



Navigating the digital divide

Closing the gap between consumers' shopping preferences and their options

Deloitte.



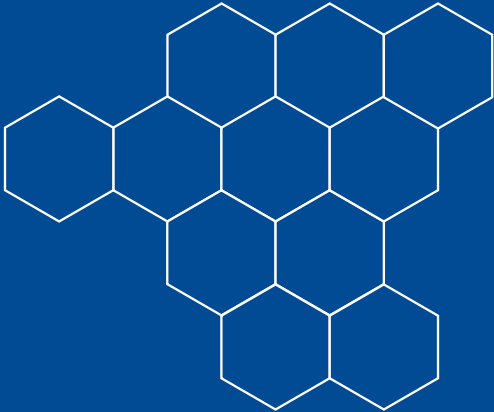


Table of contents

Overview 1

The discovery phase–Getting to know you7

The evaluation phase–The dollar-boost effect8

The payment phase–Checkout check-up9

The fulfillment phase–The store remains strong10

Categories count.....12

Closing the gap.....14

Contacts16



Overview



Retail is a competitive business—and competition continues to intensify with globalization and the proliferation of technology. But just how sophisticated is the Canadian consumer and how digital is their path to purchase? A new Deloitte global survey shows that, contrary to some preconceived notions, when stacked up against others, our U.S. neighbours in particular, Canadians have remarkably similar shopping preferences when it comes to the use of digital channels.

More than 2,030 Canadians participated in our 2015 global survey exploring how consumers around the world are using, and want to use, digital devices and channels during their in-store shopping journey. The survey reveals that Canadian shoppers are just as keen to shop online as Americans, yet the overwhelming majority of Canadians still shop in brick-and-mortar stores. This behaviour is the result of a lack of innovation in the last mile delivery, an emerging sophistication in supply chain, and early-stage omnichannel infrastructure, particularly in e-commerce and mobile capabilities.

The discrepancy in what consumers want and what they actually do illustrates the gap between how consumers want to shop and what retailers in fact provide. This divide is particularly pronounced in Canada in relation to the U.S., where retailers simply have more digital capability than those in Canada. Consumer expectations in digital are on the rise with rapidly increasing technological capabilities, and successful retailers need to act fast by adjusting their business models.

Retailers everywhere have been stepping up to respond to the massive shift in consumer behaviour: they're investing in e-commerce, social media, mobile and data analytics to better understand their buyers. They're striving to develop and implement an omnichannel strategy that delivers a compelling, engaging and seamlessly positive experience to consumers who have more information and choice than ever.

Canadian retailers have also been embracing the challenge to serve the connected, empowered

consumer-in-chief. The question is: will they be able to keep up with the pace of change needed to be relevant in the digital and global marketplace?

Our survey suggests Canadian retail executives need to consider amplifying their digital efforts in order to take advantage of the digital impact and influence on total channel sales. According to a Forrester Research report of online retail in Canada,¹ Canadians spent \$22 billion online in 2014, which accounted for about 6% of total retail sales in this country. With our research showing Canadian retailers are lagging their global competitors in omnichannel offerings and distribution options, it's clear there's an opportunity for exponential growth in this space.

With global e-commerce sales expected to double by 2018, retailers with the right digital strategy and sound investment in omnichannel are positioned to reap the rewards and pull ahead of the competition. Foreign-based global retailers are constantly raising the bar as they compete for consumer dollars, luring shoppers from across borders everywhere—including Canada—with a wide selection, competitive pricing, easy shipping and fast and convenient shopping.

Keeping up with the ever-shifting digital landscape presents many new opportunities for retailers in this country—challenging, yes, but not insurmountable. If Canadian retail companies are to thrive and grow well into the future, they must continue to embrace the speed of digitization while improving the online customer journey and investing in the consumer experience.

¹ Forrester Research Online Retail Forecast, 2014 to 2019 (Canada)

Canada–U.S. divide: The experience gap

Our survey shows few differences between how consumers on either side of the border like to shop if given digital options. 'Digital' runs the gamut from desktop and laptop computers to smartphones and tablets, from social media channels and retailers' apps to in-store interactive devices like touchscreen walls. A quarter of shoppers in both Canada and the U.S. (24% and 25%, respectively) prefer to discover and learn about new products by using digital, while 27% of Americans and 25% of Canadians use them to evaluate products when they're on the cusp of deciding which one to buy.

