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Focus on customers,
brand, and agility
vital to retail success

2022 Canadian retail outlook





It has been two years of uncertainty for Canada's retailers. In the first months of the pandemic, they shifted into crisis mode, making long-overdue investments in systems and processes as quickly as possible to meet consumers' rapid embrace of omnichannel shopping. Then, new and sometimes unexpected challenges arose. Snarled supply chains led to empty shelves, longer lead times, and higher shipping costs. Demand for talent led to higher labour costs. Inflationary pressures increased at a rate not seen in years.

Even as we edge toward a sort of normalcy, these challenges persist. The difference is that retailers now have an opportunity to catch their breath and plan for the future more strategically. What will that future hold? To find out, Deloitte surveyed Canadian retail executives to gather their perspectives on the issues and trends that are likely to preoccupy the industry over the next 12 months.* >

* For this retail outlook, Deloitte surveyed Canadian retail executives in January 2022 at companies reporting between \$300 million and \$50 billion in annual global revenue. A range of subsectors were included in our survey, including big box, grocery, warehousing, and e-commerce; 57% of companies surveyed were headquartered in Canada. We also spoke with Deloitte retail industry leaders who specialize in areas such as supply chain, technology, store operations, human capital, and ESG.

5 key insights



Retailers are optimistic about revenue growth but concerned about margin erosion

Aggressively reining in costs and strategically investing in “no-regrets moves” will be crucial to ensure top-line growth does not come at the expense of profit.



Supply chain complexities will impact planned investment

Retailers’ ability to meet customer fulfillment promises—from same-day delivery to easy returns—is critical to being competitive. The difficulty will be in investing the right amount at the right speed, as the fluctuating demand of the past two years may not be a reliable guide for the future. Retailers should be meticulous in removing as many friction points as possible from operations.



To fight for the best talent, know what you stand for

Retailers expect the competition for qualified talent to intensify over the next year. To succeed in this labour market, retailers must be employee-centric, developing workforce strategies that promote flexibility, support diversity, equity, and inclusion (DE&I), and make working in retail fun and rewarding. In other words, the workforce is as important as the customer.



Consider ESG an organization-wide responsibility

Organizations can no longer view environmental, social, and governance (ESG) work as the responsibility of any single individual or team—it must be embedded in a company’s culture and everyday operations, with goals and progress communicated to employees, consumers, and potentially regulators. This is a significant transformation in how successful retailers will operate.



Retailers must focus on their brand and the customer while remaining adaptable

Throughout the pandemic, retailers have proven how adaptable they can be. Those that can continue to be agile as consumer demands evolve and technology advances are more likely to succeed.

Upbeat on revenue growth—and concerned about profits

Most retail executives surveyed (77%) expect revenue to rise in 2022 and almost all (93%) are confident in their organization's ability to hit its growth targets. However, 40% expect margins to fall in 2022 and 37% feel they'll remain stable.



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expect revenues to rise

93%
are confident in their organization's ability to hit its growth targets

Figure 1
Size of financial investment retailers are planning to make in various strategies in 2022



Revenue expectations are comparable between the United States and Canada, though Canadian executives are slightly more conservative

Worsening supply chains are top of respondents' list of retailing risks (87%), followed by worker shortages and inflation (both 65%), government actions that reduce retail store capacity (39%), and falling consumer demand (26%).

Nearly all respondents (97%) say they plan to invest in expanding their digital capabilities to mitigate these risks; 80% intend to enhance data privacy and security; and 77% plan to modernize their supply chain.

87%
of retailers say worsening supply chains is a top retailing risk

Figure 2
Retail executives' expectations for industry revenue growth in 2022



Figure 3
Expectations for year-over-year operating margin

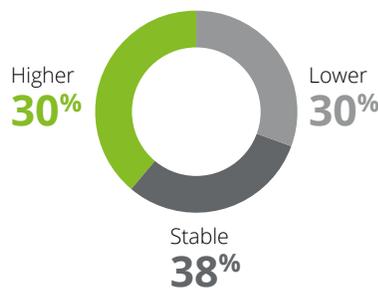
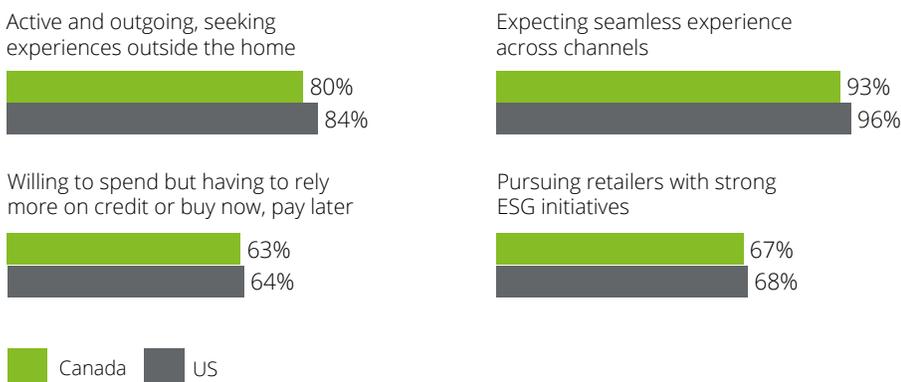


