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2014 Holiday retail outlook

Canadian
shopping habits
continue to evolve



Contents

Overview	1
Economic outlook: More cautious optimism	2
Trendwatch: Canadian shopping habits continue to evolve	4
Cybersecurity: Is customer patience wearing thin?	6
Regional perspectives	8
Online versus in-store shopping	10
Other considerations	12
Respondent profiles	12

Overview

The outlook for Canadian retail this holiday season is modestly improved. Canadian shoppers are still relatively optimistic about the economy and their job security. While the majority plan to keep spending at last year's levels, we are seeing more shoppers across the country declare their intention to spend more. This, along with shoppers' habit of spending more than they planned, leads us to repeat last year's forecast of a 2%–2.5% rise in Canadian retail sales this holiday season. Similarly, our U.S. firm is forecasting a 4%–4.5% increase that is the same as it predicted last year.



Consumer behaviour continues to change. Online shopping is becoming increasingly popular across the country. Retailers now regularly deal with a path to purchase that takes shoppers from social media to blogs to specialty shopping sites and store websites long before they set foot in a store (if they ever do). A growing number of shoppers, especially in major metropolitan areas, are doing much of this on their smartphones and tablets while they're on the go.

A new competitive arena is emerging: the 'last mile' – the experience between the purchase and the last touch-point of delivery. Retailers are introducing various alternatives – from home delivery to in-store pickup to secure delivery lockers – and shoppers' attitudes are already hinting at which options will prevail.

Retailers would also do well to pay attention to shoppers' growing concerns about online security. Nearly 80% of shoppers across Canada are concerned about privacy breaches and their personal data. Almost half have changed their online shopping habits as a result, and some have stopped shopping online altogether. Retailers need to make prevention of these breaches a priority – or risk losing customers to more trusted competitors.

Economic outlook

More cautious optimism

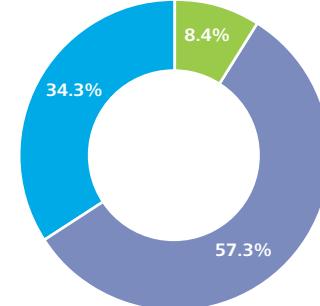
Canadians are heading into the holiday season feeling fairly confident about the country's economy and their own prospects in it. While this cautiously optimistic sentiment might not kindle a warm fire in retailers' hearts, it should give them confidence that they can expect some modest growth this holiday season.

In this year's survey, 81.1% of respondents said they felt Canada's economic performance would stay about the same or improve in the year to come, a small drop from 83.4% last year. Younger Canadians were more upbeat: 83.4% of those aged 18–29 felt the economic picture would brighten next year. Nearly half (49.7%) of respondents feel secure about their jobs, compared to 50.7% last year. Encouragingly, fewer Canadians feel their job is at risk: only 4.1% said their job wasn't secure, a drop from 4.8% last year.

These figures suggest that Canadians have adjusted their expectations to reflect current economic realities. It seems even modest growth is something to cheer about – albeit quietly. The ongoing boom in Western Canada and robust housing markets in many areas of the country likely contribute to Canadians' sense that things are okay. It's worth noting, however, that our survey period (September 19th to September 30th) coincided with a recent downturn in stock markets; we suspect this downturn likely influenced some survey participants' responses.

Economic outlook for 2015





Holiday spending plans compared to last year

Plan to spend more
Plan to spend the same amount
Plan to spend less

And what does this mean for Canadians' holiday spending? Canadians remain well-intentioned, that's for sure: 57.3% plan to spend about the same amount as last year. However, a few more shoppers plan to open their wallets wider this holiday season: 8.4% of respondents plan to spend more than last year, an increase from 6.5% in 2013. That's welcome news for retailers, who also know that shoppers have an uncanny ability to spend just a bit more than they originally planned.

Top 3 most important attributes of a retailer



Canadian online shoppers spent \$746 on average in 2013 – compared to \$382 on average for offline shoppers.¹



Trendwatch

Canadian shopping habits continue to evolve

Over the past few years, we – and retailers across the country – have watched Canadian shoppers undergo a remarkable transformation. Their path to purchase winds from web to mobile to social to store and back again. Online shopping is ubiquitous, buoyed by increasingly common options such as free shipping, home delivery and in-store pickup. The shopping *experience* matters. This year's holiday retail outlook survey has served to confirm these shifts in consumer behaviour.