Almost the same number of consumers (38% in Canada, 40% in the U.S.) prefer to make their purchase with a digital device, be it a mobile wallet or a retailer's app. As for how they want to get their goods home, slightly more Americans than Canadians (20% vs. 16%) prefer non-traditional methods, such as having their merchandise shipped to their home or picking up the goods themselves at a convenient location.

The difference between Canadian and American consumers grows when it comes to how much influence the use of digital has on consumers as they decide what to buy, how to buy it and how to get it home, which Deloitte calls the digital influence factor. Forty-one percent of Canadian respondents say they were swayed by digital at some point, compared to 49% of Americans. An even greater difference arises when it comes to the mobile influence factor: the use of their mobile device influenced less than one in five (17%) Canadian consumers along the purchase journey and almost one in three (28%) Americans.

Whether they want to admit it or not, Canadian retailers are increasingly competing in a global marketplace. They need to serve Canadian consumers the way those consumers want and expect to be served, or they risk losing them to global competitors that offer more choice. A retailer that makes the shopping journey as pleasant and as easy as a click, a tap and a swipe is attractive to consumers, who don't necessarily care whether that retailer is based in Red Deer, Rio or Reykjavik.

Simply stated, Canadian retailers need to strengthen their digital offerings while balancing the importance of the consumer's shopping experience to remain competitive.

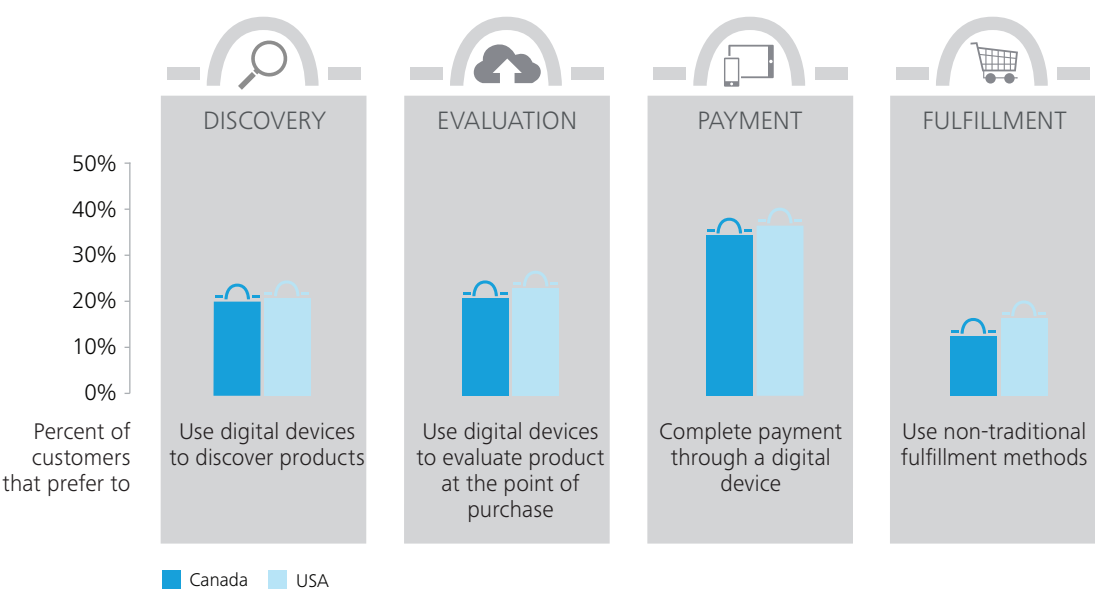
Whether they want to admit it or not, Canadian retailers are increasingly competing in a global marketplace. They need to serve Canadian consumers the way those consumers want and expect to be served, or they risk losing them to global competitors that offer more choice.



Digital and mobile's influence for Canada and the U.S.

