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**EVIDENCE**

**Tuesday, May 7, 2013**

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**Chair**

**Mr. David Sweet**



## Standing Committee on Industry, Science and Technology

Tuesday, May 7, 2013

• (1530)

[English]

**The Chair (Mr. David Sweet (Ancaster—Dundas—Flamborough—Westdale, CPC)):** Welcome to the 68th meeting of the Standing Committee on Industry, Science and Technology. Again, we're talking about the adoption of digital technology by Canadian small and medium-sized enterprises.

We have four witnesses before us. We have Harley Finkelstein, the chief platform officer of business development at Shopify Inc. We have François Bouchard, the president of The Country Grocer. We also have Jason Hamilton from S-Trip. Also, by teleconference, we have Mr. Robert Hersche, the senior director of corporate counsel and regulatory affairs of SaskTel.

I should also tell you, Mr. Hersche, that your mike is not muted. Any sounds that are happening there, we can hear here. Okay?

**Mr. Robert Hersche (Senior Director, Corporate Counsel and Regulatory Affairs, Saskatchewan Telecommunications):** Okay. That sounds good.

**The Chair:** We're going to ask you for your remarks last because we are getting some static over the line and it would be hard for the translators. We have a technician coming to make sure that we clean up that line first. I'm not leaving you out because you're in by telecom; I'm simply going to buy some time while the technicians come.

**Mr. Robert Hersche:** That's no problem at all.

**The Chair:** We'll go first to Mr. Hamilton from S-Trip. I understand that the clerk has notified you that you have approximately six minutes for your opening remarks.

**Mr. Jason Hamilton (Director, Marketing, S-Trip):** Hello, everyone. My name is Jason Hamilton. I work for S-Trip. We're a student travel company located in Toronto. I am officially the director of marketing for S-Trip, although since S-Trip is a small to medium-sized enterprise, my title includes web technology, communications, brand partnerships, and everything in between.

We offer travel to both university and high school students. We target a market that is very much within the digital space, both mobile technology and computer technology.

I would like to give you a brief history of S-Trip to bring everyone up to speed on what we do. In 1976, a man by the name of Inder Handa started a travel agency here in Ottawa called Handa Travel. Out of Handa Travel, Inder's son, Alex Handa, began selling student travel to his friends and to other students within the Ottawa region. In 2007, he moved to Toronto and started S-Trip as its own unique

brand. Since then we have developed into one of the largest student travel companies in the country, focused on university and high school students.

That growth has come in large part from some technology improvements that we have been focusing on. I'll tell you a bit about the customer focused IT strategy that we have that has allowed us to succeed in the marketplace, particularly in recent years.

Our IT strategy could be put into a very simple formula. We leverage existing technology solutions to be efficient on the back end, and spend our development time and creativity to create real value on the front end. Recognizing our core competencies in running a small to medium-sized business are not in back end development. We do not have back end developers on staff. That's not something that we focus on. We hire back end developers who have those skills. We also use technologies that exist in the marketplace such as CRMs and content management systems.

Those technologies allow us to have a strong back end, but then we focus more on the front end. By focusing on the front end, we're able to offer a digital experience that reaches directly to our customer, something that reaches them on their terms, something that enables them to experience our product, experience travel in a way that they want to. Obviously, our customers, being between the ages of 16 and 24, are very adept and in tune with technology.

I'd like to highlight three parts of our IT strategy that I think are important for any small or medium-sized business. Number one, we are 100% on the cloud. All of our servers, all of our software, all of our documents, and anything that we would use within our business, all exist on the cloud. That allows everything to be accessible from anywhere. That allows our technology to be shifted easily. It's very easy to add somebody new into the business. Anybody new to a team who needs to find a document can easily find it through the cloud, through a search functionality that allows them to find it in an easy manner. That is one thing that certainly has allowed us to succeed.

We're also very customer focused in the way we manage our web properties. As I mentioned before, we focus very much on the front end of our website and our web properties in order to offer our customers a simple easy experience when they're online. It's amazing how many small businesses I see where you go to their website and you want to find something very simple, maybe a form that you need to download or a phone number that you need to call, and it's a nightmare even to get to that place to find that.

We focus very much on what the customer wants. We do a lot of research and a lot of focus groups with our customers to understand what they're looking for when they're on our website, and how we can best service them. It's amazing to see those businesses that are doing that. They are able to have those much quicker interactions and customers don't need to call us anymore. We certainly encourage customers to find their solutions online themselves before calling our customer hotline. We've seen as a result of that a definite decrease in the number and the length of calls we receive as a result of that focus online.

The last thing is that we have an efficient back office. We have central services located in our head office in Toronto, as well as those services that we do outsource. Once again, we focus on our core competencies and outsource those things in which we do not have a core competency.

• (1535)

There are a couple of business challenges to tell you about that I think are unique to any small and medium-sized business. One is communication. Technology has the amazing capability to enable faster and more efficient communication. However, being a small or medium-sized enterprise, we don't have the funds to invest in the larger IBM enterprise solutions that can often allow bigger businesses to communicate better.

We've done well with Google Enterprise as a strong solution. Google Enterprise has a much lower cost base. A simple thing like Gchat is something that all of our employees use on a daily basis to communicate with each other. We see fewer and fewer of our employees picking up the phone to call each other and more and more of them communicating over Gchat and sharing documents over Gchat. As we've grown nationally and have had to open offices across the country, it has allowed those new employees to have access to all of our resources. It also allows us to communicate with them.

We have also utilized a lot of video technology as we've grown. We have a large part-time contract team, about 500, that we hire every year. Since we are in travel, they go on our trips and run our trips. Hiring those from across the country is obviously a challenge when you can't meet them all face to face. So we have utilized Skype and other video technologies as a way to complete those interviews and trainings. Video technology has become a big part of our business from our staffing side, in terms of training, all the way through to our sales side.

Finally, the last part of our business challenge is communication. This challenge has grown as a result of international challenges. Being a travel company that sends students internationally, the technology and the web infrastructure that exist in some of the countries that you go to are a little bit slower than we experience here. So that was a bit of a challenge that we've faced, and we've been working towards overcoming that by working with local suppliers and trying to build Wi-Fi hotspots and whatnot in the places where we go. But that's a somewhat unique challenge to us because we do operate mostly in an international environment in a lot of countries that just don't have the infrastructure that we have. But as we've been able to grow, we have been able to overcome that through various Wi-Fi hotspots and whatnot.

I think that pretty much wraps up everything that I would share with you.

• (1540)

**The Chair:** Thank you, Mr. Hamilton.

Mr. Finkelstein, for six minutes, please.

**Mr. Harley Finkelstein (Chief Platform Officer, Business Development, Shopify Inc.):** Thank you for having me.

My name is Harley Finkelstein. I'm an entrepreneur and a lawyer here in Canada.

In 2005, I was attempting to build a snowboard shop online with some partners. We found it very difficult to sell a product online at that time. We decided we would build our own piece of software to help retail these snowboards online from Ottawa. We very quickly realized that selling snowboards was a good idea, but selling software was a great idea. Ever since that point, we've been in the business of selling software to help other people build online stores.

Seven years later, Shopify has 180 employees based out of four offices. Ottawa's the primary office; after that it's Toronto, Winnipeg, and Montreal. We have 55,000 customers, that's 55,000 active stores that last year sold approximately \$750 million worth of product. This year their stores will sell \$1.5 billion worth of product.

The reason I'm interested in talking to you today is that I believe Canada is lagging drastically behind in online commerce and what I like to call the "new retail model".

Currently, about 10% of total retail sales in the U.S. are transacted online; it's about half of that in Canada. That being said, our growth rate for e-commerce penetration over traditional retail is actually higher in Canada than it is in the U.S. So we're getting better, but we are very behind.

A study came out a couple of days ago from Forrester that I want to cite a few metrics and data points from, to give you some context for why I'm concerned. Of online spending by Canadians, 25% is not happening at Canadian online stores. Of the online shoppers who were surveyed, 68% say they currently shop online outside of Canada. Of Canadian consumers, 72% say that they shop outside of Canada because they could not find what they were looking for from a Canadian online retailer. When they did shop in Canadian stores, the biggest complaint from Canadian shoppers, according to Forrester, was shipping prices, and 68% of those polled found Canadian online stores' shipping rates to be exorbitantly high.

There's a lot we can do to help Canadian merchants to move online. My view of the future is not one where online and offline are separate, but it all being commerce. Whether you buy it in a store and have it shipped to you, or you buy online and pick it up in a store, I believe the future of retail is going to be in commerce in general, not a separation of online and offline. So far, Canada is certainly lagging behind.

When I look at our growth rates in online stores in other parts of the country—and Shopify currently has stores in more than 100 countries—our growth rate is much slower here even though we have 5,000 online stores here in Canada. The risk aversion is much higher here, and people's propensity to try out new technology is much lower. This is ironic, because we are a Canadian company, and we are currently considered to be the smartest company in Canada by *PROFIT Magazine*. We've been the fastest-growing company in Ottawa for three out of the last four years. So we have the motivation, and we are very much interested in helping this change happen in Canada.

We're working with great organizations like the Retail Council of Canada and Canada Post to help encourage and inspire other Canadian retailers to move online. I provided all of you with four examples of online stores that have recently joined Shopify. One of them is a local store here called La Bottega. It's a local grocery store that's been in Ottawa for the last 50 years. Until last year, they sold their products in a geography that was basically Ottawa and Gatineau. Today, because of their online store, and because they're able to retail and sell their products coast-to-coast, their business has expanded dramatically. They're selling olive oils and balsamic vinegars from P.E.I. to Vancouver.

The other store I want to profile for you is a jewellery store, Biko. This is a girl out of Toronto who had a passion for designing jewellery. The problem was nobody wanted to buy her jewellery. No retail buyer wanted to purchase her jewellery for sale in a retail store. What online retail and commerce have provided her with is an ability to go direct-to-consumer. She didn't have to convince any buyer to accept her wares; she was able to sell directly to the consumer, which is very democratizing.

Right now 5% of retail sales are done online in Canada, and that's going to grow very rapidly. The question becomes, what's going to happen to these Canadian stores? Are they going to take the plunge and move online? Are they going to close their doors? We know that over the last 10 years the labour market for retail has slumped quite a bit. Or are they going to be a little bit more ambitious, and a little bit more inspired, and try to expand their businesses in other online fields?