Started shopping yet?

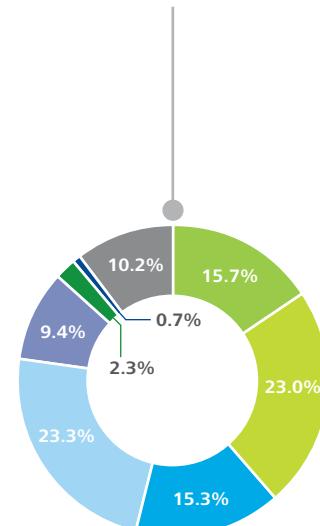
Canadians aren't waiting to start their holiday shopping – some of us may already be done. Nearly two out of five shoppers (38.7%) have already begun shopping or will do so before Black Friday. The same number (38.6%) intend to do the majority of their shopping between Black Friday and mid-December.

Retailers hoping to capitalize on last-minute shoppers may be disappointed. Only 9.4% of shoppers overall – though 11.2% of male shoppers – plan to leave their holiday buying until the very end.

Online shopping grows

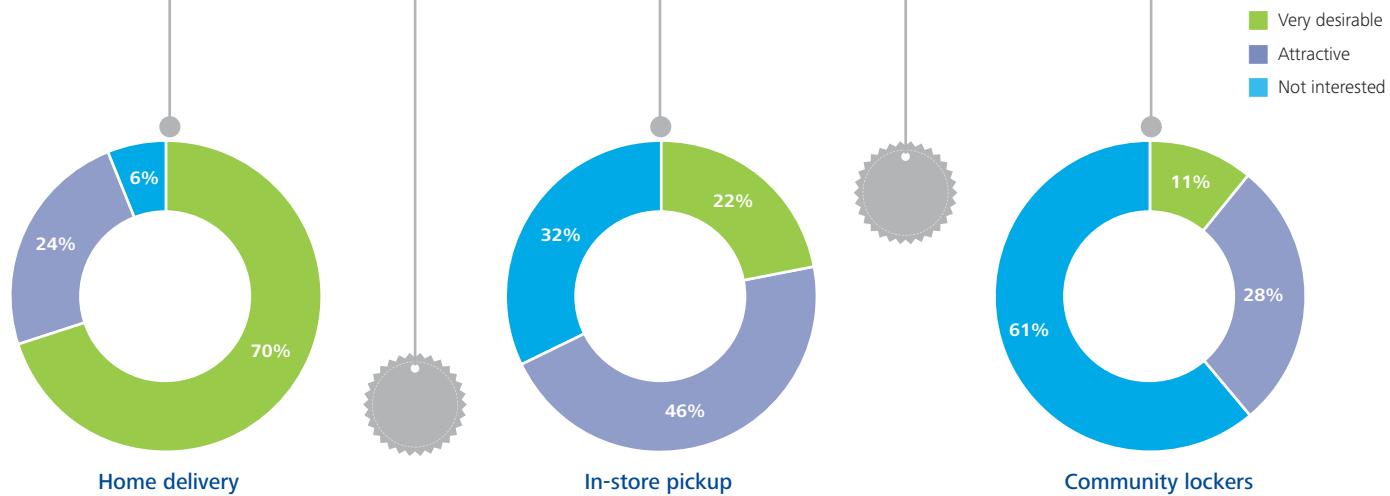
Canadians are embracing online shopping, and respondents plan to do about a third (30.6%) of their shopping online. For many, online is the preferred option: 30.1% would rather shop online than visit the mall, up from 27.9% last year.

The shopping journey frequently begins online for many Canadians: 35% research gift ideas using social networks, blogs, online shopping sites – not to mention store websites. Nearly one third (32.8%) search for product reviews and recommendations, and almost half (44.8%) compare prices. The savvier customers (37.5%) also look for discounts, coupons and sale information before continuing towards their purchase. These behaviours are even more pronounced among 18-29 year-old shoppers – our results for this demographic are roughly 10 percentage points above the national figures above.