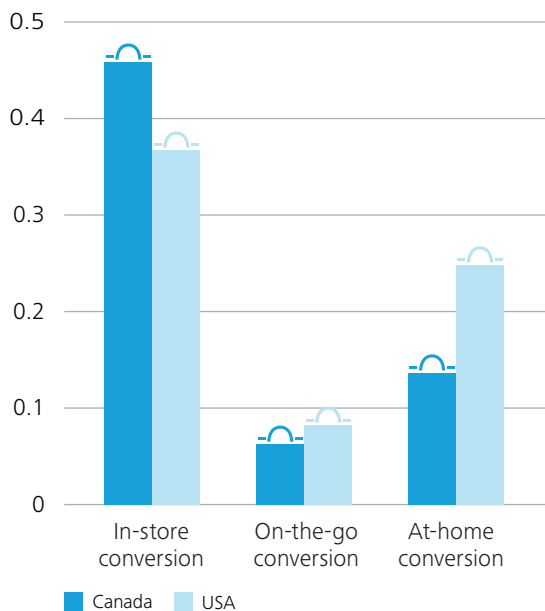
We find both digital and mobile playing a slightly larger role in American shopping habits than Canadian ones.

Preferences along the path-to-purchase for Canada and the U.S.

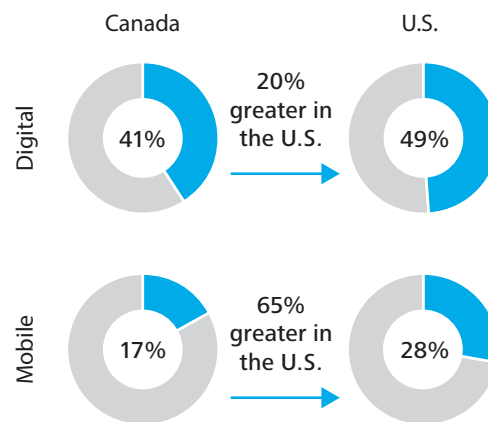


Canadians are more inclined to complete purchases in-store as opposed to other digital channels when compared to the U.S.

Conversion rates from various points of sale



Canadian digital and mobile influence factors trail the US



Canadian retailers need to invest in their digital offerings to meet customer preferences and expectations.

A digital view of the path to purchase



THE DISCOVERY PHASE

Getting to know you



Canadians are turning more and more to digital devices when they want to be inspired, research products and prices or get feedback or advice—by posting questions or seeking information from social media sites, access to information is instant. Their device of choice is a desktop or laptop (21%), but a close second, at 18%, is a smartphone, while only 6% of shoppers typically reach for a tablet. Regardless of device preference, all were used more to research an item.

When it comes to the influence of social media on purchases, two platforms emerge as clear leaders among those 18–54 years of age: YouTube and Facebook. Younger consumers are more inclined to tune into YouTube and other visual media like Instagram and Pinterest. Facebook is very popular with more mature shoppers who also tend to read blogs to validate their choices, both on company websites and those written by third parties.

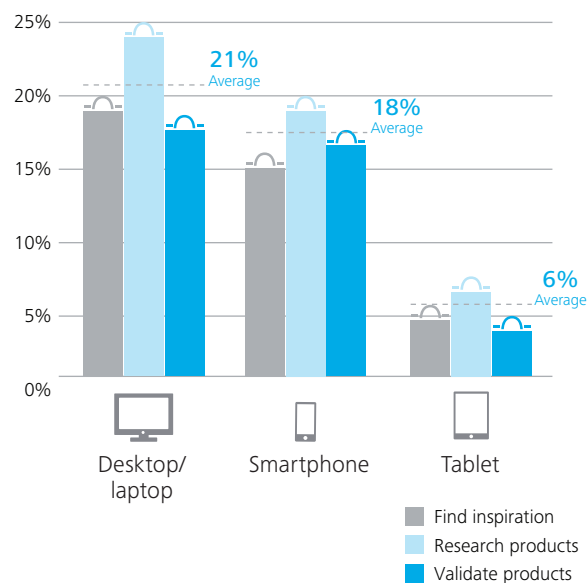
It's difficult to quantify the direct influence of social media on purchase decisions. Still, it has proven integral to creating the brand experience, enabling companies to differentiate themselves in the market.