In October 2011, the Canadian Federation of Independent Business stated that 56% of SMEs responded that the cost of implementation does not justify the investment, as an obstacle for accepting online payments and commerce. Shopify is \$29 per month. I'm going to repeat that: Shopify is \$29 per month. There is no way that the cost is prohibiting them from moving online. The problems are education, inspiration, and risk aversion.

● (1545)

There was one more study. In 2011 CEFRIO came out with a study that said 70% of Canadian small businesses had a web presence, but only 18% were selling online. We as Canadian business owners understand that online is important. What we don't understand yet is how online is going to help our business grow.

I want to contrast that with a program that I understand is currently being undertaken in Ireland. Ireland created something called the e-commerce website development fund. They've set up this fund to provide Irish small and medium-sized enterprises—or

microenterprises—with e-commerce supports to encourage these SMEs and micro-businesses to make greater use of existing web technologies. They've put \$150,000 per quarter into this fund to allow these small businesses to use the tools and to learn more about how to build or expand their businesses online.

Currently we have brick and mortar and we have “click”. I believe the future is “brick and click” whereby retailers sell online and off-line. Best Buy is shrinking their stores right now with something they're calling “showrooming”. Showrooming is a fad in which people go into these large retailers; they play with the devices, but they don't make the purchase in the store. They leave the store and they make the purchases online where it's more convenient, and they can do it in the comfort of their own home.

Retail is changing very rapidly. The next couple of years will be a very exciting time for retail. I believe that right now most Canadian and small businesses are doing it alone. Shopify is trying to be the evangelist of that here in Canada, but I believe there's a lot that we can do to help.

Thank you.

**The Chair:** Thank you very much, Mr. Finkelstein.

We'll now move to Mr. Bouchard for six minutes.

**Mr. François Bouchard (President, The Country Grocer):** I'm François Bouchard. I'm the owner of The Country Grocer and OnlineGrocer.ca, so our store is a little bit different. We're very much a brick-and-mortar store that decided to go online to expand our marketplace. Our shop is here in Ottawa, in the south end. We have 10,000 square feet, 26 employees, and the grocery store has been there for 50-some years.

Back in 1996 we decided that to expand our business model we should actually go online. At the time it was more from looking at predictions of what was going to happen and what we were going to do to keep our market share. In the grocery business we run on a margin of 1% to 2% as the net bottom line, so anything we could do basically to increase our revenue stream without increasing our overhead cost was the way to go.

We were the first to launch in Ottawa and the third grocery store to launch in Canada, which we did in 1997. Interestingly enough, our marketplace has now grown, with 96% of the customers we serve online being outside of our trading area, meaning an area of more than five kilometres around the store.

We now service customers across the country and in the States. We work with Foreign Affairs for expatriates who are posted abroad, and we do a tremendous amount of business up north in Iqaluit, Resolute Bay, and other remote communities.

For us, the key was to really offer that expansion to other customers—and to do it. It hasn't been easy. Obviously, we started in 1996 when it was all dial-up and we had to go through it. We're a small store, with 26 employees. We don't have resident IT people, and we had to grow the business as we went along.

We continued to grow that business, and that business model is unbelievable. Interestingly enough, one-third of the people who actually shop online do so for someone else. For example, we have two universities and two colleges here in Ottawa and we have a lot of parents who actually shop for their children who are here. The benefit of that is that mom can be in Halifax and shop for her children who are here. The disadvantage is that when we technically show up at the dorm with the groceries they say, "I guess mom is not sending money". So we get a lot of that.

**Some hon. members:** Oh, oh!

**Mr. François Bouchard:** Interestingly, in the marketplace we work with the hospitals here. Hospitals are actually forcing people to go back home a lot sooner. Obviously, the biggest concern for someone is, "I've had a hip replacement, a knee surgery. How am I going to get groceries?" We partner with the establishments to say that this is an offering that we do.

We partner also with a lot of people, with seniors and baby boomers who are getting to a certain age. We have customers in New Zealand ordering for their parents and doing it online from New Zealand. We actually deliver the groceries and have become more than just a shop or a grocery service. As we've discovered, on Monday the cleaning lady will show up, on Tuesday morning we will show up, on Wednesday, the VON will show up, and now every day somebody is checking on mom, who is 82. So it's become more than just a grocery shopping.

Interestingly enough, too, what we've found at that store level is that grocery shopping is an emotional thing. You've all been grocery shopping. It smells nice and it looks nice. Apparently, a lot of people said that online grocery shopping wouldn't catch on and that people wouldn't buy produce online, because there aren't these impulse things. Our average basket online is eight times bigger than it is at the store level. People are actually online, they have the time to do it, they're trying to justify the delivery costs, and on a Sunday afternoon, they have time to do it, and do it properly.

A lot of our customers are small businesses. Who is going to go out and get the lunch or the drinks, or whatever else? That is now all done online.

As I said, we have a lot of Canadian expatriate customers in the States who are homesick. They're looking for specific products, and we've partnered with different companies to be able to offer those products to them, and have gone through all the hoops and channels to be able to ship those across the borders. We're certainly able to do that on a regular basis.

We've partnered with First Air and Canadian North to actually ship groceries up north on a daily basis as well.

One of the challenges we have faced is actually keeping up with technology, because obviously customers move on. We still have some of those customers from 1996 who, I wouldn't say, are still on dial-up but are certainly on the old computers that aren't as quick and reactive. We have all these people who want to think that grocery shopping, basically, is like a video game and that they can go click, click, click, and everything falls in. We have to measure all those things.

We're also trying to get more information to our consumers because now they want ingredient listings, they want allergen listings, and they want all those things that actually matter to them.

As to consumer nutritional facts, we're working with GS1 Canada to capture all that data, to actually include it on our website as part of our service. That's key, and that's where we're certainly improving it. We're in the process of doing so.

As to some of the challenges, obviously, transportation is a big thing. To ship it up north, it's not the cost of groceries, but actually the cost of shipping the products up north to them. Obviously, it's the same thing to the States.

Payment is a big issue—Internet fraud and credit card fraud—so being a small business we have to put all of those parameters in place to try to keep ourselves....

What we see, as well, are barriers. I've talked about shipping to Iqaluit and shipping down to the States. I can't ship to the province of Quebec. We have a lot of people here in Gatineau who are requesting items, but because of barriers—milk quotas and all kinds of inspection reports and different things—we cannot ship there, unfortunately. So there is an untapped market for us to be able to ship there because it's easier for us to get to Gatineau than to Stittsville or Kanata.

Certainly, we have a lot of push-back, but we're working through those changes.

● (1550)

Up north it was the same idea; we had a great following, and then they changed the program from food mail to Nutrition North. No retailer in Ottawa is allowed to actually ship through the Nutrition North program.

Internally we work with all of those challenges. We see a lot of opportunity. We're very excited about the future. As my colleagues have said, there is a tremendous amount of growth; the customers do want that.

We're early adapters, and we've been there all along. We've moved along with all the technology. We're actually responding to consumer needs to try to get more information. We believe, as my colleague here has said, it's "brick and click", not brick and mortar. Our credibility was having a store when we first started, where customers could actually come in and see us, and see that we weren't shipping out of a warehouse: we'd get produce seven days a week, everything was fresh, and we'd be there to service them.

We now have loyal customers who have been shopping with us for 13 or 14 years, and yet most of those customers we've never actually seen face to face. Our customers from up north will actually fly to Ottawa, and I'll meet them at the airport and have a discussion, but they have never actually set foot in the store.

It's a different way to do business, for us, and it's huge. That is where the growth is. We want to continue doing that. We see great opportunities with the baby boomers along the way.

I thank you for the opportunity to be here today.

**The Chair:** Thank you, Mr. Bouchard.

We will now go to Mr. Hersche, who's on video conference.

Mr. Hersche, go ahead with your opening remarks. You have six minutes.

**Mr. Robert Hersche:** Thanks very much. Again, thank you for inviting SaskTel to speak to you.

What I will focus on today is essentially rural infrastructure. Your other presenters have talked about the slower communications and about online. Again, online purchasing in rural areas could be very advantageous. We have something in the order of 65% of our small businesses in Saskatchewan located outside of Regina and Saskatoon. They're spread over something in the order of 660,000 square kilometres.

We have a number of items, and I was hoping that we could describe how we have to try to serve some of those areas. We have wired Internet in every town of over a hundred people. We have full-fibre backbone. We have over 400 towers with 4G, and we're doing satellite in remote regions. That sounds like quite a bit, but it's still not enough. We have a population density that can only support one facilities provider. There really isn't a business case to go out there and do various facilities-based providers. So what we're trying to do in Saskatchewan, with our providing the facilities, is that there is competition in telecom, in other online services, or in other services—not in the infrastructure but in the services themselves that go with that communications infrastructure.

One of the things I'd like to point out today, though, is that some of the new decisions.... For example, mandated roaming ensures that there only be one service provider in most of rural Saskatchewan; there's no longer a business case for someone else to begin to build there.

I said all those small businesses are in rural areas, and they really do need connectivity if they're going to continue to do that. Satellite will reach most of the places, but satellite doesn't always meet all of their needs because of the latency. As you heard from the Federation of Canadian Municipalities, we also need some other kinds of speed, and again they mentioned some of that latency as well for some of their businesses as they go forward.

Rural businesses also lack some of the ICT expertise. They have an option now with infrastructure that they use cloud-based kinds of services, services that can provide them with the kinds of base that they need to begin to do business.

I talked about all of the wired Internet and other kinds of things in small-town Saskatchewan—and it doesn't matter, it can be small-town Saskatchewan, Manitoba, or Alberta and most of B.C. Most of the medium-sized businesses do not live or reside right inside the town itself. They are on the peripheral because of taxes or environmental or they get the space to do that kind of thing. In many instances they are just outside of where we can provide this wired Internet. It's just because of the technology called DSL technology. When we put in fibre, it will be just outside of those areas.

So we have a real problem in reaching those medium-sized businesses, and it's very expensive to meet them with fibre or other kind of wireline. I have in our presentation that it costs us something in the order of \$18,000 per kilometre to plough fibre. If your

business is four or five kilometres outside of a town, that can get to be very expensive. So we're looking at other kinds of new wireless options.