- Already started
- Starting soon, before Black Friday on November 28th
- Starting after Black Friday on November 28th
- In December, before Monday December 15th
- Last minute, after December 15th
- Boxing Day
- In January
- Not holiday shopping

Online merchandise collection preference



Direct-to-consumer starts to catch on

In recent years we've seen many brands opt to sell directly to consumers – either online or through their own bricks-and-mortar stores. This year's survey suggests that they're gaining traction with shoppers. While 33.8% of shoppers nationally say they buy direct at least sometimes, those in major metropolitan areas are more likely to do so. Tellingly, nearly half (45.1%) of younger shoppers (aged 18–29) say they buy direct from brands.

Canadians placed \$18.9 billion in online orders in 2012² – roughly 1.9% of nominal consumption. In December 2012 alone, Canadians spent \$2.8 billion online.³

The 'last mile' starts to matter

More and more retailers are hoping to gain a competitive advantage in the 'last mile' – offering various options to get a customer's online purchase from the digital checkout into their buyer's hands.

Home delivery is extremely popular: 69.8% of shoppers felt having their purchases delivered straight to their door was 'very desirable,' and another 24.4% find it an 'attractive' option.

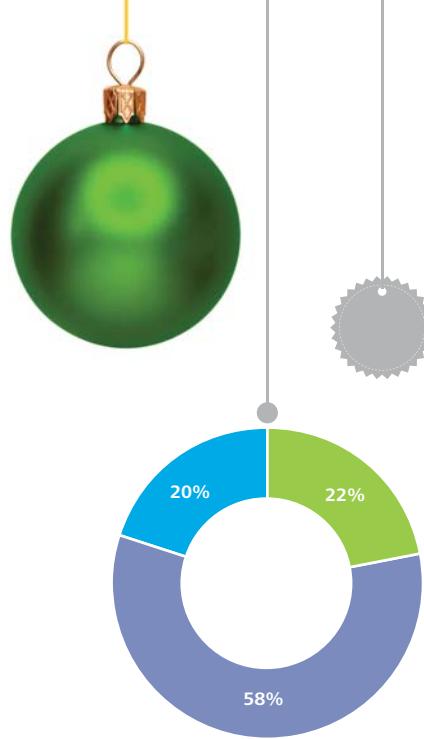
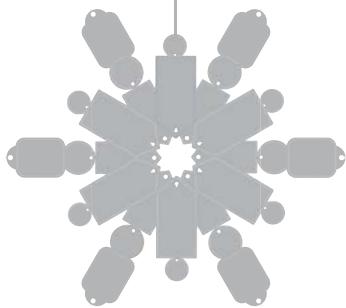
Some retailers have begun offering **in-store pickup** of consumers' online purchases. More than two-thirds (67.8%) of shoppers like the idea of using 'click and collect,' as it's also known, to retrieve their purchased items.

Secure delivery lockers – located in malls, transit stations or other strategic locations – are being considered by a number of retailers. Based on Canadians' responses, this approach might be suited for very specific niches. The majority (60.7%) of shoppers we surveyed aren't interested in using lockers to pick up their purchases. Then again, such lockers are newcomers on Canada's retail scene; it will be interesting to see whether Canadian shoppers warm up to them, as shoppers in discrete markets around the world have done.



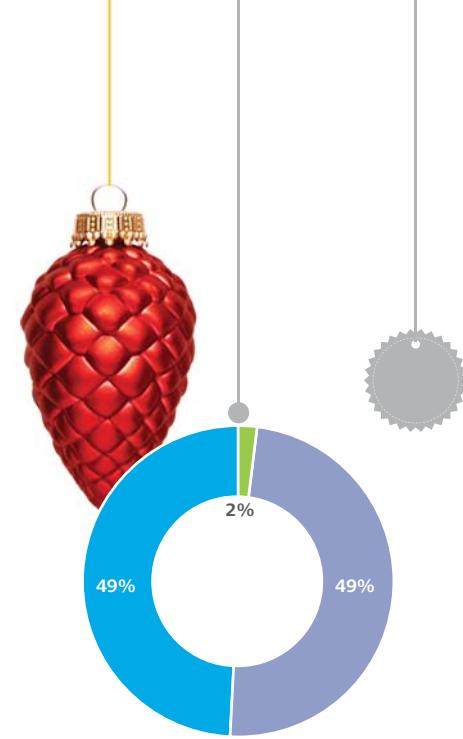
Cybersecurity

Is customer patience wearing thin?