The bottom line

Consumers are picking up their mobile devices to find out about products almost as much as they use desktops or laptops, and the mobile influence factor accounts for roughly half of the total digital influence factor (17% of 41%, respectively). The opportunity in the mobile space for retailers to make a mark is undeniable. In addition, social media is driving purchases offering retailers a clear channel to reach specific demographics.

Touch-point most used for various shopping processes

Desktop/laptop is still the dominant online shopping touch-point.



The dollar-boost effect

Our survey shows that using digital devices at the evaluation stage can have a major influence on both persuading consumers to purchase and on how much they buy. Consumers are up to 21% more likely to purchase if they turn to their digital devices for more product information before and during the shopping process. The survey also shows that Canadian consumers like to make use of in-store digital capabilities such as information kiosks. This is good news for brick-and-mortar retailers who are evolving their omnichannel experience. The role of the physical store remains critical to the brand experience.

Over half of all respondents say they like the idea of being able to check item availability, look up prices and get product information. Close to 50% of customers also say they would prefer to use digital means to pay for their goods and use their loyalty points—strong numbers for retailers to consider when incorporating digital strategies.

Is it worth making it easy for shoppers to use digital channels in a brick-and-mortar store? Survey says ... customers spend 22% more when they do.

The top three reasons cited for this uptick are:

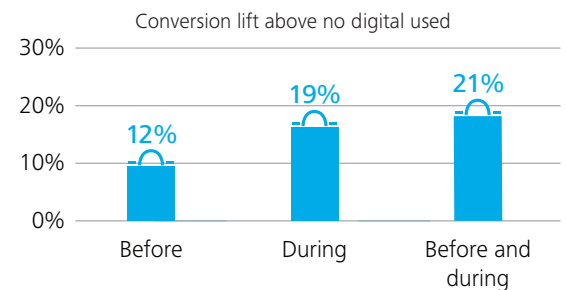
- The product information and reviews gave shoppers the confidence that the product was a good fit.

- Consumers took advantage of a discount they found online, and then spent more overall.
- Consumers bought a higher-priced product due to recommendations they found.

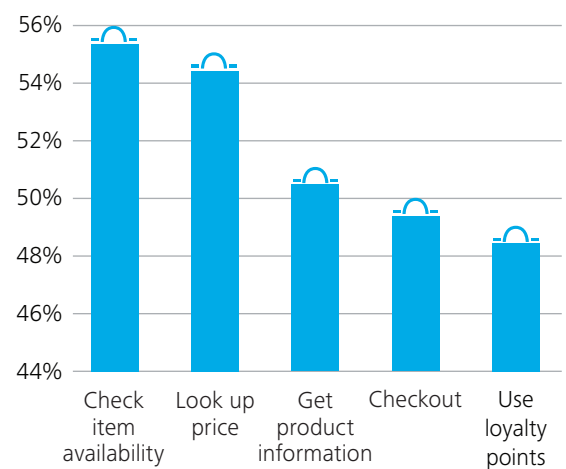
The bottom line

Incorporating digital is important in the pre-purchase phase because there is a strong multiplier effect—that is, the interaction of both digital and traditional channels stimulates greater sales and growth. The opportunity for Canadian retailers lies in their ability to amplify that effect by enhancing consumers' access to salient product information via digital within their physical stores.

Digital's impact on conversion during the shopping process



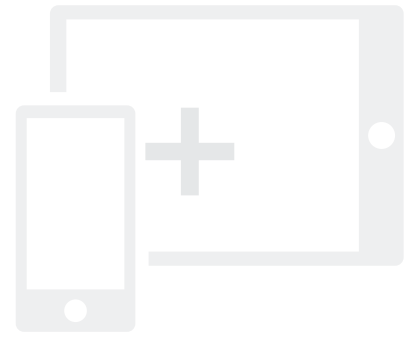
Top digital capabilities preferred in store



Incorporating digital is critical to the path-to-purchase strategy in the pre-purchase phase because there is a strong multiplier effect—that is, the interaction of both digital and traditional channels stimulates greater sales and growth.

