy or interesting trends or developments in the local office, retail, or industrial real estate sectors? Let real estate reporter Murray McNeill know at the email address below, or at 697-7254.

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Last year was the busiest year in five years for apartment building sales in Winnipeg. Here is a list of transactions worth \$1 million or more:

Address	Age	No. of suites	Selling price
360 Cumberland Ave.	1971	256	\$12.8 million
180 Beliveau Rd.	1970	79	\$6.1 million
2391 Portage Ave.	1959	56	\$2.8 million
433 Edison Ave.	1968	46	\$2.3 million
441 Edison Ave.	1968	46	\$2.3 million
1080 Moncton Ave.	1968	48	\$2.2 million
100 Killarney Ave.	1969	42	\$2.1 million
260 Wentworth St.	1953	21	\$1.3 million
737-743 Sargent Ave.	1914	40	\$1.1 million
333 Edison Ave.	1972	27	\$1.1 million
825 Corydon Ave.	1955	21	\$1.1 million
92 Young St.	1916	15	\$1.01 million

---- Source: The Johnson Report

Dollar value

lofty last year

The dollar volume of apartment building sales hit its highest level in more than a decade in 2008. Here are the totals for each of the last 10 years:

1999\$35.5 million
2000\$32.9 million
2001\$30.1 million
2002\$50.6 million
2003\$36.3 million
2004\$14.3 million
2005\$29.9 million
2006\$19.5 million
2007\$20.7 million

2008\$58.4 million

-- Source: The Johnson Report

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The Globe and Mail

Auto workers make historic concession to pay into their own pensions

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Byline: Greg Keenan

Dateline: MISSISSAUGA

Source: With a report from The Associated Press

MISSISSAUGA -- AUTO INDUSTRY REPORTER

Unionized auto workers will begin making a direct contribution to their own pensions in Canada for the first time, in a historic agreement with Chrysler Canada Inc. that was approved yesterday and will be extended to cover the other two Detroit auto makers.

Meanwhile, in the United States, Chrysler LLC cleared another major obstacle to its survival last night when it reached a tentative deal for concessions with the United Auto Workers union.

The troubled auto maker is just days from a Thursday U.S. government deadline to gain concessions from its unions and debt-holders and form an alliance with Italy's Fiat Group SpA or face almost certain liquidation. The UAW deal is seen as a key piece to Chrysler's plan and it's noteworthy that the UAW said Fiat was involved in the deal.

Newly hired Canadian workers will contribute \$1 for every hour worked or about \$1,700 a year, a change that comes after the subject of pensions for members of the Canadian Auto Workers, and who pays for them, became a hot-button topic among Canadians and a toxic issue for politicians during the debate about whether taxpayers' money should be used to keep Chrysler and General Motors of Canada Ltd. from collapsing.

Angry constituents complained to politicians in Ottawa and Toronto after GM said in a restructuring plan submitted to the federal and Ontario governments in February that it was being crippled by pension payments.

"We heard what people said, but I don't go by that," CAW president Ken Lewenza said in an interview yesterday after ratification meetings with workers from Chrysler's Brampton, Ont., and Windsor, Ont., assembly plants. "It's really how do we send a message to the companies that we recognize the [pension] challenges going forward?"

He noted that newly hired members of the United Auto Workers at Detroit Three plants in the United States will have no pensions, so the CAW needed to act to maintain Canada's competitive position.

The direct costs of pensions for existing employees will still be carried by the companies and the union argues that in previous rounds of bargaining, workers could have won higher wage increases or improvements in benefits but agreed instead to pension payments by the companies.

All three companies are retrenching in Canada, so they're not likely to be hiring new employees for some time. But the principle of auto workers paying directly for their own pensions is now established.

The pension move is just one of several major concessions the CAW made in the first agreement to take away hard-won benefits since the union agreed in the early 1980s to cut wages by about \$1.15 an hour to help keep Chrysler from plunging into bankruptcy.

"Sacrifices have to be made because we have a cannon at our head," Mr. Lewenza told Brampton plant workers and retirees.

Other changes - which will apply to all three companies in Canada - include a freeze on wages and cost-of-living pension increases until 2012; an end to company coverage of semi-private hospital rooms; increases in health-care co-payments; and an increase in the amount of time it takes newly hired workers to reach full wages.

The concessions will cut Chrysler's labour costs by about \$240-million annually.

That meets the demand set by Ottawa and Ontario that the company cut its labour costs to \$57 an hour from \$76 to match those of Toyota Motor Manufacturing Canada.

Chrysler has received \$750-million of a planned \$1-billion loan from the two governments and its parent company is in negotiations with Italian auto maker Fiat SpA on a strategic alliance. The Canadian and U.S. governments require the company to have a Fiat deal in place by Thursday.