As we go down these new wireless options, we need spectrum. As I said, everyone, every company, every service is running over our infrastructure. We need access to that kind of spectrum to provide that for those businesses. There was a recent decision by the federal government on the 700-megahertz spectrum, one of the most valuable rural spectrums just because it reaches very far: 30 kilometres away from a tower. A tower can cost us a \$1 million to build, so we don't have a lot of people we can meet in that way. With the 700, we can meet that. We can provide the new technologies with LTE over what our entire footprint is and meet the needs of a lot of people.

• (1555)

The problem with those decisions that came with 700 megahertz is that the auction format favours national providers. It maximizes revenue for the country as a whole, regardless of the bids of the individual licences. So if a national provider provides a bid for all of Canada, that bid will supersede what might have been just a larger bid for Saskatchewan or that of some of the other small providers like Eastlink in the Atlantic and Vidéotron in southern Quebec.

After all the dust settles on the auction, much of that spectrum will go unused in rural areas for at least 10 years. People are buying that spectrum for urban areas. They can go...and now they have mandated roaming on SaskTel's towers. They don't have to build any more towers; they're using our spectrum. They're not going to use that spectrum. Right now, we have no way to go to Industry Canada and ask to either use that spectrum or share that spectrum at some sort of reasonable cost as we go forward.

For policies to stimulate some services in rural areas, we've got to recognize in our policies that rural can only support one infrastructure. We've got to support that rural infrastructure. The U.S. has recognized this, and it's developed policies to ensure that the rural-based infrastructure is healthy and expands in the new areas. With everyone using our facilities, we can't necessarily expand because we're not getting any revenue, or any substantial revenue, to go out and expand those services. Scarce spectrum resources shouldn't be allowed to lie unused. We should be able to share this unused spectrum until the owner wants it, and then we will go.

I'm sorry; I'm almost taking too much time.

Lastly is that national companies using existing rural infrastructure to reach businesses have to contribute to the real cost of building in rural areas. We can't leave it just to the rural providers as we do that.

With that, I think my time is up. I apologize if I've gone over.

Thank you very much.

• (1600)

**The Chair:** Thank you, Mr. Hersche.

Now that we've had all the opening remarks, we'll go to our rounds of questions. Our first round is seven minutes.

I'll just remind colleagues that we do expect a vote at 5:15 p.m., so we'll need to leave when the bells go.

Now we'll go to Madam Gallant for seven minutes.

**Mrs. Cheryl Gallant (Renfrew—Nipissing—Pembroke, CPC):** Thank you, Mr. Chairman.

My first question goes to S-Trip. I'm wondering whether or not, with your cloud-based storage and communications, you have any security concerns. If you do, how do you deal with them?

**Mr. Jason Hamilton:** We have security concerns, as any business would have security concerns. However, most of what we would share on the cloud would not be high-security-need resources. We deal with them in the standard ways that any business would deal with them, by password protecting them, but we don't go into a lot of depth on protecting those resources because we just don't put the resources that need security onto the cloud. That's such a minimal amount that it has never been a major concern for the business.

**Mrs. Cheryl Gallant:** I have dealt with S-Trip on a number of occasions, and we do have to key in our credit card information. Is that on another platform like a PayPal? Is it totally segregated from the cloud?

**Mr. Jason Hamilton:** Yes. Anytime you're using any credit card information, it's on a fully secured server that is securing that information.

**Mrs. Cheryl Gallant:** One of the benefits to your company of using the cloud format is that the customer has to go to the effort to get the information, be it the liability release, confirmation of payment, or itineraries. Closer to the date there are different documents to obtain.

What percentage of your profit margin would you say you can attribute to having the customer reaching as opposed to you pushing the information out?

**Mr. Jason Hamilton:** We do a combination of both push and allowing them to reach for it.

It's a tough question to answer.

**Mrs. Cheryl Gallant:** It's however you want to quantify it.

**Mr. Jason Hamilton:** I'm trying to think of how I would quantify that. I guess the only way to quantify it would be to count the time the customer spends and as a result the time that we're saving by not having our own team answering the phone and spending that two or three minutes on the phone with the customer.

**Mrs. Cheryl Gallant:** Did you ever have everything by telephone, or has it always been computerized?

**Mr. Jason Hamilton:** No, no. Everything was by telephone in the beginning. If you wanted to sign up for a trip, you had to fill out a printed registration form and mail it in to our office, or somehow get it to our office. Everything in the beginning was done over the phone; there was no online profile you could go to and manage your trip, or anything like that.

•(1605)

**Mrs. Cheryl Gallant:** So there was a major digital leap then. Can you equate the savings from doing so with keeping more people employed at your service?

**Mr. Jason Hamilton:** That's a difficult number for me to estimate, because that leap happened right around the same time I joined the company. So it's tough for me to say. But there were certainly savings that came as a result of that, because we went from having to phone and e-mail every single person every single time. We actually had to deliver to our students across the country, so we had shipping costs that were way higher. All of that changed once we pushed online but, unfortunately, I can't give you a hard number on that.

**Mrs. Cheryl Gallant:** Did you have a wider market once you went online, or were you simply reaching the same high schools?

**Mr. Jason Hamilton:** Certainly, our market expanded, but because we have sales reps across the country it didn't impact us in same way that it would have done for a bricks-and-mortar facility. We already had that reach in a lot of ways, so it didn't massively change our market.

**Mrs. Cheryl Gallant:** How do you service high school students who don't have access to the Internet at home? You don't have to go very far outside of the boundaries of Ottawa to see that.

**Mr. Jason Hamilton:** We service them either through the access they can find through their school, or we will have our sales reps or trip counsellors go to them and provide them with the resources at meetings with them in their schools.

**Mrs. Cheryl Gallant:** Thank you.

What exactly does Shopify do for clients for \$29.95 a month?

**Mr. Harley Finkelstein:** Shopify provides all the technology they would need to run an online store. That means two things. It means the front end of the store, so the storefront that you would go and visit—if you go to LaBottega.ca, the thing that you see—but also the back end where they do their inventory management, fulfill orders, and have the ability to accept payments. It's effectively a business in a box.

**Mrs. Cheryl Gallant:** Are you doing the website building and putting together the payment system, transfers to the banks, and managing their inventory for them?

**Mr. Harley Finkelstein:** Correct. We're not an agency so we won't design the site or the store for them. Having 55,000 stores, it would be tough to design all those stores. But Shopify is a do-it-yourself service. We have template designs, and anyone who knows a little bit about graphic design can customize their site to anything they like. While most of our stores are small businesses. Google, GE, Wikipedia, Gatorade and Budweiser also use Shopify. So even the larger, hegemonic corporations are using Shopify to sell products online.



**Mrs. Cheryl Gallant:** How do people find out about your company?

**Mr. Harley Finkelstein:** We're signing up 3,000 new stores every single month currently. Most of that growth is coming from online advertising, so Google AdWords, in particular, is very strong for us. But because we are also trying to be evangelists to small businesses, we run a lot of competitions all over the world—build-a-business competitions. That brings us quite a bit of business.

Finally, I would say that word-of-mouth is probably the third strongest way that we acquire new customers.

**Mrs. Cheryl Gallant:** How do you see yourself in terms of being an innovator and innovating the ways that companies do business?

**Mr. Harley Finkelstein:** Good question.

The reason we started the business was not that we wanted to be a software company, but that we were frustrated by the software on the market. In 2005 there were two ways to build an online store. Up here you would go to a big company like GSI Commerce or Cactus Commerce in Gatineau, and for \$100,000 to \$1 million they would build you a custom online store. Everyone from Canadian Tire to Loblaws went that route. But we didn't have \$100,000 or \$1 million. At the bottom end of the spectrum you had companies like eBay and Etsy and these platforms that would allow you to place an item for sale on their marketplace. The problem was that your business at that point was always owned by eBay effectively; it was never a stand-alone business. So scalability wasn't there and you would eventually graduate off eBay's platform. We wanted the functionality that the enterprise guys were providing at the price points that eBay was providing. So in that case I think we democratized retail to the extent that anyone can compete with Walmart now and sell T-shirts online, and in some cases can win if they're savvy with marketing.

**The Chair:** Thank you very much, Mr. Finkelstein, and thank you, Madam Gallant.

Now we go on to Monsieur Lapointe.

**Mr. François Lapointe (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, NDP):** I have a point of privilege first. Can we take a minute so that people can put on their translation device and see that it works, so that it won't be taken from my time.

**The Chair:** It's certainly working in my ear, Monsieur Lapointe.

**The Chair:** Can you put your earpieces on for translation, unless you....

•(1610)

[Translation]

**Mr. François Lapointe:** Thank you for being here, gentlemen. All four of you made extremely relevant presentations.

[English]

**Hon. Geoff Regan (Halifax West, Lib.):** On a point of order, sorry, but they're still working with their earpieces.

[Translation]

**Mr. François Lapointe:** I think everything is working now.

I will share with you two concerns I have regarding a very important aspect of some recent decisions. You will all be able to comment afterwards.

Mr. Hersche, you spoke about the upcoming auction of the 700 MHz spectrum. You fear that it will not be a real benefit for a number of rural areas. I would like to tell you that, in southeastern Quebec, in the mountainous areas, we share your concerns.

Could you perhaps tell us a little more about possible solutions? You started to speak about it. You had some very interesting ideas.

Another component that I found fascinating in your presentation was the concept of...

[English]

bricks and clicks.

[Translation]

Based on that approach, if retailers don't ride the wave—in other words, they do not adopt online sales—they will simply be victims of it.

I do not agree with the 700 MHz spectrum. I think it should be rented, not sold, but it is being sold. It is expected that the proceeds of the 700 MHz sale will go into the consolidated revenue fund. However, no specific program is dealing with serious problems like that.

Since we are talking here about a sale that will generate hundreds of millions of dollars, Mr. Finkelstein, do you think it would be relevant to use the funds for initiatives like the Irish one you mentioned?

The idea is to avoid having our main street merchants be completely overtaken by the new technology. We need to help them address these major challenges. I think that is the idea here.

[English]

bricks and clicks.

[Translation]

I would like to hear your comments on these two major concerns.