Level of concern following personal data breaches in relation to online shopping

- Very concerned
- Somewhat concerned
- Not at all concerned



Impact of personal data breaches in relation to online shopping habits

- I no longer shop online
- I'm more cautious when I shop online
- My shopping habits are the same

The recent spate of high-profile online security breaches has a lot of Canadians worried. Four out of five (79.8%) online shoppers are concerned about the security of their personal data when shopping. Nearly half (48.5%) say they're now more cautious when they shop online, and a small number (2.4%) have simply stopped doing so.

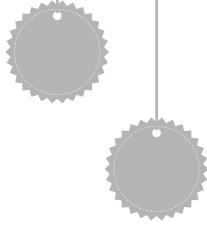
This doesn't signal the beginning of the end for online shopping – there's simply no putting *that* genie back in the bottle. But it could spell trouble for retailers who don't respond to their online security vulnerabilities quickly and effectively. They could see trust in their brand fade quickly and watch customers take their business to other, more secure, competitors.

However, Canadians' concerns over the security of their personal data online could have a more subtle, but no less significant impact on retailers' business. If shoppers aren't persuaded that retailers are adequately addressing

cybersecurity issues, they may decide not to provide their personal data to them. This will starve retailers of vital consumer data that is the fuel for their data analytics-driven efforts to deliver the customized, round-the-clock experience those consumers demand.

Our advice to retailers? Take a proactive approach to cybersecurity – look for and address potential breaches before they happen, not after. And should a breach occur, respond quickly and transparently to limit the damage to your brand and reputation.

Regional perspectives



Many of the retail trends we've observed this year and in previous forecasts follow a predictable pattern: they develop in the major metropolitan areas and are gradually adopted across the country. What's interesting now is the speed with which these developments make their way across the country. Few lag for long, it seems – and this is equally true in comparing urban and rural shoppers.

Shorter shipping distances, higher population concentrations and proximity to major distribution hubs have helped online commerce take off quickly in Toronto, Vancouver and other major cities. Yet our survey respondents outside of the major metropolitan areas are clearly as eager as their more urban counterparts to take advantage of what online shopping and new technologies can offer them. The divide gets smaller each year.

Atlantic Canada

Atlantic shoppers are feeling more upbeat this season, it appears. Last year, a sizeable proportion (41.2%) of respondents planned to spend less on their holiday shopping; this year, that figure has fallen to 34.4%, in line with the national average. As well, 6.1% plan to spend more – up from 3.9% the year before.

Compared to other regions, Atlantic Canadians continue to be first out of the gate when it comes to their holiday shopping. More than one quarter of Atlantic shoppers (28.5%) have already started, and more than half (54.3%) expect to complete most of their shopping by Black Friday.

The region's shoppers continue to enjoy the in-store experience, which is good news to mall operators and others who have invested in upgrades and improvements in recent years. Atlantic shoppers plan to do nearly three-quarters (72.8%) of their shopping in-store, and nearly half (46.9%) say they prefer store shopping to online.

Despite those attitudes, it's very clear that online shopping has caught on in the region. Last year, 45.4% of Atlantic shoppers said they didn't shop online – this year, that figure has plummeted to 28.6%. Today, three out of four shoppers (73.5%) say they research prices online, up from

57.8% in 2013. And what do Atlantic Canada's online shoppers look for from a retailer? Home delivery – and easy returns.

Greater Montreal Area, Quebec

Montrealers aren't quite as optimistic about the economy as their counterparts across the country: 28.4% expect the economy to improve in the year ahead, compared to 33.4% of respondents nationwide. However, just under half (49.1%) feel secure in their jobs, not far off the national average of 49.7%. Notably, 39.3% of Montreal respondents plan to spend less this holiday season – a higher proportion than anywhere else in the country. More than half (52.8%) plan to do their shopping between Black Friday and the last possible second.

