



The truth about online consumers

**2017 Global Online
Consumer Report
(Canadian Addendum)**



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Executive Summary

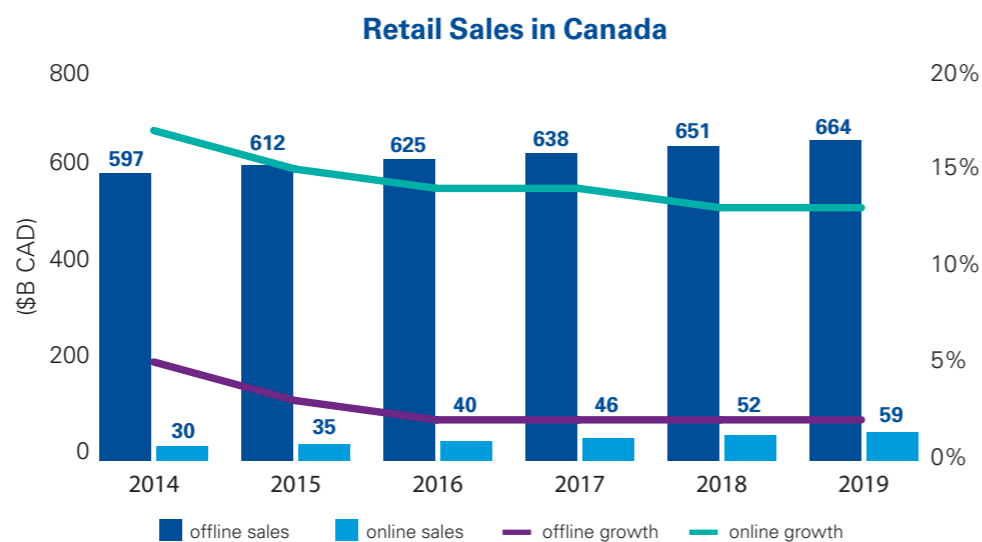
KPMG recently surveyed more than 18,000 consumers in over 50 countries to explore “The Truth About Online Consumers” — a global research study designed to learn more about consumers’ online shopping behaviour, expectations and what retailers can do to earn their business and loyalty.

513 Canadians participated in the study. This addendum compares and contrasts their preferences and behaviours to those of their global counterparts.

Canadian online retail sales are expected to reach C\$60B by the end of 2019. Although this represents only 9% of the overall retail market in Canada, it is up from 5% in 2014, and represents approximately 15% year-over-year growth as compared to low-single-digit offline retail growth¹.

This study shows that despite lower than average online adoption by Canadians across nearly every product category, consumers expect to continue increasing their purchases online in the next twelve months.

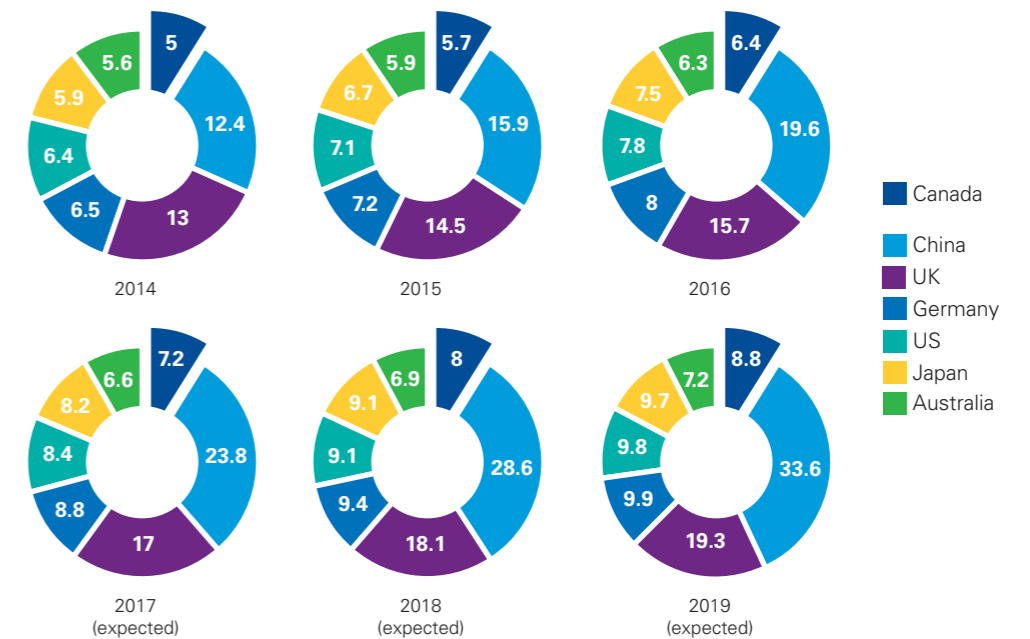
This is significant because, despite the highest internet penetration amongst G20 nations², online purchasing in Canada has lagged behind other countries and we have some catching up to do.