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Canada News-Wire

Scotiabank's Commodity Price Index Retreats Further In March

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<< - Spot potash prices drop to Southeast Asia, but significant production curtailments point to a turnaround by late 2009 - Base metal prices rally, as China's industrial activity picks up

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TORONTO, April 27 /CNW/ - Scotiabank's Commodity Price Index, which measures price trends in 32 of Canada's major exports, lost further ground in March, falling 2.8 per cent month-over-month (m/m) to a level 32.7 per cent below a year earlier. The global economic contraction, estimated at -1.5/2.0 per cent in 2009 on a purchasing power parity basis, and tighter credit conditions for businesses and households have contributed to a 41.8 per cent plunge in overall commodity prices from the spectacular cyclical peak of July 2008.

The All Items Index will fall further in coming months, as a number of key commodity prices are adjusted down, following annual contract negotiations with buyers. However, "green shoots are starting to appear, recently lifting prices for base metals and oil," says Patricia Mohr, Vice-President, Economics and Commodity Market Specialist at Scotiabank.

"Firstly, after a marked slowdown in late 2008 and early 2009, China's industrial activity likely bottomed at 3.8 per cent year-over-year (yr/yr) in January-February and picked up to 8.3 per cent in March, as China's fiscal 'pump-priming' started to kick in with incentives for rural households to purchase consumer durables, a massive infrastructure spending program and government prompting of state-owned banks to boost lending," comments Ms. Mohr.

"Secondly, government subsidies in China and Germany aimed at encouraging scrapping of older vehicles and replacement with more fuel-efficient, lower emission models are also helping to counter the late-2008 collapse of global vehicle sales," added Ms. Mohr. "Thirdly, while tentative, improving expectations that the worst of the U.S. banking and credit crisis might be over, suggesting that the U.S. recession may end by late 2009, have helped to lift both equity markets and exchange-traded industrial commodity prices. After bottoming at US\$32.40 per barrel in mid-December, WTI oil prices have climbed back into a broad US\$45-54 trading range since mid-March alongside a double-digit rally in the S&P 500 Index."

The Metal & Mineral Index (-4.3 per cent m/m) led the All Items Index lower in March. While base metal prices (especially copper) rallied strongly, lower precious metals and a decline in spot potash

prices pulled down the Index. Spot potash prices in March fell to a still lucrative US\$710 per tonne in Vancouver from a record US\$872.50 (a last done level, reflective of shipments in 2008).

The Oil & Gas Index lost further ground in March (-2.6 per cent m/m). While crude oil prices strengthened markedly, Canadian natural gas export prices to the United States dropped to the lowest level since December 2002 amid weak U.S. industrial and gas-fired electricity demand. The Forest Product Index also retreated (-3.3 per cent m/m), with the pulp and paper industry hurt by the worst U.S. advertising decline for newspapers and magazines since the 1930s.

The Agricultural Index was the only sub-component to rise in March (+2.0 per cent m/m). Canadian and U.S. farmers will likely favour oilseeds when they plant their crops this spring. U.S. soybean prices have climbed by 32% from a low in early December, lifting canola prices, with drought in Argentina reducing global soybean stocks to a 5-year low and stockpiling by China.

After reaching a record high in late 2008, spot potash prices (FOB Vancouver) eased back to US\$710 per tonne in March, with Canpotex selling two cargoes to Malaysia and Indonesia at US\$735 (delivered), still very high compared with an average of US\$193 from 1999-2008. The near-term outlook depends heavily on annual contract negotiations with Chinese buyers, led by Belarusian Potash Company (BCP), not likely to be settled until late May (at the earliest).

Global shipments tumbled in late 2008 and early 2009 partly in reaction to record prices and last fall's plunge in grain prices.

"While spot potash prices could ease back to the US\$650 mark in coming months, prices will likely rebound over US\$700 in 2010", says Mohr. "In keeping with past practice, major potash producers, in this concentrated industry, have cut world production by 12 million tonnes in 2008-09 (21 per cent of effective capacity) to bring supplies down in line with lower demand. Global stocks should return to normal levels by mid-2009. The potential for a severe under-application of fertilizers, especially potash and phosphates, in 2009 may cut global grain and oilseed yields, setting the stage for significantly higher nutrient application and prices in 2010."

According to Mohr, while gold prices are expected to stay high in 2009, investor interest is likely to gradually shift first to equities and then to industrial commodities in the next several years.

Scotia Economics provides clients with in-depth

research into the factors shaping the outlook for Canada and the global economy, including macroeconomic developments, currency and capital market trends, commodity and industry performance, as well as monetary, fiscal and public policy issues.

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