Online shopping continues to make inroads among Montreal shoppers. This year, 36.3% say they don't shop online – down from 39.8% last year. One explanation could be that Quebec retailers aren't yet offering enough online shopping options for shoppers. However, it may also be due to the fact that Montrealers seem quite attached to the in-store experience: respondents plan to do nearly three-quarters (71.6%) of their shopping in stores.

Montrealers appear to value the social aspect of the shopping experience more than their counterparts elsewhere. Unlike other regions, Montreal shoppers seem in no hurry to check out quickly, preferring to linger and soak up the festive atmosphere and holiday cheer. It's interesting that Montreal shoppers view in-store pickup of online purchases more favourably than their national peers: 31.4% feel 'click and collect' is a very desirable option, compared to 22% nationally. Retailers may wish to take note. Montreal shoppers remain keenly interested in getting



value for money. Nearly two-thirds (63.2%) say price is a key factor in where they choose to shop. Not that they're on the hunt for sales, mind you: only 21.9% plan to buy more items on sale this year, compared to 31.9% nationally. This might be why 45% of Montrealers plan to do some of their shopping at premium brand outlet stores, compared to 34% nationally. Everyday value, it seems, trumps the occasional sale.

Greater Vancouver Area, British Columbia

Vancouver consumers are feeling upbeat about the economy, with 37.1% expecting it to improve, slightly more than the national figure (33.4%). This optimism looks set to translate into higher holiday spending: 12.3% of Vancouver shoppers plan to spend more this year, a higher proportion than anywhere else in the country and a huge jump from last year (5.9%).

This doesn't mean that B.C. retailers will be especially busy as the holidays approach, however, as 57.8% of consumers plan to start (if not finish) their shopping before December.

Vancouver shoppers plan to do much of their shopping (31%) online, and they're more likely to invest time in online research beforehand. While 25.4% of shoppers nationally say they plan to conduct online research before making any purchases, 30.9% of Vancouver consumers plan to do so. That fits well with what we see in Vancouver shoppers, namely that they're careful and deliberate with their purchases. This is likely at least partly because the high cost of living in this region means discretionary budgets need to be fairly rigid.

It appears shoppers in Vancouver are somewhat less enamoured of the retail spectacle. They're not especially enthusiastic about innovations such as digital signage: only 16.5% feel it adds to the experience, compared with 20.3% nationally and in stark contrast to their Montreal counterparts (29.4%). What many shoppers seek, especially in Vancouver, are smaller stores that offer authentic experiences: well-curated content, knowledgeable staff and very little pressure.

Vancouver shoppers' interest in cross-border shopping remains steady: 44.8% say it's likely they'll do so, down from 45.1% last year. Lower prices remain the main lure

(46.8%, down from 54.3%), but more shoppers are likely to view crossing the border as a fun experience (12.3%, a jump from 5.5% last year). This suggests to us that more and more Vancouver shoppers are finding what they want locally or online.

Greater Toronto Area, Ontario

Toronto shoppers are feeling good about their economic prospects. Nearly half (47.4%) feel the economy will remain stable next year, while another 40% expect it will improve. As well, more than half (52.3%) feel secure in their jobs. Will holiday spending rise, then? Probably: 11.1% of Toronto shoppers plan to spend more on holiday purchases this year.