[English]

**Mr. Harley Finkelstein:** Is it all right if I speak English?

**Mr. François Lapointe:** I do understand English, but I want to do it in French.

**Mr. Harley Finkelstein:** But it's okay if I respond in English?

**Mr. François Lapointe:** No problem.

**Mr. Harley Finkelstein:** Thank you, sir.

What you said is really interesting, because a lot of what's happening right now in the retail space is that people are assuming that if big retailers don't take on the new technology, they will become dinosaurs, they'll become extinct. I disagree.

I think it's an amazing opportunity for traditional retailers to expand. The reason I brought up La Bottega is that this is a company that only sold in a 35 kilometre radius for 50 years and now they're selling across Canada by adding one new layer to their business in a very simple way.

The other thing you'd mentioned in terms of spectrum was whether this precluded certain businesses without access to Internet connectivity from participating in this? Absolutely. Having Internet connectivity is a non-starter: if you don't have that, none of this makes any difference whatsoever.

In my world, most people are connected. I have an 82-year old grandmother whom I love very much, who FaceTimes me every single evening before bed to say goodnight. I only bring it up because this is someone who didn't grow up with the Internet in her hands. She lives in the Laurentians; she doesn't live in a city, but she has access to it.

So I think before we can get at some of the sexy stuff of what technology can do for retailers, it goes without saying that connectivity needs to be something that is of primary concern.

[Translation]

**Mr. François Lapointe:** I spoke about the idea of using funds to help merchants get on the wave of new technology and, if the business generates \$3 billion in profit, avoid having that money put into public coffers and end up who knows where.

Might that be good for you?

[English]

**Mr. Harley Finkelstein:** I think that's a great idea. The money is one part of it, but the reason I brought up the Irish program—it wasn't very much money, as I mentioned—is that you inspire them and you educate them. Even people who aren't necessarily tech savvy and who aren't reading the *New York Times* online, are hearing about these cool companies emerging. What the Irish government is doing is saying, let's get a group together and let's educate them and inspire them to do it on their own.

But that being said, even for those who aren't connected, do they know where the closest place to connect to the Internet is located? Is it a local library in their hometown or not? I think we need to get that figured out before anything is possible.

**The Chair:** Mr. Hersche.

**Mr. Robert Hersche:** One of the things that we have to understand with the 700 megahertz spectrum.... By the way, I agree with the previous comments that people have to have access to this kind of technology, and that it has to be used.

One of the problems with the rules right now for companies like SaskTel or Vidéotron, etc., is that the maximum we can buy under the rules is maybe just 5 megahertz. I don't want to get into too many technical things, but a small amount or one small block then has to be shared by everyone as you're doing this. So what happens is that the other 15 megahertz is just sitting there. If you want to talk about

online services or you want to talk about higher bandwidth, you have to use larger portions of bandwidth and make sure that all of the rural people can have access to that as they go forward.

• (1615)

[Translation]

**Mr. François Lapointe:** Thank you. That is very interesting. I hope it will be noted in our report.

I would like to talk about another major issue and find out if it is also affected. The question is more for Mr. Hamilton.

Currently, about five million Canadians go to the United States every year to take a flight because of tariffs. Canada is one of two countries where these tariffs are the highest in the world. Our airports pay land rents, unlike the Americans who receive subsidies.

In real terms, does this make a difference for the travel agencies in my neighbourhood? Does it have a significant impact on your sales figures?

[English]

**Mr. Jason Hamilton:** In our business it wouldn't make a big difference because we are a full package provider, but if you were just booking a flight, yes, it certainly makes a difference. We provide packages that include many things. It's a full tour. It can be anywhere from 4 days to an 18-day tour, so the flight is just a portion of that and it doesn't come much into play in the overall package. We're also the only people doing what we do, so competition is low and there's no one else to go to.

[Translation]

**Mr. François Lapointe:** It protects you a bit from this problem and has a little less of an impact on you?

[English]

**Mr. Jason Hamilton:** Yes.

**The Chair:** Monsieur Lapointe, you have 30 seconds left.

[Translation]

**Mr. François Lapointe:** I have a question for Mr. Bouchard.

You've managed to find a clientele in the far north, right? You are well established there. It wasn't because you put information online, doesn't mean that, automatically, people who live 5,000 km north of Toronto or Montreal are going to know you exist.

How did you manage to attract that clientele?

**Mr. François Bouchard:** To be honest, it was all word of mouth.

We started out in Ottawa. Actually, it was the clients there who found us online. They asked us to do specific things, such as help them ship grocery orders. They educated us and showed us how to supply them. Then, we worked with influential people in those communities to meet their needs.

Now, several years later, we send all their grocery orders by plane, or by boat in summer. People have very specific needs. They often buy a freezer, and we fill it with non-perishable items and then send it by boat or plane. That is what takes up space during the transport.

**Mr. François Lapointe:** Thank you very much.

**Mr. François Bouchard:** Thank you.

**The Chair:** Thank you, Mr. Lapointe.

Mr. Lake, you have five minutes.

[English]

**Hon. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC):** Thank you, Mr. Chair.

I'm curious, but did any of you, as you were setting up your businesses—you sound like you have pretty successful, very innovative businesses—access particular government programs as you did that?

**Mr. Harley Finkelstein:** We take part in the SR and ED program, and that's been really fantastic for us. In fact, one of the reasons it is really important for us to remain a CCPC, Canadian-controlled private corporation, is that we do get access to that. Beyond that, we also get capital gains exemptions. For the first \$500,000, the tax rate is much lower. Certainly, some of the government programs were quite important.

That being said, when we went to raise money—we raised about \$22 million of equity investment—most of our investors, except for one, were U.S.-based investors. That was simply based on the risk appetite and risk tolerance of most of the Canadian investors.

That's another conversation to have, but yes, we did take part in SR and ED, and we still do today.

**Mr. François Bouchard:** We did not. We basically built it with whatever funds we had, and built it slowly and gradually. Certainly, we've been asked a few times and we've looked around, but there was certainly nothing that came out with flashing red lights that said, "Please join here, apply here".

A lot of my colleagues—there are a lot of successful colleagues—like Grocery Gateway and Mollie Stone's Markets, have gone online. Those are all in the same boat and built it as a necessity to grow their business, but certainly, there are a lot of others that are interested and just don't know how to get into it.

**Mr. Jason Hamilton:** We have a very young workforce, so in the past we used some employment subsidies. That would be the only government funding we would have used. We haven't used it for a couple of years, but in the beginning we used some of those.

● (1620)

**Hon. Mike Lake:** Right. I'm interested, actually, Harley, in something that you said in your opening statement. You talked about this concept of showrooming. You use the example of people going into a Best Buy and trying stuff out, but then going home to purchase it because it's more convenient and can be done at home. That just strikes me as a little odd, in terms of what I do when I go to Best Buy. I'm so excited to get whatever I'm getting there that I just can't wait to buy it and take it home. I can't imagine going and trying it out, then going home, ordering it, and waiting for it.

**Mr. Harley Finkelstein:** I think, first of all, that is vintage specific a little bit. What I mean by that is that some of us are used to actually not walking out of a store with something in our hand; we're used to actually going online and purchasing it. I would also say that if there is a price differential that is in a certain range...

I wasn't trying to say anything about—

**A voice:** That was classy.

**Mr. Harley Finkelstein:** Yes. Okay. Sorry.

**Voices:** Oh, oh!

**The Chair:** We all agree.

**Mr. Harley Finkelstein:** Foot in mouth, foot in mouth.

There's an app, for example, it's a real app. It's called RedLaser, which allows you to take a picture of any bar code you want and tells you where you can buy that product more cheaply within a certain geographic radius. So you can go into Best Buy, play with the camera, take a picture of the UPC bar code, and you may actually be sent to a different store to purchase it. But Best Buy is the one that's actually showing it to you.

The other thing I would say is that in terms of keeping inventory in these stores, most of these big box stores like Best Buy have a ton of inventory in them. The truth is that I want to go in there. I want to ask questions. I may want to feel the weight of the camera. But I personally don't need to walk out of the store with a camera. I may want to go on a bike ride after that. I prefer to have it show up at my door.

A company was just purchased by Google a couple months ago named BufferBox out of Waterloo, a Canadian company. What they do is that they create these boxes all over Toronto where you can basically send things to your box and pick it up using a little code. It tells you which box to go to grab it from. I think that's the future.

Now some people will still want to pick it up in store. Certainly people who are used to doing that traditionally will still want to do that. But that's why I don't think the separation between online and offline are going to stay the same. I think the "e" from e-commerce will be dropped and no matter how make transactions, that's going to be commerce—the farmer's market, trade shows, online and offline.

But because of showrooming, I think we're going to see these big box retailers looking a lot more like Rogers stores in the future, where you just go and play with one thing and then you leave.

**Hon. Mike Lake:** I think it makes sense in that it gives much more flexibility to a retailer to set up a kiosk in an airport or something like that, where you might not have the big inventory that you would have in a Best Buy-type store, or something like that.

**Mr. Harley Finkelstein:** Right. Even for people who are savvy with technology, like me, still want to talk to a salesperson and ask questions about the different shutter speeds on a camera, for example. I can't always get that experience online. I may want to ask questions of a real person. I think I can do that using the showrooming techniques and I think we'll see that a lot of these big stores will actually get smaller very soon.

**Hon. Mike Lake:** Right.

Go ahead, yes.

**Mr. François Bouchard:** I think what we're seeing in our industry, interestingly enough, is the manufacturers wanting to go directly to the consumers, to the end users. So if we are not part of that online business, we're going to see the manufacturers leaping over us to actually sell products.

If you look at South Korea, for example, 92% of the diapers are actually sold from the manufacturer to the end user, the family. It's a big, bulky product—something that is shipped directly from the manufacturer to the customer's house. They know exactly what size they want. They know exactly what it is. It's not fancy. It's going directly; it's not going through the retail channels. So that will have an impact.

We're seeing a lot of our manufacturers in Canada doing the same. They want to reach out to the consumer. You're seeing those smart boards where you can go on the phone and go click, click, click, click, and all these wonderful soaps and products are going to show up now at your doorstep.

So if we're not part of this online, we will be skipped completely.

**Hon. Mike Lake:** I have so many questions and so little time.

François, I am going to go to a really basic question for you. Your store had been around for 50 years. You're probably in the same vintage as I am. Roughly.

**Voices:** Oh, oh!

**Hon. Mike Lake:** What was it that initiated that transition for you guys, whereas your competitors just weren't doing it? No one in the country was doing it at the time you did. What initiated that?