¹ Source: Worldwide Retail Ecommerce Sales: eMarketer’s Updated Estimates and Forecast through 2019, (eMarketer).

² Source: Worldwide Retail Ecommerce Sales: eMarketer’s Updated Estimates and Forecast through 2019, (eMarketer).

Retail Ecommerce Sales as a Percent of Total Retail Sales in Select Countries, 2014-2019



And it is not just transactions that are moving to the online shopping arena. We see shifts in how consumers are moving through their entire decision journey. With positive experiences online, some provided by Canadian organizations but many provided by global companies, e-commerce in Canada is now poised to take off.

In KPMG’s 2017 Global Online Consumer Report, we looked at behaviours through the entire decision journey to better understand how connected consumers use the internet for their shopping needs.

We found that:

1. Online channels are key to building awareness

24% of Canadians saw or heard about the last item that they bought

online by logging into online shops — nearly twice the number that used physical shops for the same purpose (13%). On par with their global peers, three of the top five sources of information were online (shops, advertisements, email promotions) although Canadians were still more likely than others to get information from promotional emails than online review or social media.

2. Price continues to be the first consideration

Price is key for Canadians when they buy online with 37% of Canadians citing ‘price/promotions’ as their primary consideration for an online purchase, more than twice as many as the next most cited answer. Further, 44% of Canadians cited ‘free shipping’ as a top benefit to shop

online. Globally, both figures are 29% suggesting a significant gap companies should be aware of when targeting Canadian shoppers.

3. Growth in online conversion expected across categories

13 of the 27 categories surveyed are expected to have online growth in the next twelve months with liquor, wine and food/groceries seeing an increase of 56%, 44% and 37% respectively. Reasons for this growth reflect Canadians’ appetite for greater convenience (56% were taking advantage of 24 / 7 availability), better prices (48% cited online sales / better pricing) and improved selection (27% wanted more variety).

4. Post-purchase evaluations and consumer data security should be top of mind

Currently, 24% of Canadian consumers share their post-purchase feedback with others online, and this is expected to grow. Today's global average is 31%, with China setting the pace with 59% of its consumers sharing feedback with others online. Post-purchase evaluations can help drive awareness, generate valuable insights and encourage two-way dialogue and the key to this level of engagement is trust. When asked what organizations can do to earn their trust, 65% of Canadian consumers responded that safeguarding their personal information was atop the list.

So, given what we see, how should Canadian retailers react? The starting point — now, as always — is to develop a deep understanding of the consumer and what drives their decision-making

and behaviours, and then to align your organization to deliver on their expectations. To reach Canada's online shoppers, this involves a combination of shifting presence and promotions to online / digital channels, emphasizing value-add and price saving components of the offer, enhancing the mobile shopping experience and implementing strong controls to protect the personal information that consumers provide.

This is increasingly important with the push towards consumer-centricity and the knowledge that consumers who interact through multiple channels tend to be more engaged, loyal and profitable than those that engage through a single channel³. Canada cannot afford to lag behind and — for many Canadian retailers — the 'now or never' inflection point has arrived. Consumers will not remain loyal to the status quo and organizations who continue to lag at meeting them on their terms risk losing them to others further along this journey.



“Alcohol delivery has opened up the market for Canadians looking for a broader range of products and greater convenience. Offering liquor and wine online gives consumers another option and we expect significant growth if executed well.”

— **Andrew Dooner, Partner, Customer & Strategy**

³ Source: 2016 Global Consumer Executive Survey: Seeking Customer Centricity (KPMG International and The Consumer Goods Forum).

New norms throughout the consumer decision journey

It is not just transactions that are moving to the online shopping arena. We see shifts in how consumers are moving through their entire decision journey. Online channels and digital media are playing prominent and growing roles from driving consumer awareness to building their consideration sets to influencing purchase decisions to sharing experiences with others:



1. Awareness:

The initial awareness of products and services are increasingly coming from online sources. The online space is becoming more of a vital influencer downstream when consumers are making decisions and purchases, both from online and in physical stores.

When Canadian survey respondents were asked how they initially saw or heard about the last item they purchased online, for example, the top three (and five of the top seven) answers related to online sources.