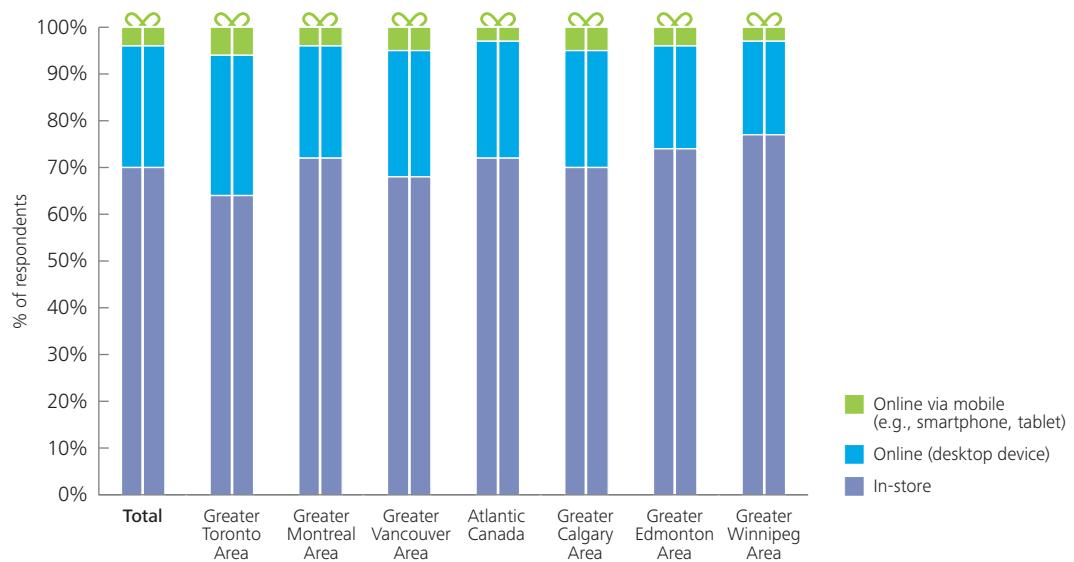
Toronto continues to lead the way when it comes to online shopping, in part because geography makes it easier to have goods shipped quickly (and often for free). Toronto shoppers plan to do a greater portion of their holiday shopping online – 36.3% – than any of their counterparts elsewhere in the country. The popularity of online shopping may explain why Toronto online shoppers are much more concerned about the security of their personal data: 34.8% of Toronto shoppers are 'very concerned' about the matter, compared to 21.8% nationally.

Toronto shoppers also appear to be at the forefront of using mobile as part of the shopping experience. More than half (52.6%) use their smartphones or tablets to compare prices, significantly higher than their national peers (39.8%). Nearly one in four (22.4%) would like to use their smartphone for checking out, compared to 14.6% nationally – not surprising, considering 51.6% of Toronto shoppers say fast checkouts are key to their ideal shopping experience. Toronto consumers are also more likely to use social media, blogs, shopping sites and store sites to research products and gifts ideas, compare prices and uncover coupons and discounts.

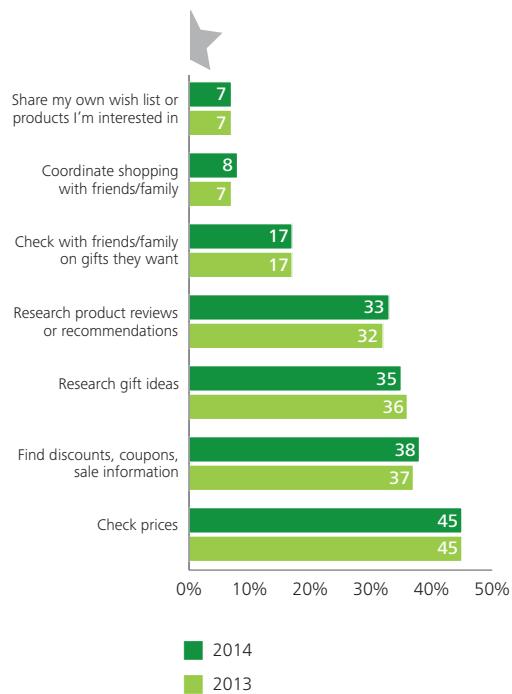
Toronto shoppers like smaller stores – and they're also more likely to buy directly from brands themselves: 42% of Toronto respondents said they often buy direct, compared to 33.8% nationally. This may simply reflect the fact that there are more brand-direct options available to Toronto consumers, but it illustrates a wider trend we're observing in the retail sector overall.

Online versus in-store shopping

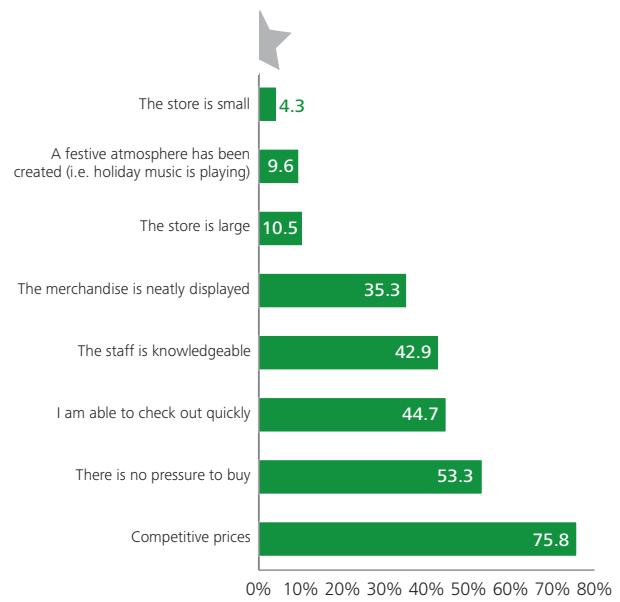
Amount of holiday shopping based on type