**Mr. François Bouchard:** For us it was basically trying to look at the future. We were actually in a conference where they were talking about trends. They were saying that grocery shopping online would have 10% of the market share within five years. This was back in 1995. As I said before, margins are 2%. If I lose 10% of my volume, I'm done, I'm out of business. My model does not work.

So we basically did it as a necessity, and did everything we could to get there. We took students from McGill who were trying to do an end-of-year project to build a website. We basically scaled it from nothing. We ended up featuring, or sending press releases to get the media to come in. Ottawa, at the time, was the hub of JDS and Nortel and everything else. And we launched. We basically launched deliveries one day a week. We got absolutely over and done; the requests were unbelievable. But we developed something and believed in it; we never gave up.

A lot of people were saying that it was not going to work. Even our competitors, our big boys, were saying that it does not work, that

it does not make sense. For us, it does. And it continues to do so. It gives us credibility. It gives us access to customers. It builds loyalty. It allows us to serve a need in the community without increasing our overhead. And that's the key. For us, it's to reach more customers, increase our revenue stream, while keeping our overhead in check. That's the motivation.

Thank you.

• (1625)

**The Chair:** Thanks, Mr. Bouchard.

Now we'll move on to someone who probably jogs at the same vintage-specific speed that I do.

**Some hon. members:** Oh, oh!

**Hon. Geoff Regan:** You're probably right, Mr. Chair. I was going to say—and Mr. Hersche isn't here to see—that Mr. Bouchard looks much younger than Mr. Lake, but Mr. Lake looked a lot younger when he first got here, so he's aged a bit.

**Voices:** Oh, oh!

**Hon. Geoff Regan:** It comes with the job, I guess.

I'm just kidding, Mike.

Mr. Hersche, I want to talk about spectrum some more. Last week the Minister of Industry was before the committee. I suggested to him that the spectrum licensing system that he set up discriminates against rural Canadians. I asked him if he would review the policy of bundling rural and urban together. He won't.

Why should he reconsider?

**Mr. Robert Hersche:** I do believe he should reconsider for a number of reasons. So much of the very scarce resource is going to be left unused for the next 10 years if we do not use it. That's going to be the case not just in rural Saskatchewan but in rural areas across Canada.

This is a finite resource. It doesn't get used up, but it's finite in terms of how much there is. It should be reviewed in terms of making sure it's used.

Secondly, it should be reviewed, because in many rural areas, smaller companies are the ones delivering that kind of service for the rural people themselves. There needs to be a mechanism so that people who service those areas can use that spectrum and get access to that spectrum in an affordable way.

I can't bid against the prices in Toronto. My market in rural areas should not even be put into the same kinds of categories. Even Regina and Saskatoon prices should be different, because the number of people there is different from the number in northern Saskatchewan and rural Saskatchewan.

**Hon. Geoff Regan:** The Federation of Canadian Municipalities appeared before our committee a while ago and testified that in the absence of broadband in rural communities, economic development is significantly impeded, therefore denying those communities competitive advantages, as you would understand.

They were also critical of the upcoming 700 megahertz auction. They expressed concern about the effectiveness of the rural deployment process suggested in the requirement, they said, “as it only applies to carriers with two paired blocks of spectrum, and includes targets that are based on HSPA network footprints that were in effect March of 2012”.

So they believe the decision to use these HSPA footprints—in other words, that you don't have to expand beyond the area you're already serving—won't guarantee rural deployment, obviously.

I believe your CEO said it's a myth to suggest that this fall auction will benefit rural Canadians.

What comments do you have on this?

**Mr. Robert Hersche:** SaskTel is the only company in Saskatchewan that actually has an HSPA network in rural Saskatchewan. We are the only ones who would be obligated to provide any kind of rural service when we begin to do this. That would only be if we're able to buy the two blocks. Again, we'd like to get the two pairs, but we'd be the only service provider. All those other blocks will stay vacant for at least 10 years under the licensing concept.

There's no reason for the other service providers, once they buy that spectrum, to use it in rural Saskatchewan.

**Hon. Geoff Regan:** I'm asking a question now to Mr. Finkelstein.

You talked about Ireland, which I think you said has a fund for e-commerce supports. Do you think that should be adopted here in Canada? How would you change it? How much should be in it?

**Mr. Harley Finkelstein:** Again, I think it's a great idea, but I don't think it's a great idea for the reasons you may think. I don't think it's a great idea to allocate a chunk of money to encourage Canadian small businesses to move online. What I do like about it is that there's a program in place that inspires these people and shows them these case studies.

The only reason I sent these four shops out to members of this committee was to explain that these are four very different shops, all with the same course of action: they have used technology to advance their business. The problem is that 95% of retail in Canada is still happening offline—which is only decreasing—and our adoption of online retail in Canada is actually pretty slow. What I like about the program is not that they've allocated funding in order to support this program, but that they're going ahead and proactively going to small businesses and saying, “The future of retail looks very different. We, as a government, are going to give you the tools and resources to help you make that transition”. The Government of Ireland is partnering with Shopify, an Ottawa-based Canadian company. We'd love to do that here at home.

I mentioned earlier, sir, that one of the big reasons Canadians consumers don't like shopping online is shipping prices. I think we can be doing a much better job here. It's fairly ridiculous that it's cheaper for me to purchase an item from California and have it shipped to Ottawa than it is to have it shipped from Vancouver. Zappos, a very iconic retailer now owned by Amazon, pulled out Canada solely because shipping prices made it almost prohibitive for them to do free shipping—which is now a standard industry practice.

What they've done in Ireland is pretty good, but I think we can probably do better here in Canada. We're smarter than they are. But I think that inspiring and educating is something we have to do.

• (1630)

**Hon. Geoff Regan:** Thank you very much

Mr. Hamilton, you talk about the back-end work that you contract out for. You joined the company just as it was starting to grow, but perhaps you can tell me how, when it was small, it managed to afford the kind of back-end setup it needed to have. I suspect it was more than \$29 a month at that point.

**Mr. Jason Hamilton:** Yes, certainly.

A lot of it was outsourced to India. In the beginning, we had a team of developers in India working for us and that was where we got most of our back-end support from.

**Hon. Geoff Regan:** Do you want to describe what you mean by “back-end support”, the back end of your website versus the front end?

**Mr. Jason Hamilton:** Sure.

The back end of the website is the code on which the website is built, whereas the front end is the graphics you see, the experience you see, and the navigation when you click somewhere you're directed to. The back end is the foundation that all of that lives upon.

**The Chair:** Thank you very much.

Thank you, Mr. Regan.

**Mr. Geoff Regan:** Thank you, Mr. Chair.

**The Chair:** We'll now move on to our five-minute round, and Mr. Braid, for five minutes.

**Mr. Peter Braid (Kitchener—Waterloo, CPC):** Thank you, Mr. Chair.

Thank you to our witnesses for being here this afternoon.

Mr. Finkelstein, you've explained that, from your perspective, you think that Canadian SMEs are reluctant, perhaps risk-averse, to more widely embrace digital technology.

Do you have any thoughts or suggestions on how we overcome their reluctance or risk aversion? It's not cost, necessarily. You've spoken to that.

**Mr. Harley Finkelstein:** I don't mean to repeat myself, but I think a lot of it is inspiration. I think we have to tell the story of Canadian business a little better.

Now that Shopify is a successful business, I feel that one of my responsibilities is to help other Canadian entrepreneurs realize that you can build a company and you can stay in Ottawa and you can stay in Canada. I think the same thing goes for these retailers. I think we need to tell the story of how François had gone ahead and used the Internet to expand his business beyond anything they believed possible 20 to 30 years ago.

There's a great business called Canadian Icons, out of Aylmer, Quebec, that sells Canada Goose jackets. If you order during a snowstorm, they'll deliver to you by hand within 90 minutes. They're a multi-million-dollar company established for less than one year now. They were inspired by other Canadian companies doing a similar thing out in Vancouver. I think we need to inspire more, we need to tell their stories more. We don't have too many massive Internet home runs here in Canada as they do in the States, with Amazon and Zappos, companies of that sort.

Frankly, Canadian Tire started selling online only a couple of years ago. We were selling online before they were. I think a lot of it comes down to just inspiring them with different tools and inspiration. Things like the Canada Post E-commerce Innovation Awards, which started just last year, will help, but we still need to do more. We need to show them that these success stories are out there.

**Mr. Peter Braid:** Okay.

Continuing on that thread, then, do you have any specific thoughts or suggestions on how we share these stories? If it's about awareness and inspiration, then how do we get the information out?

**Mr. Harley Finkelstein:** The Internet, of course.

I'm actually just kidding. But beyond that, I think the media has done a decent job of highlighting some interesting, cool, tech companies here in Canada, but if you open most of the major newspapers in Canada, the tech stories are about U.S. companies not Canadian companies. Maybe they're a little sexier and a little more interesting, but I think we can—

•(1635)

**Mr. Peter Braid:** No, they're not.

**Mr. Harley Finkelstein:** I don't think they are. I think maybe they sell more papers. Maybe RIM is an interesting story.

**Voices:** Oh, oh!

**Mr. Harley Finkelstein:** I think we need more role models here. I think the companies here that are doing really well, like Canadian Icons.... It's a shame that not everyone knows about this story, that three guys out of Aylmer, Quebec, have built a million dollar company in less than six months selling Canada Goose jackets using real time delivery. I think the media can do a better job. I think we as small business entrepreneurs can do a better job. I think we all have a responsibility to do that.

**Mr. Peter Braid:** Thank you for sharing that neat story about the business in Aylmer, just across the river.

Mr. Finkelstein, what do you think the future of retail looks like in three to five years?

**Mr. Harley Finkelstein:** I'm really happy you asked that question.

Ten years ago, if you wanted to sell a product, you had to do a couple of things. You had to raise some money to manufacture that product. You had to manufacture that product. You then had to find an agency or a distributor to distribute that product. You had to find a retailer to sell that product and then a consumer to buy that product.

One of the most interesting parts about the Internet is that it's democratizing, that someone who wants to make a new pen that is

the most amazing pen ever can manufacture it. Maybe he builds a prototype using a 3-D printer. Maybe he raises money on a crowd-funding platform like Kickstarter and then he can sell it direct-to-consumer. He can remove all of the intermediaries between him and the end consumer, and do that while charging much less money and making a lot higher margin. I think that's the future of retail. It belongs to creators and curators.