Figure 4
Expectations about the 2022 consumer are consistent between the United States and Canada



US figures are from the 2022 retail industry outlook published by Deloitte US.



86%

of retailers expect customers to prioritize stock availability over retailer loyalty

85%

of retailers also expect to invest in supply chain automation, inventory management, and other technology

Strengthening supply chains on the agenda

Supply chains are integral to the customer experience, with most retailers (86%) expecting customers to prioritize stock availability over retailer loyalty. Top priorities include avoiding stock-outs (95%) and making their supply chain networks more agile (90%) and resilient (90%). Many aim to achieve a more reliable flow of goods across suppliers and carriers (50%) and distribution/fulfillment networks (47%) while addressing rising supply chains costs (50%). Almost two-thirds (65%) plan to diversify their overseas supplier network and 10% intend to reduce their reliance on overseas vendors.

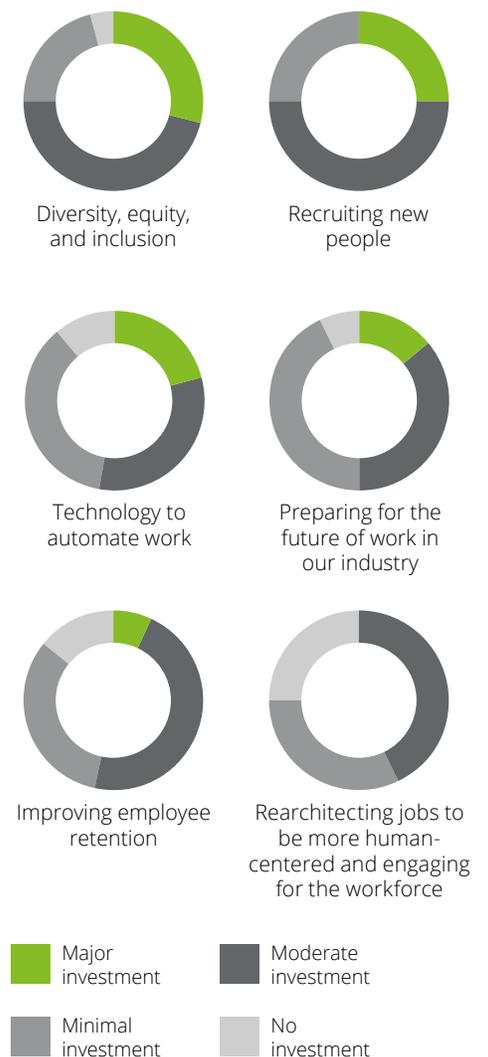
Retailers also expect to invest in supply chain automation, inventory management, and other technology (85%), expanding distribution capacity and other infrastructure (75%), recruitment (55%), and process improvements (50%). The traditional supply chain, designed to optimize service levels, was disrupted by the COVID-19 pandemic. The challenge for retailers will be trying not to invest too much or too quickly, as the shifts in demand over the past two years might prove an unreliable guide for the future. Retailers can focus on building supply chain resilience by enhancing end-to-end visibility, adding buffers where possible, and building agility through higher levels of collaboration and information-sharing with partners.

Ready to fight for talent

Nearly all respondents expect the competition for qualified, skilled talent to intensify over the next 12 months, and 77% believe it will be tough to hold on to their best employees. Talent shortages are most likely to be felt in store operations, IT, and customer service.

To fight for talent, retailers must develop employee-centric strategies that make retail a fun and meaningful place to build a career. Many retailers plan to make talent investments across recruitment, improving workplace DE&I, and automating some tasks to enable staff to focus on higher-level work. They intend to offer better working conditions (73%), more attractive pay and benefits (67%), and better learning and development opportunities (43%). They also plan to engage younger Canadians to promote retail career opportunities (63%) and better explain career advancement options (40%) in recognition of the need to offer employees meaningful routes from the store floor to HQ. We believe getting future talent investments right will depend on how retail leadership handles the make-or-break decisions involved.