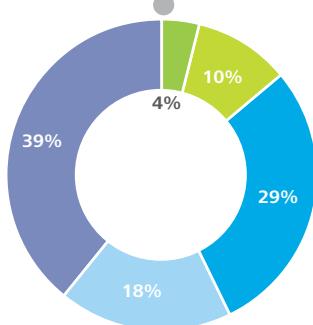


Purposes of using blogs, social networks, store websites and online shopping sites

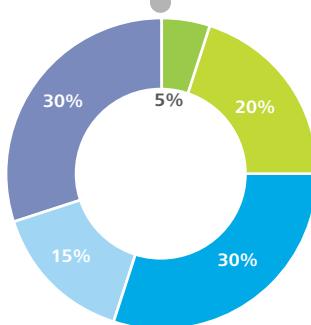


Top 3 factors that contribute to the ideal in-store shopping experience

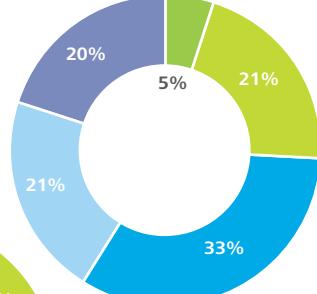




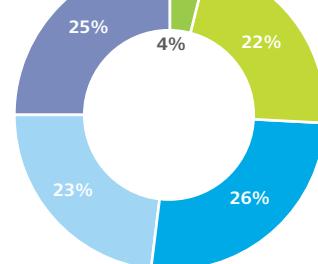
I would like to use my smartphone to pay for goods and avoid the traditional cashier and checkout



I would increase the use of my smartphone if it helped me shop faster and more efficiently



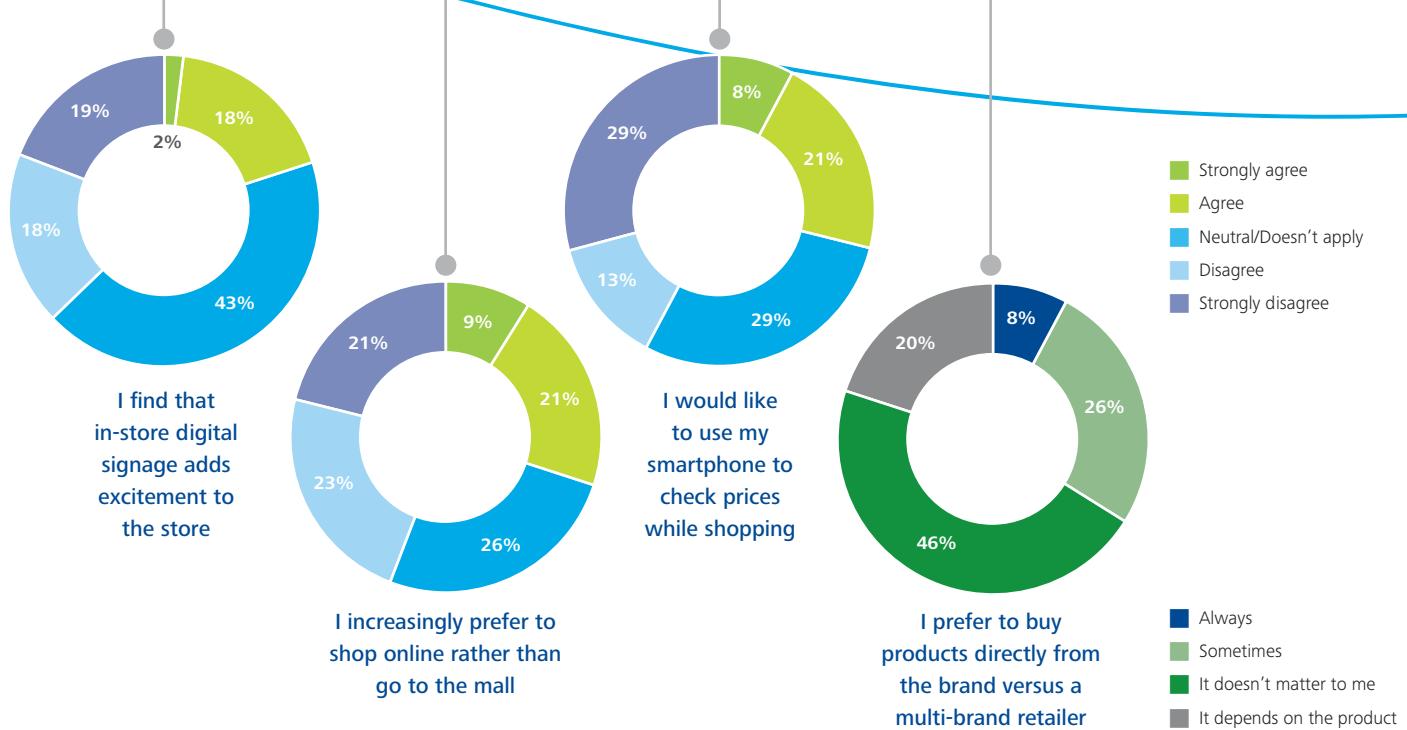
I am not offended by retailers analyzing my shopping and purchasing behaviours