The days of these hegemonic retailers taking all the profit margins away from the original manufacturers are gone. I think that in the future everyone is going to be an entrepreneur. I think if someone has an idea for a new type of anything, they can retail it themselves directly to consumers. It's democratizing.

**Mr. Peter Braid:** I like the future that you've painted.

Mr. Bouchard, in my remaining time, tell us about those iconic Canadian products that you sell from your store to Canadian expatriates.

**Mr. François Bouchard:** It's interesting because it's not your maple syrup, smoked salmon, or things like that. Often it's chocolate bars, something sweet. So you had a lot of people looking at it in Las Vegas when they had the construction boom, and they wanted chocolates that were available in Canada, Smarties for example, things like that—M&M's in the States and Smarties in Canada. Robin Hood flour is another good example. I can't find that in the States. There's a bit of a shipping issue. You're shipping white powder through customs—

**Voices:** Oh, oh!

**Mr. François Bouchard:**—but we did manage to do that.

It's certainly been interesting. The requests are interesting because people come online, they find you and they say, "Can you please...". And cost is not an issue because food is to the heart.

Thank you.

**The Chair:** We'll move on to Mr. Thibeault for five minutes.

**Mr. Glenn Thibeault (Sudbury, NDP):** Thank you, Mr. Chair.

Thank you to all the witnesses for being here today. You're providing us with lots of information for this report and lots of information, I think, to what we can do to support the small and medium-sized enterprises right across the country.

I know, Mr. Finkelstein, you were talking about telling the story and saying that it was really hard to talk about Canadian companies that have been hitting home runs. Well, I do think that you're one of those companies, from hearing what you're saying. So congrats on being one of those companies.

It's interesting that you brought up the Forrester Research report. I'm going to quote the report a little: Canadian retailers who have delayed launching a robust e-commerce website are running out of time and face "their last wake-up call".

Furthermore, the report states:

In the eyes of the consumer, the downsides of buying from a U.S.-based retailer rather than a domestic Canadian retailer are diminishing. Canadian retailers should be shaking in their boots.

So given these statements and your record of servicing clients in Canada and abroad—and I should mention the Foo Fighters website here, which I know we talked about as well—do you believe that Canadian businesses are lagging behind our international counterparts in establishing e-commerce or, as you even called it, the “new retail model” opportunities?

**Mr. Harley Finkelstein:** I think currently we are lagging. Forgetting about population size, because that would be misleading, but just looking at percentages as opposed to real numbers, we have half the online retail penetration that the U.S. has. The most recent numbers that I've seen show that online retail in Canada is growing at about 14.5%. It's about 14% in the U.S. So we're growing faster. That's only been in the last year or so. So there is a little hope there. But I do think we are lagging behind. I think as consumers we should be pushing our favourite stores to sell online.

I use a service called Manpacks that delivers me monthly subscriptions of razors, underwear, and T-shirts. Every month I get a new package of razors, underwear, and T-shirts delivered to my house. That is revolutionizing the way I shop: I don't have to shop any more.

I think as Canadian consumers we should demand those type of things. If a retailer in Canada is having trouble offering free shipping, they should figure out how they can facilitate free shipping and be able to afford that cost. So I think it applies to both sides. As consumers we need to be more demanding of our retailers and our big brands, but as retailers we need to be more innovative.

Canadian Icons can't compete directly with Canada Goose as a corporation because they're the original manufacturer. The difference, however, is that Canada Goose is not going to deliver to you within 90 minutes. So I think innovation and creativity, which makes Canada so great, is exactly what's going to get us in front of the pack.

•(1640)

**Mr. Glenn Thibeault:** Fantastic. Thank you.

I come from Sudbury. It's not a small city. We're a city of 150,000-plus people. Fifteen minutes outside of my city, parts of my riding are on dial-up and can't get cell service.

Many of the individuals who live out there are small business owners, and they are wanting to be part of this digital e-commerce world, but they can't get there.

From what we're hearing—if it's spectrum or if it's rural broadband—is that somewhere you think the government should be going and looking at, so we continue to find ways to roll out spectrum and broadband to ensure it gets to these types of communities right across the country, so everyone can play in the global economy?

**Mr. Harley Finkelstein:** How ironic is this: the fact that the people who can benefit most from the Internet and the democratization of technology are the very people who don't have access to it?

I cannot go ahead and build a brick-and-mortar store across the street from a Walmart. I would have to get the building, leasehold improvements, inventory, payroll, and all those other things. However, I can compete with Walmart, having no money, in the online space because the technology has a low barrier to entry.

But the very people who need to compete and are having trouble competing don't have access to this democratization technology. Who cares? I think that's a problem.

**Mr. Glenn Thibeault:** Thank you.

Go ahead, Mr. Hersche.

**Mr. Robert Hersche:** I'd like to say something to that question. I'm sorry; I don't mean to take up your time. But there is a way to start bringing that out into rural areas in a way without coming to government taxation.

We had what was called a high-cost serving fund to stimulate the affordability of basic telephone services. Unlike in the United States, that fund, which really only taxed 0.06% of telecom revenues, does not apply to wireless and other kinds of things that could give broadband outside of Sudbury or other kinds of places like that.

I'm sorry for interrupting.

**Mr. Glenn Thibeault:** You don't need to apologize for interrupting. That was a great answer. Thank you.

**The Chair:** Mr. Hersche, answers are never interruptions. That's fine.

Thank you very much, Mr. Thibeault.

Now we'll go on to Mr. Carmichael for five minutes.

**Mr. John Carmichael (Don Valley West, CPC):** Thank you, Chair.

And congratulations to each of you on your innovation and creativity.

I want to begin with you if I could, Mr. Finkelstein. I want to talk about Canada versus the U.S. You were talking about some of the numbers, 5% versus 10% in terms of online retailing versus retail sales numbers. I'd like to try to understand your platform, just how it works, because I'm not sure I have quite got it. It could be a vintage thing.

First of all, how many shops or how many retailers are part of your organization?

**Mr. Harley Finkelstein:** Fifty-five thousand are currently actively selling every day.

**Mr. John Carmichael:** Is that 55,000 retail operators across Canada only?

**Mr. Harley Finkelstein:** No. That's in 100 countries; 5,000 are in Canada.

**Mr. John Carmichael:** So you charge \$30 a month.

**Mr. Harley Finkelstein:** Plus a 2% transaction fee.

**Mr. John Carmichael:** Thank you. And that 2% transaction fee is on top of any bank charges or transaction fees relative to payment.

**Mr. Harley Finkelstein:** Correct. You can expect that some large companies, like the Foo Fighters, for example, won't want to give me 2% of what they are making. So there is a plan at \$179 per month with no transaction fee, just to be clear.

**Mr. John Carmichael:** Clearly with 55,000 companies operating through your platform around the world, the retailer establishes its own pricing. It establishes where the competitive positioning is online.

• (1645)

**Mr. Harley Finkelstein:** Correct.

**Mr. John Carmichael:** I'm just curious. When you talk about \$750 million last year to \$1.5 billion this year in terms of transactions, is that your total retail transactions accumulated across all 55,000?

**Mr. Harley Finkelstein:** That's correct.

**Mr. John Carmichael:** Good. Thanks.

**Mr. Harley Finkelstein:** It's mostly a long tail as well, so it's not a Pareto—

**Mr. John Carmichael:** No, no, I understand.

Mr. Hamilton, you talk about being an e-commerce adapter. How many salespeople do you actually have on the road?

**Mr. Jason Hamilton:** We have about 35.

**Mr. John Carmichael:** And the 35 just go from school to school, build a clientele, and then they turn the clientele around and point them to the online application and where they can find the right package?

**Mr. Jason Hamilton:** Yes. They typically find the influencers in the schools. Those influencers then tell all their friends. Then all their friends are directed to the website.

**Mr. John Carmichael:** In your case, how do you market yourself? Is it strictly through your sales representative, or are there social media applications?

**Mr. Jason Hamilton:** It's mostly through social media.

**Mr. John Carmichael:** He said, she said, etc.

**Mr. Jason Hamilton:** Yes, it's all about sharing stories, where a story travels, and we use social media and video to share those stories.

**Mr. John Carmichael:** How do you select your tour routes? Obviously, it's partially through experience with the tours. Last year's tours were good, some were bad, and you make your changes. How do you shop for new tour routes?

**Mr. Jason Hamilton:** We get a lot of customer feedback to understand what they want, and where they want to go. We typically find with students that at their age it's their first trip. It's not so much about where they go as much as about whom they go with and what they do when they're there. So we focus not so much on, "We should start going to Peru", for example, but more on what we should do when we go to Cancun. We should now offer a volunteer excursion, because that's what everyone wants or we should offer a surf camp, because that's what everyone wants.

**Mr. John Carmichael:** Thank you.

Mr. Bouchard, I'm just curious about your business model. What is the predominant type of product or goods that you're shipping? Are these hard goods only?

**Mr. François Bouchard:** We ship the entire store—

**Mr. John Carmichael:** Do you ship produce?

**Mr. François Bouchard:** We ship produce, we ship baked goods, frozen meat. We ship the entire selection.

**Mr. John Carmichael:** What's the delivery time?

**Mr. François Bouchard:** On delivery time, it depends where. So, obviously, within the city it's a three-hour window.

**Mr. John Carmichael:** Are you going to talk about the 90-minute program at—

**Mr. François Bouchard:** We're not quite there.

For example, for anything within the city limits you obviously have the entire list. If you're shipping up north through First Air and Canadian North, our partners, we will sell full groceries. If you order your groceries by three o'clock today, you will have them in Iqaluit tomorrow, and Resolute Bay tomorrow afternoon. So it's next-day delivery because we're depending on the airlines. If you're sending to the States, then we're restricted by FDA on what we can and cannot ship. Obviously, in Canada it's the same thing. But we ship the entire listing, and customers benefit from whatever is on our point-of-sale system, and that's the pricing you get online.

**Mr. John Carmichael:** Do you have to vacuum seal? How do you ship produce, with the time factor?

**Mr. François Bouchard:** Everything is packaged. We actually use the same packaging as we get it in, so if we're getting apples, we would reuse that packaging to go out. Everything is in refrigerated trucks. Everything at the airport is refrigerated until it gets to the plane, and then the plane is equipped to deal with that.