THE PAYMENT PHASE

Checkout check-up



The availability of digital during the evaluation phase can increase how much consumers spend—and the same is true of providing a variety of digital and mobile payment options. About 35% of younger shoppers said they expected to spend more as a result of digital payment tools; a quarter of middle-aged consumers thought they'd part with more cash; and, perhaps surprisingly, about 21% of those aged 55 to 70 thought they'd likely buy more if digital devices made it more convenient to do so.

At the moment, more Canadians are paying through traditional methods when in-store rather than through digital means (63% versus 37%). However, it's not necessarily a reflection of how they'd prefer to make transactions: over 60% of the Canadian respondents in our survey showed interest in using in-store kiosks or self-check-outs.

Next to in-store kiosks, retailer apps and mobile wallets are the most popular choice for digital and mobile payment methods, with about 10% of respondents having tried each of them and about 40% of shoppers interested in using them if the option was available.

Mobile wallets and subscription-based shopping, in which merchandise is shipped on a regular basis direct to consumers, are expected to gain traction.

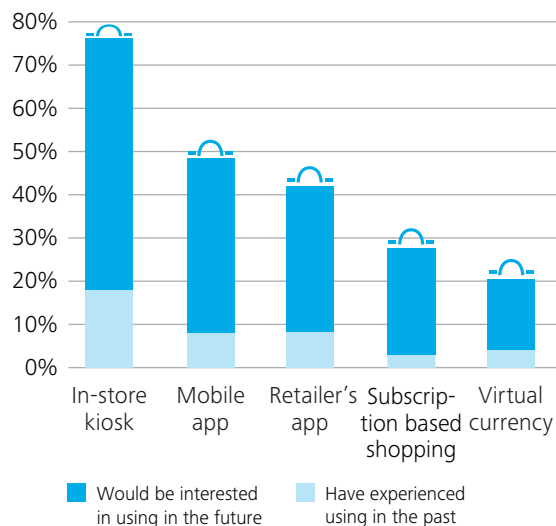
The bottom line

An opportunity exists for Canadian retailers choosing to focus on investing in digital and mobile payment tools, in-store and online, to take advantage of the resulting higher conversion rates and increased spending. More choice and ease of doing business could stem the loss of consumers going to foreign retailers that have a strong online presence and a robust distribution channel.

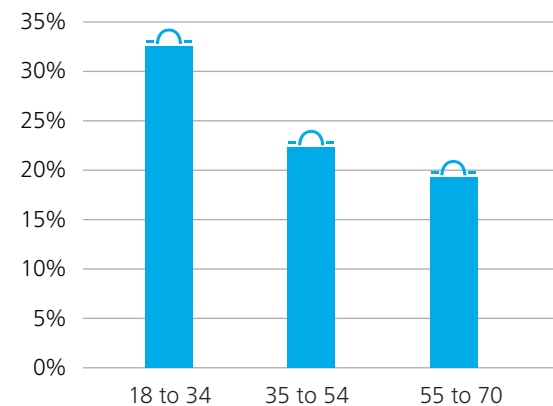
Percent that used digital device or touch point to make payment in-store



Experience and interest in payment methods



Percentage of respondents that expect to spend more as a result of digital payment tools





THE FULFILLMENT PHASE

The store remains strong

While an increasing number of Canadians are turning to digital channels to do their shopping, the majority continue to shop in physical stores. Of these, two-thirds (67%) want to take the goods they buy home with them right away. However, only 55% say they typically can walk out the door with their purchase in hand: often, the merchandise must be ordered from another store or warehouse, presumably because it's not on the shelves at that location. This represents a 22% shortfall in service between a customer's preference and a retailer's ability to meet expectation.

According to the study, the gaps between how shoppers would prefer to get their goods home and what is currently available to them are greater in the digital shopping sphere. Almost 33% of consumers who buy online would prefer their goods to be delivered to them at their home or office, while only 17% are able to do so. That's a 94% shortfall in meeting customer expectations. A slightly narrower gap, of 80%, exists between online shoppers who'd choose to pick up their purchases at the store if they could and 18% would like to click-and-collect but only 10% say they have the option.