Figure 5
Size of financial investment retailers are planning to make in workforce-related strategies in 2022



ESG will matter more than ever

Retail executives believe that ESG factors will matter more than ever in 2022. Most (80%) believe governments and regulators will increase ESG-related mandates—and 63% feel employees are more likely to prefer working at retailers with clear ESG goals and initiatives. A majority of respondents (60%) think a company's ESG record will influence investors, but just 43% believe ESG commitments will improve customer loyalty.

This suggests retailers need to communicate their ESG progress more effectively and authentically—an annual sustainability report can't do it alone. Neither can a single individual or team; ESG must go beyond the mandate of one department to become an integral part of a company's culture and everyday operations.

Retailers should certainly have plenty to report on in the year to come, with planned investments in local communities, sustainable sourcing, and improving ethics, integrity, and compliance.

Figure 6
Retailers' planned investments in ESG

Supporting the community	63%
Ethics, integrity, and compliance	53%
Sustainable sourcing	50%
Embedding purpose into strategy and decision-making	50%
Sustainable retail operations	43%
Decarbonization	40%

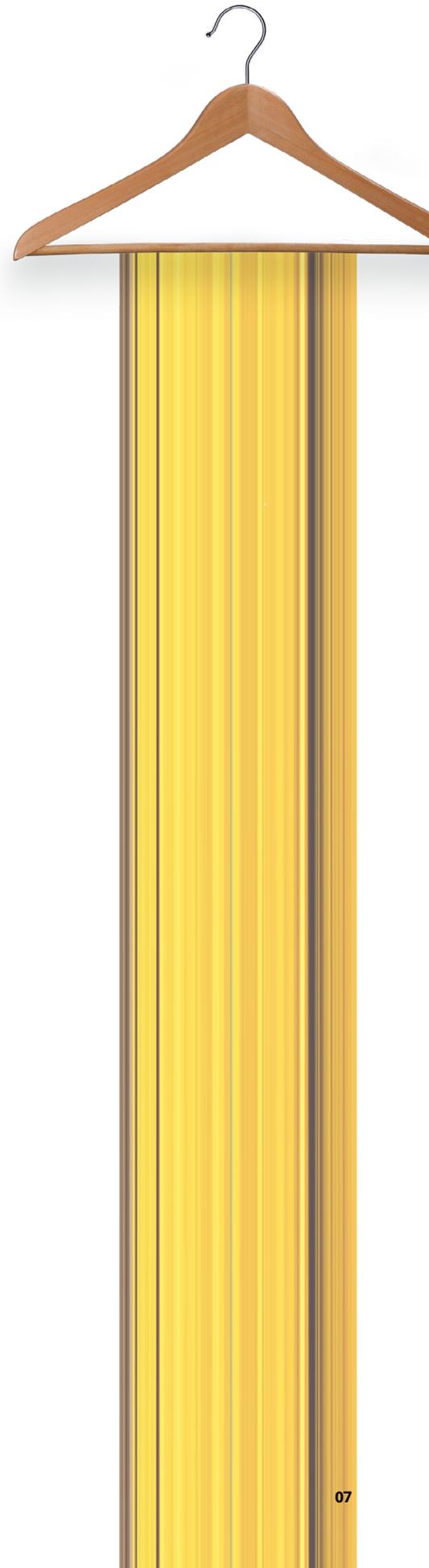


Figure 7
Most likely to occur in the
next 10 years

70%	Staff-free, cashier-less stores will be common
47%	Retailers will increasingly engage consumers through digital goods [sold in video games, the metaverse, and/or as non-fungible tokens (NFTs)]
40%	Resale/second-hand goods market will grow significantly
30%	Cryptocurrencies will be widely used by retailers and consumers alike
27%	Retailers will use autonomous vehicles and drones to transform customer/store deliveries
23%	Voice commerce (voice commands to find and purchase products online) will be widely adopted
23%	Retailers will widely adopt blockchain (e.g., for customer data, supply chain transparency)
13%	Renting of consumer products will be widely adopted
3%	Direct-to-consumer sales of 3D-printed products will impact retail sales

Focus on customers, brand, and agility vital to retail success

The pandemic has shown us that retailers can adapt quickly when needed and will invest in capabilities that were not on our radars just a few years ago. How retailers meet the demands of customers will continue to evolve as consumers' preferences change and technology continues to advance. Retailers that stay true to their brand and what they stand for while remaining laser-focused on their customers, responsive to changing industry dynamics, and open to embracing new ways of transacting digitally will be in the best position to succeed.



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