**Mr. John Carmichael:** Sorry, am I done?

**The Chair:** Yes, thank you very much, Mr. Carmichael.

Now we'll go on to Mr. Masse for five minutes.

**Mr. Brian Masse (Windsor West, NDP):** Thank you.

Mr. Finkelstein, I agree with you on some of the changes that are happening. There used to be a store called Consumers Distributing, and I could see that coming back. It's also going to change some of our municipal planning, as some of these stores exit from the power malls that were created in distinct areas, and affect tax revenue. Also, where I come from, the auto industry moved to just-in-time delivery. I can see transportation issues arising as well.

I guess what I'd like to find out first, though, is this. As we move down this road, why is it so much more expensive to ship in Canada when we consider the fees being put on consumers here versus in the United States?

**Mr. Harley Finkelstein:** I'd say that the first thing is competition. There's a lot less competition here, which means that companies can charge more. They have this great thing in the U.S. called the "one box". Basically, you're given one box. If you're a small business in the United States, you can put anything you want in it, no matter what weight it is. If it fits in the box, it's a set price.

As a small business that may not have any more employees than just him or her, having that type of ease of use on the performance side is very, very important.



To put myself through law school, I sold T-shirts online, and I had to go to the post office on Friel at the corner of Rideau Street every day after class. I would sit there and try to figure out, well, what's the best rate for these two shirts? Do I send them separately or do I bundle them together? I'm a pretty savvy guy and I had trouble figuring it out. What does that mean for all other small businesses that are trying to ship?

I think Canada Post has done a good job of improving on that, and I've worked very closely with Mr. Chopra, CEO at Canada Post, to help that, but it's still not great. It's still pretty complicated, as a Canadian small business, to ship things. For example, the fact that we have HST in certain provinces and not in other provinces is confusing. The fact that if I'm selling children's clothing so I don't have to pay certain taxes is additionally confusing. I don't think it's just the shipping or the [Inaudible—Editor] on its own, but I think they do have an easier time in the U.S. registering a business, launching a business, and scaling a business than we do have here in Canada.

• (1650)

**Mr. Brian Masse:** Is it fair to say that it's about scale? We have most of our population living along the southern sites and in the large cities, and I've never been convinced of the argument of extra costs having to be passed on to consumers in Canada because of that. They're sending stuff to Hawaii, Alaska, and other places, and they're price-competitive.

**Mr. Harley Finkelstein:** That's right.

I can't speak for why postal prices are the way they are. But we have a report from Forrester saying that Canadian consumers are finding it cheaper to purchase things from the U.S. than purchasing the same products from Canada. This is something that I'm concerned about and that I think we should all be concerned about.

Well.ca is a phenomenal Canadian story out of Ontario. They are basically an online pharmacy that sells a lot of amazing products, all of which have UPC codes. I can tell you that right now they're having trouble, because anything with a UPC code, Amazon.com in the U.S.A can probably sell cheaper. They have economies of scale that have never been seen. Amazon will be the largest retailer, by a lot, in a couple of years. Even if you combine all of Walmart's sales with all of Sears' sales, Amazon is still much larger. Those types of economies of scale create a very competitive moat that we've never seen before.

**Mr. Brian Masse:** I was recently at the U.S. embassy, and one of the concerns raised was counterfeiting as online sales increase.

But I'm going to shift gears to Mr. Hersche.

With regard to SaskTel, I want to say thank you very much. SaskTel was one of the more progressive groups to deal with deferral accounts and the hundreds of millions of dollars overcharged to Canadians. I appreciate the way that SaskTel dealt with that situation.

I'd like to ask about what the United States is doing. If we don't have a proper rollout of the megahertz in the auction with a particular strategy, how is it going to hurt our ability to compete in the United States, because they're actually going with more assertive plans? Can you provide some comments on that?

**Mr. Robert Hersche:** In terms of making sure that everyone is connected, they have a number of plans in the United States, and they're putting some dollars away with that.

I know we can't necessarily do that in Canada; there's the fiscal situation and those kinds of things. Again, I referred earlier to the high cost of making sure that everyone can participate.

All of the kinds of businesses that I talked about in our presentation, which are just outside of Sudbury or other small Canadian towns, need to be connected if they're going to go online, or if they're going to actually go out and buy Canadian online. They're really left out of that new mode of doing business.

It's not simply a matter of doing the traditional things going online. People do that a lot. Now, for example, because of changes in how they buy things, every farmer has to do their own marketing online for wheat and other kinds of things. They need broadband to do their business.

If you're going to run large operations, such as hog barns, you're not going to locate that in a town. Therefore, they need access to these large bandwidths.

Yes, it disadvantages most of our businesses in rural Saskatchewan, because 65% of our small businesses are in rural Saskatchewan, because they are outside of town.

**The Chair:** Thank you, very much, Mr. Hersche.

We'll move on to Mr. Warawa for five minutes.

**Mr. Mark Warawa (Langley, CPC):** Thank you, Chair.

Thank you, witnesses. This is very interesting.

I want to focus on what are the challenges and the hurdles for Canadian retail businesses in getting involved with online sales. You've mentioned that 5% of retail sales are online. I think you said it was 10% in the U.S., and that is improving, but very slowly. What are those hurdles?

I'd like to share an anecdote. Things are constantly changing if you're in business. Death and taxes are secure, and you know that's happening, but if you don't change with the times, I think you may be a dinosaur. I'm thinking back to way before your time, when there was a washing machine called the "wringer washer". It didn't have a spin cycle. It had wringers or rollers that you put the clothes through to squeeze out the water. Those washers became obsolete, but a number of people still had them, and probably about 40 years ago the wringer washers all died: they broke, and they wore out, and people weren't getting them repaired anymore because they didn't compare with the new technology.

We have a changing technology now, and the anecdote I want to share with you is about a very successful bridal boutique in the Fraser Valley. What's happening now is that a prospective bride will go in there and try on different dresses. She'll try on a dress and say that it's fine, that she likes this dress, this model, in this size; she uses up the store's time, the staff time, and then she'll buy it online. They are being forced into competing with themselves. There are two prices. There's the sale price in the store, where you're getting the service, but if they do not provide a competitive price, they won't get the sale. This is the challenge they're faced with: eventually you go to the lower denominator.

Today we go into stores that used to have a lot of sales help, but it's not there any more. A bridal boutique like this may not survive. To survive, they may have to start selling online, but they can't even do that if the manufacturer is selling directly to the customer: you go right from wholesale to retail with no middleman. Things are changing.

What are the hurdles for businesses like this boutique or 95% of Canadian business? I heard from that person when they were in a consultation process when the Prime Minister went on pre-budget consultations; I heard their story. Another common problem was that the wholesale price Canadian retailers have to pay is at times more expensive than what the U.S. market is retailing for, because of tariffs. That's another issue. You have shipping and tariffs.

What is the future for Canadian retailers? What are the hurdles?

•(1655)

**Mr. Harley Finkelstein:** I think the anecdote you describe is showrooming. That's an example of showrooming: you've gone in and you've used the showroom, but you haven't actually made the purchase in the store. Now, presumably if they had an online store and their prices were competitive, they may have gotten the sale themselves online. But as part of this democratization, with everything becoming easier and less expensive, the fact that the barrier is lower means that there is also a lot more competition. Instead of having five bridal boutiques in this area, maybe you now have 100 bridal boutiques.

What I think it forces us to do as savvy business people is to be more creative. An example that I would give, taking a cue from your anecdote, is that if I went into that bridal boutique with my fiancée and we had the most unbelievable experience ever—we had champagne and we got an explanation of the types of garments, why they're made like this, and background on the designer—we might not necessarily care if it was cheaper to go online, because, all in all, the experience is better in the store. I think creativity is going to become the commodity, as opposed to just price.

The second thing I would say, going back to the La Bottega example, is that La Bottega wasn't able to retail the olive oils at a certain price point any longer because the original manufacturer of the olive oil was going direct to consumer. It forced La Bottega to create a private label brand called "La Bottega". Now they have their own olive oil. They used that challenge and now have actually created an entire line of La Bottega-branded products.

So I think we have to be creative. I think that if we're going to accept technology, there are some challenges that come with it. I think the opportunities far outweigh the challenges, though.

**Mr. François Bouchard:** I would add that what it does is make us better retailers, because we have to think outside the box on everything. You talk about the technology and the information you put in your systems: everything is cleansed and everything is looked at.

We're constantly looking at cost and constantly innovating to try to lower our costs, because this e-technology brings in a whole lot of competitors that we didn't have before. We're becoming better retailers just because we're exposed to that, and we know everybody else is, so we have to do better, and that makes us better.

**The Chair:** Thank you, Mr. Bouchard.

Thank you, Mr. Warawa. That's all the time we have for that round.

Mr. Harris, go ahead for five minutes, please.

•(1700)

**Mr. Dan Harris (Scarborough Southwest, NDP):** Thank you, Mr. Chair, and I won't get anywhere close to asking all my questions.

There has been a lot of talk about vintages here, and I guess I'm of a slightly different vintage from everyone else in the room. My background is in IT and computers. I used to run my own small web design business, and I've also worked in fibre and cabling and terminating fibre.

I'll start off with Mr. Hersche. You mentioned the high cost of plowing fibre at about \$18,000 per kilometre. I have a very good understanding of what that means. Folks around the room may not. I would love to ask you about that, but it would take the whole five minutes to explain it. Could you perhaps provide to the committee at a later time an explanation of the process and what's involved in plowing fibre and why the cost is so high? I think that would be very useful for the committee to hear.

I will give you a question to answer right now. Both the United States and Australia have laid out clear long-term spectrum deployment plans to give industry certainty moving forward. In Canada, however, no such long-term plan has been announced. Has the government's failure to lay out a coherent plan for future deployment of spectrum impacted your long-term planning and business operations?

**Mr. Robert Hersche:** Yes. For example, when you start looking at the 700 megahertz spectrum right now, we don't know when the next auction will be and what kind of spectrum the next auction will involve. Some people talk about 600 megahertz spectrum, but it could be 10 years in the future before the next auction. So really every auction becomes essential for us, because we don't know if there's going to be other spectrum we can use. Also, that spectrum has to come at the same time and be usable, i.e., there are devices that actually go with that kind of spectrum. If you announce that you're going to go to this, and this spectrum is going to be available in the future in Canada, then the device manufacturers like RIM can also look at that and say that their Q10 should also do this kind of spectrum or that kind of spectrum as we go forward.