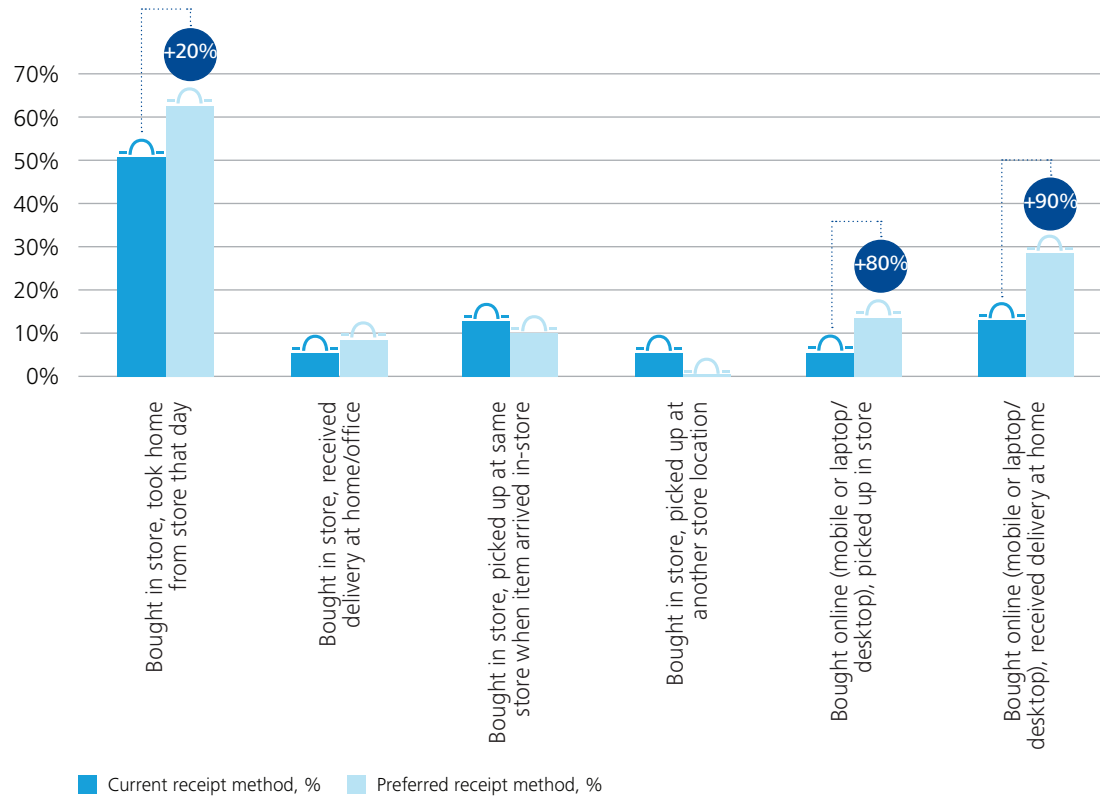
Of course, Canada's sheer geographical size and modest population density have long posed distribution headaches for any company that needs to move goods around it. Those working in retail find it no less challenging. Canadian retailers must operate with fewer distribution centres serving larger geographic areas than those in the U.S.

The bottom line

Product ubiquity needs to be improved in both traditional and online channels. Location is an important factor for those who want to obtain their merchandise at the store, whether shopping in person or online. Effectively predicting consumers' digital shopping behaviours and fulfillment preferences will be key to meeting their expectations in the future, while providing them choices to buy any way they want through avenues such as click-and-collect. The question is: how do retailers strategically use their stores to act as micro-distribution centres to accommodate this consumer behaviour?

Canadian retailers must operate with fewer distribution centres serving larger geographic areas than those in the U.S.

Customer delivery/pick up preferences



Categories count

Deloitte's survey reveals that digital influence and behaviours vary greatly depending on the type of product the consumer is shopping for. For instance, they're not swayed by external opinions when zeroing in on a beauty purchase, but they are when they're thinking about an electronics purchase.