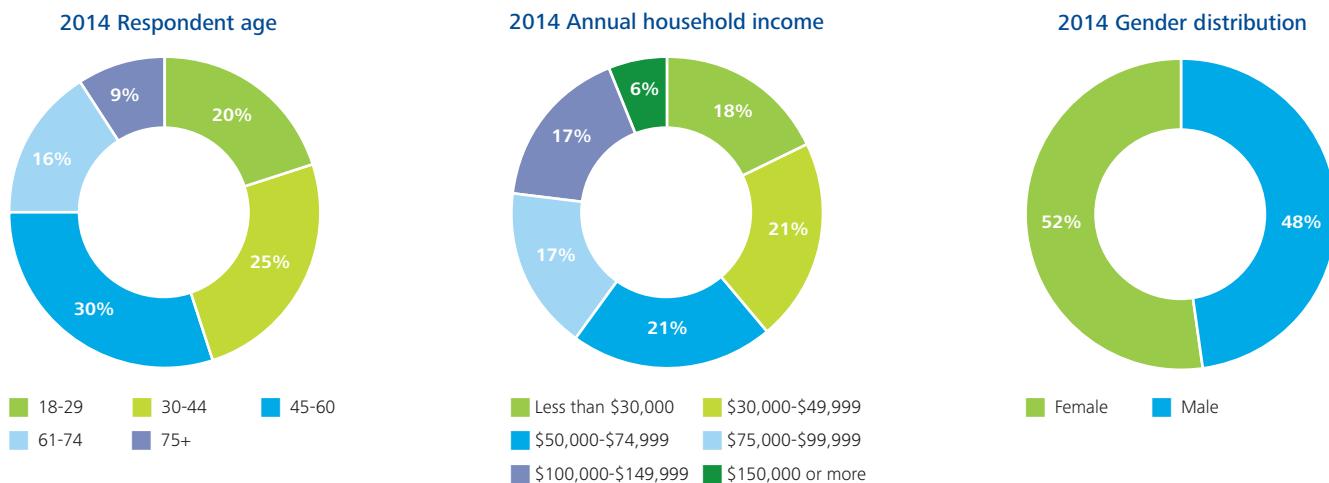
I would be more willing to share personal data with retailers in return for preferential treatment or special offers



Other considerations



Respondent profiles



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Endnotes

- 1 J.C. Williams Group news release, February 13, 2014 (http://www.jcwg.com/contents_supporters/library_files/Canadian_E-tail_Report_Press_Release.pdf)
- 2 Statistics Canada, <http://www.statcan.gc.ca/daily-quotidien/131028/dq131028a-eng.htm>
- 3 MasterCard, SpendingPulse report.



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