**Mr. Dan Harris:** Mr. Hamilton, with the model that S-Trip uses, of course being fully on the cloud, I should imagine there is a fair amount of bandwidth cost associated with the business. Do the high cost of bandwidth and the limitations in Canada provide barriers to your business?

**Mr. Jason Hamilton:** They certainly do. Not only do we experience high bandwidth costs, we also experience outages as well because of the limitations within Canada. That's something we're constantly trying to improve, but the costs just get higher and more prohibitive. There isn't really a short-term or long-term solution to that right now.

**Mr. Dan Harris:** Also with people being on location in different places in the world, when you're talking about cellphones and connectivity, I would imagine there are fairly high roaming charges as well. Does S-Trip get cellphones locally or do they take Canadian cellphones and bring them there? Where do you find the costs are prohibitive?

**Mr. Jason Hamilton:** We do both. For the most part, if we have somebody on site who needs to be on the phone calling, they will get a local phone. If all they're doing is texting, then they will stick with their other Canadian phone.

**Mr. Dan Harris:** Thank you.

Of course when the issue came up about the costs of products and shipping and things like that, one of the barriers I know we have in Canada is that a lot of the products that are shipped here go through a U.S. distribution network so that right away gives the U.S. marketplace an advantage in terms of that shipping. I know there are many products I buy here that are \$50 or \$100 more just because they still go through that U.S. network before coming here.

Mr. Finkelstein, when Shopify was first getting set up, obviously you had an original business model and then it shifted. Was that because there was actually somebody there who had the technical skills and the idea and vision to push that forward?

**Mr. Harley Finkelstein:** The original business model was just to be a snowboard retailer. We basically blogged our way through building that snowboard retailer. When we got to the point of selecting an e-commerce platform, we were especially verbose in terms of our disappointment with what was on the market. So the idea to actually become a software company only happened after we built our own software to sell these snowboards, and we had all these different people from all walks of life from a small retailer in the ByWard market to people who were looking to set up a pure click online store asking us to license the code. That's when we discovered there was an opportunity.

In terms of the technical know-how, I think there is no better place to build a technology company than Ottawa. We have three amazing universities. We have more Ph.D.s here than anywhere else. So the technical know-how was easy to acquire and easy to retain despite the winters, and otherwise we haven't had any trouble on that side.

•(1705)

**The Chair:** Mr. Harris, you're out of time.

**Mr. Dan Harris:** Oh. Never fails, never fails....

**The Chair:** I know, it goes by at blistering speed.

Mr. McColeman, for five minutes.

**Mr. Phil McColeman (Brant, CPC):** Thank you, Mr. Chair.

Thank you, witnesses.

An issue that was mentioned in one of the questions earlier but not delved into was the issue of counterfeiting, and suppliers who would go on the Internet.... We had the manufacturer here for Canada Goose, with a counterfeit jacket, and you could barely tell the difference.

Mr. Finkelstein, from all of the clients you have at your company, is this an issue that's discussed? How are you handling this?

**Mr. Harley Finkelstein:** Very seriously. Shopify is not a payment gateway, but we do work with 65 of the largest payment gateways in the world. We are PCI level 1 compliant, which is the highest level of PCI compliance, meaning that we do have to spend quite a bit of time monitoring it.

The way we do it is we self-assess. We have a fraud team of about six people who work at Shopify, and their entire job is just to go out and make sure that the things being sold on Shopify are proper—they're licensed properly and they're not counterfeit.

What's interesting about the Internet, though, is that a lot of self-monitoring goes on in general. If someone purchases off of us a fake Canada Goose jacket, and they figure out that it's fake, that store they bought it from will probably die a death of a hundred sorts, simply because of Twitter.

The opportunity there is that you can use social media, and you can use that technology to promote your brand to drive people to your store. But if you screw up, that same social network can also ruin your entire store.

So we do rely on the fact that, when they set up for Shopify and they sign our terms of service, they do acknowledge and they do commit to the fact that the goods and the products they are selling are not counterfeit. We also do our own checks, because we can never be too sure. It is becoming something that we are investing in as much as possible, because it's important.

**Mr. Phil McColeman:** As you describe the future, which will mean a lot of vacant real estate will be available out there—developers will want to at least start thinking about that—would you foresee the numbers of start-ups and companies...who actually would direct their strategy at just selling counterfeit? If this huge opportunity, this democratization, happens, you're going to get all players. People are going to see the opportunity to make fast money if they can sell it for \$10 less.

Is this something that requires more attention in the larger picture?

**Mr. Harley Finkelstein:** It's a good question.

I have a Canada Goose jacket, and I bought it off Canadian Icons. Now, Canadian Icons is not Canada-goose.com, it's a retailer. But what I did was I went to Canada-goose.com, and there's a section that says "Find a Retailer". I put in the URL, the domain name, of the actual retailer, and within a matter of seconds I knew that they were an officially licensed retailer.

So I think the manufacturers have a responsibility to use technology to make it better. If I put in another retailer, such as Winterjackets.com, and it came back that it wasn't an authorized retailer, I never would have made the purchase.

To use the legal maxim, there is a little bit of *caveat emptor*, "buyer beware". I think that is important. Again, because you have so many more people who are online, you have more retailers and you have more consumers, the onus does need to be borne by the consumer. But I do believe that big brands like Canada Goose, in going ahead and creating a directory of who are authorized retailers to buy from—that's using technology in the right way, and that will prevent fraud.

**Mr. Phil McColeman:** Do you foresee as well, as was mentioned in a couple of answers here, that manufacturers like Canada Goose will start to focus on direct-to-the-consumer? That would imply a whole remake of the distribution system of products worldwide.

**Mr. Harley Finkelstein:** Totally.

**Mr. Phil McColeman:** You foresee that.

**Mr. Harley Finkelstein:** Yes, I do.

This past week I was with Canadian Icons—they do sell Canada Goose jackets—and my first question to them was what happens when Canada Goose opens up their own online store and goes direct-to-consumer? Their answer was that they were going to have a lot more brands. They understand that Canada Goose can go direct-to-the-consumer.

That being said, the experience on Canadianicons.ca is actually a really great experience. They don't have an online store, they actually have a curated museum. It's as if you're walking through museum halls, with the Manitobah Mukluks you can buy, and the Canada Goose jackets, and the canoes you can purchase. I like that experience, so I may always go through them.

These retailers who are opening up, they need to be very smart. Again, because this disintermediation, as you explain it, is happening, retailers need to be a little bit more savvy. Some retailers may have to create their own private labels.

Thank you.

• (1710)

**The Chair:** Thank you very much, Mr. McColeman and Mr. Finkelstein.

It's 5:10. We know that we're going to have bells in five minutes. So I just thought I'd give everybody about 60 seconds if there's some message that you want to sum up this afternoon, something that you think you wanted to mention that you weren't questioned on. I know 60 seconds goes by fast, but we'll have bells and we'll have to go to the House.

**Mr. Dan Harris:** They can always share with the clerk.

**The Chair:** That's right, and thank you.

Mr. Harris mentioned a good point, that if you leave here and you think there's something that you want to inform us about, you can send that in writing to the clerk of the committee, and it will be considered along with other evidence in our study that will be at the end of this.

I'll go in reverse order, then.

Mr. Hersche, I'll give you the first opportunity. Take 60 seconds and just sum up or cover a point that's been missed.

**Mr. Robert Hersche:** Thanks very much.

Essentially, as you know from my theme, if you're going to have small business and all of these businesses joining into this kind of commerce and into the new kind of digital economy, we're going to have to find a way to make sure that there's rural infrastructure. I've given a couple of suggestions; I won't give them again. But there are ways that we can do this without going back to the tax base, by looking at the kinds of policies that are needed for rural areas, because rural policies in telecommunications must be different from what's really in the golden triangle.

Thank you.

**The Chair:** Now we'll move on to Monsieur Bouchard.

**Mr. François Bouchard:** Thank you very much for the opportunity to appear.

I think there's certainly an opportunity, and I think there are a lot of SMEs like mine that can certainly take that leap. I like the fact that you mentioned inspiration. I think that is what we need. There are so many things going on, but I think there's an inspiration there that makes us better people, and certainly it allows us to compete at any level and to level the playing field with manufacturers, big retailers, big box. We certainly can compete in that space, because SMEs are creative, and that just encourages creativity. So I thank you for your work.

**The Chair:** Thank you very much, Mr. Bouchard.

I have Mr. Finkelstein now.

**Mr. Harley Finkelstein:** The only thing I want to say is this.

In 1866, a guy named John Wanamaker, a famous U.S. politician and businessman, created the advent of the modern-day shopping mall—1867. Basically between that time and today, retail has been pretty boring: it's been the exact same thing.

In the next five years I believe everything is going to change in retail, and that's going to be very exciting. After that it may get boring again, but the next five years are going to be a critical time for retail around the world. I think that as Canadians, we're very well set up to go with this wave. As politicians and as Canadian entrepreneurs, we should be the catalyst of this change. This is an exciting time. Despite some of my concerns, I think the next five years are going to be super-exciting for Canadian retail, but I think we have to give our Canadian small businesses a bit of a nudge.

**The Chair:** Thank you, Mr. Finkelstein.

What was that phrase? Vintage—

**Mr. Harley Finkelstein:** I don't know what you're talking about.

**Voices:** Oh, oh!

**The Chair:** I'm certain it's going to be among the *Reader's Digest* most-used phrases of the committee for quite some time.

Mr. Hamilton.

**Mr. Harley Finkelstein:** I'm not going to regret that.

**Mr. Jason Hamilton:** Thank you very much for the opportunity to speak today.

The only thing I would draw your attention to is this. We've spoken a lot about retail, but I think there's a need for all Canadian businesses to be online. The inspiration extends beyond retail to Canadian businesses in general, which just need to be found more easily—and online is where people are going to find a business, a restaurant, a museum, and entertainment. Whatever you're looking

for, it's all done online now, but it's amazing how many Canadian businesses aren't even online. That's something that I think we need to push forward.

**The Chair:** Thank you very much, Mr. Hamilton.

Thank you very much to all of our witnesses. It's been very inspiring and educational.

Colleagues, we're adjourned.

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