Our survey found the influence of digital, mobile and social media channels varies across product categories. While digital and mobile had a strong influence on how shoppers bought electronics, the impact of social media in this same category was low. The path to purchase for furniture and home improvement choices was influenced by all three, if to a lesser extent by mobile. Consumers didn't rely much on information provided by digital channels for their food and beverage purchases, nor for health, wellness and beauty products, but they did consult social media networks. In these cases, social influence is more important.

Did digital channels and social media overall have an influence on how much consumers eventually bought? Retailers specializing in electronics or in books, music and entertainment needn't worry about impact—because it doesn't factor in much—but those in furniture/home improvement, automobiles, baby/toddler goods and health, wellness and beauty products, among others, ought to pay some heed.

The bottom line

For businesses that sell a range of product categories, these findings clearly suggest that digital strategies should be tailored to the category level. One size fits all doesn't fit anymore. Among other things, retailers' personalized and customized approach must include digital and social channels.

Preferential payment

What customers prefer to buy

... online

- Books and music
- Electronics
- Baby and toddler goods

... in stores

- Food and drink
- Apparel
- Health and wellness products



Impact of digital and social media varies across product categories

Product segment/ category	Digital influence factor	Mobile influence factor	Social media impact	Impact of digital on purchase size
Electronics	●	●	○	○
Furniture/home improvement	●	◐	●	●
Automobile	◐	◐	○	●
Apparel	◐	◐	◐	●
Baby/toddler	◐	●	●	●
Health/wellness/beauty	○	○	◐	●
Miscellaneous*	○	○	◐	◐
Food/beverage	○	○	○	◐
Books/music/ entertainment	●	◐	○	○

* Miscellaneous includes pet supplies, office supplies, etc.

Closing the gap

The results of Deloitte's survey brings one reality into sharp focus: while the shopping preferences of Canadian consumers are leaning more and more to digital, their ability to shop that way in the Canadian market is limited. Canadian retailers are struggling to keep pace with digital innovations, global marketplaces and international competition to meet the rising expectations of consumers, causing a digital divide.

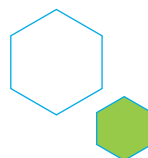
The result is that retailers in Canada are becoming increasingly vulnerable to losing consumers to those that are keeping pace with digital advances. To keep Canadians spending at home, retailers should focus on driving brand experience, integrating analytics into the core of their business and strategically understanding the omnichannel consumer's changing path-to-purchase.

In fact, customers who use social media before, during or after buying an item are four times more likely to spend more money than they normally would have. Meeting customers' expectations and connecting with them in the digital sphere can lead to increased visits to bricks-and-mortar stores, too.

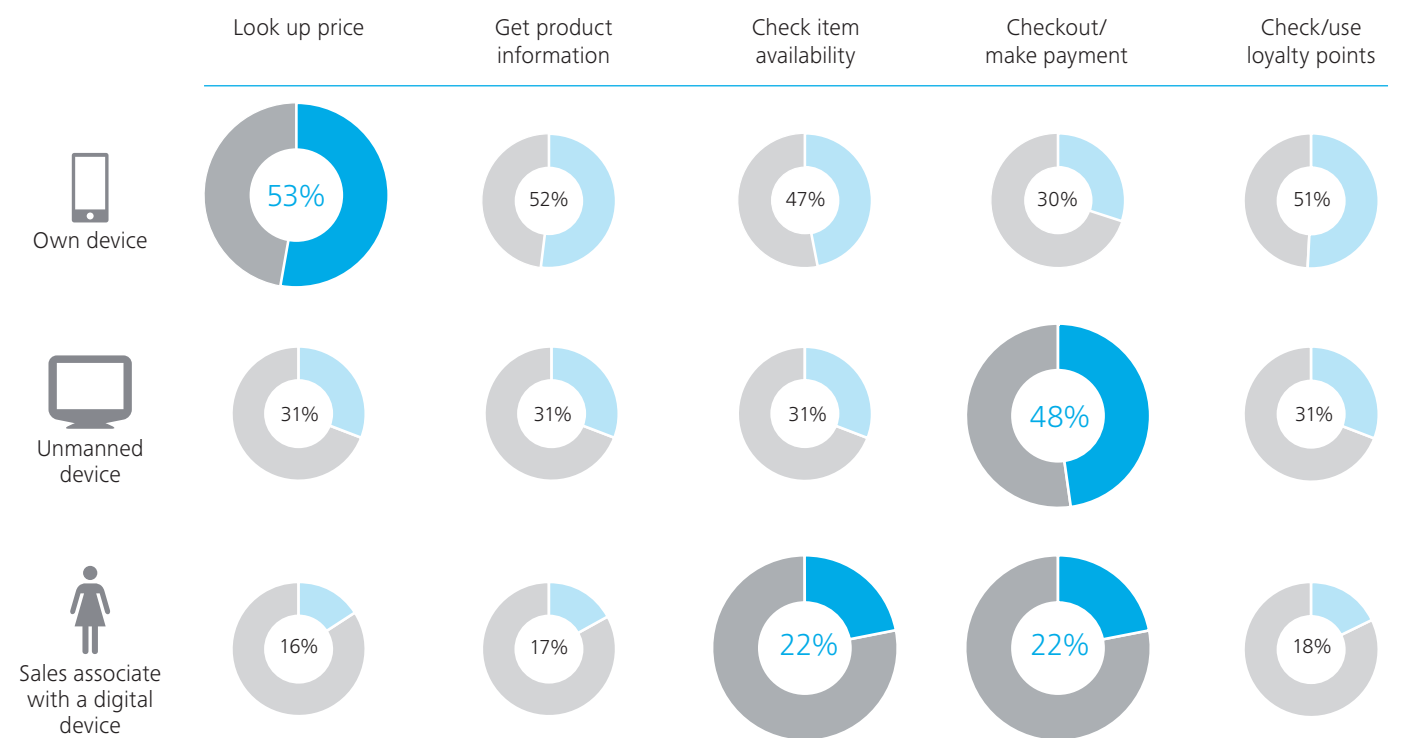
The next generation of omnichannel will be based on strategic and predictive analytics capabilities, and the ability to offer a fully customized and personalized experience. These capabilities, in turn, increase basket size, deepen customer loyalty and drive brand experience. Consumers reveal an extraordinary amount of information about themselves when they use a retailer's digital channels, providing data that can be potentially very profitable—if retailers understand how to get and effectively use the insights, that is. Investing in the right resources to do so would be well worth the costs in the ROI.

Retail companies in this country do face unique and difficult challenges, some of which are beyond their control. They can't change the higher costs associated with distributing goods, for example, or the fact that they don't have economies of scale relative to their U.S. competitors. But with challenge comes opportunity. Retailers can get ahead by identifying how to make the most of their existing digital assets and where to make new digital investments. They can focus on bringing digital in-store to enhance the consumers brand experience, giving them a unique in-person advantage.

Whatever strategies Canadian retailers are considering in this shifting digital landscape, what is certain is that they will need to implement them soon to stay the course against new and non-traditional competitors. The digital divide may look daunting, but finding ways to close it can prove to be a competitive advantage for Canadian retailers.



In-store digital capabilities preferred by customers



To keep Canadians spending at home, retailers should focus on driving brand experience, integrating analytics into the core of their business, and strategically understanding the omnichannel consumer's changing path-to-purchase.

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Survey methodology

This survey was commissioned by Deloitte and conducted online by an independent research company on January 16–February 2, 2015. The survey polled a national sample of 2,030 random consumers. Data were collected and weighted to be representative of the Canadian Census for gender, age, income, and ethnicity. A 90 percent confidence level was used to test for significance.

Below are the margins of error for specific sample sets in this study:

- National Random Sample–90 percent confidence, margin of error 1–2 percent (+/-)
- Device Owners–90 percent confidence, margin of error 1–2 percent (+/-)
- Smartphone Owners–90 percent confidence, margin of error 2–3 percent (+/-)
- Tablet Owners–90 percent confidence, margin of error 2–3 percent (+/-)

Additionally, a sub-set of consumers were randomly assigned to provide information about how they use a digital device to shop for up two different product subcategories (such as shoes or books and music). Sample sizes ranged from 149 to 178–90 percent confidence, margin of error 7–9 percent (+/-). Specific digital behavior data represents consumers who use digital devices to shop.

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