This is largely consistent with the global findings, although global consumers report in-store experience as more likely to drive awareness compared to Canadian consumers. This reinforces the importance of a positive experience between online and in-store.

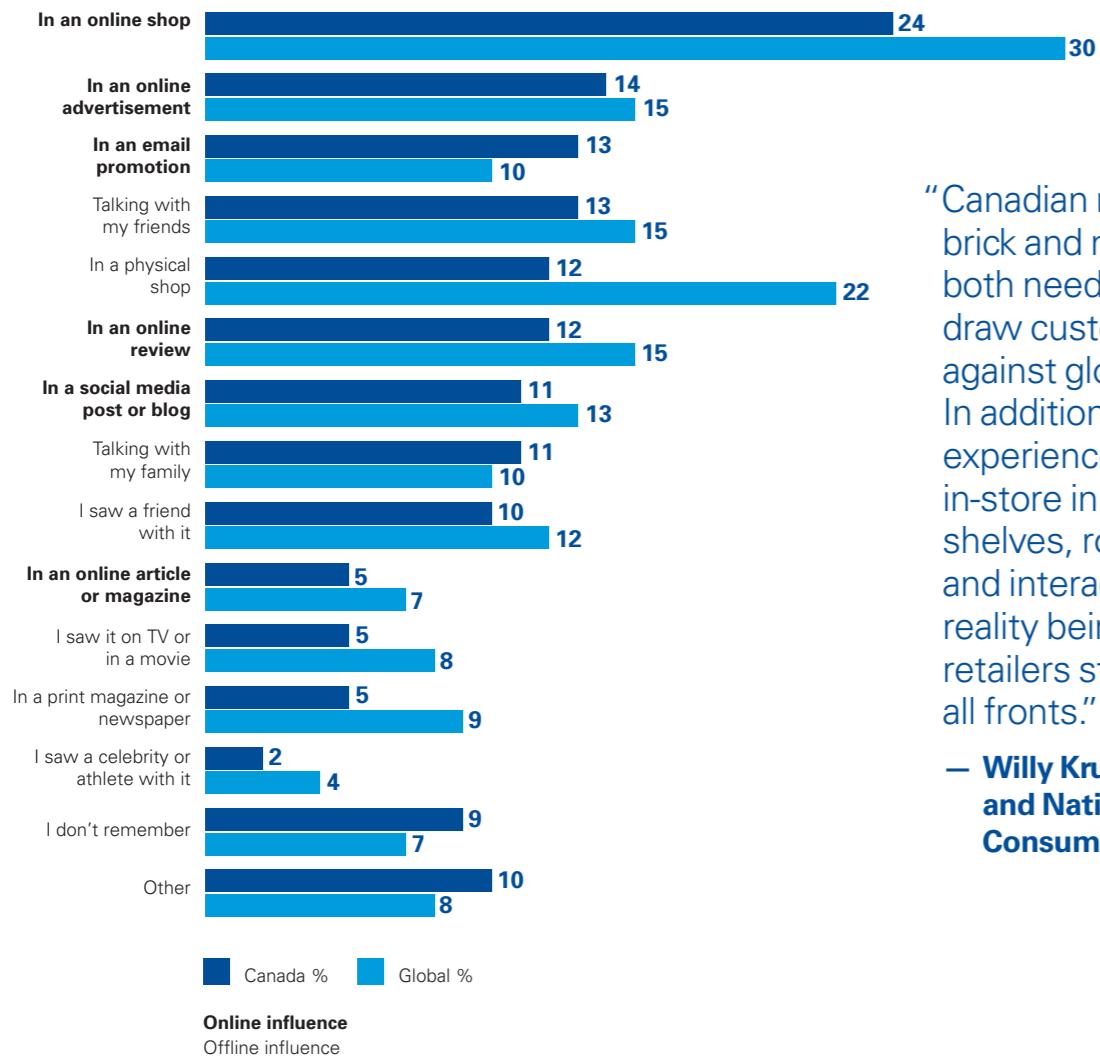
Traditional 'off-line' media and the in-store experience are no longer the main vehicles through which retailers can capture and attract online consumer attention, but they remain significant.

Millennials, with their growing influence and purchasing power, are

especially wary. 84% of them do not trust traditional advertising, relying instead on online blogs / reviews and social media posts⁴. Looking forward, we should expect to see more online awareness developed through celebrity endorsements, peer reviews and searchable preferences or 'likes'.

Yet, most purchases are still made in a physical store. Linking online awareness to great in-store experiences allows retailers to win with consumers by creating compelling experiences across all channels.

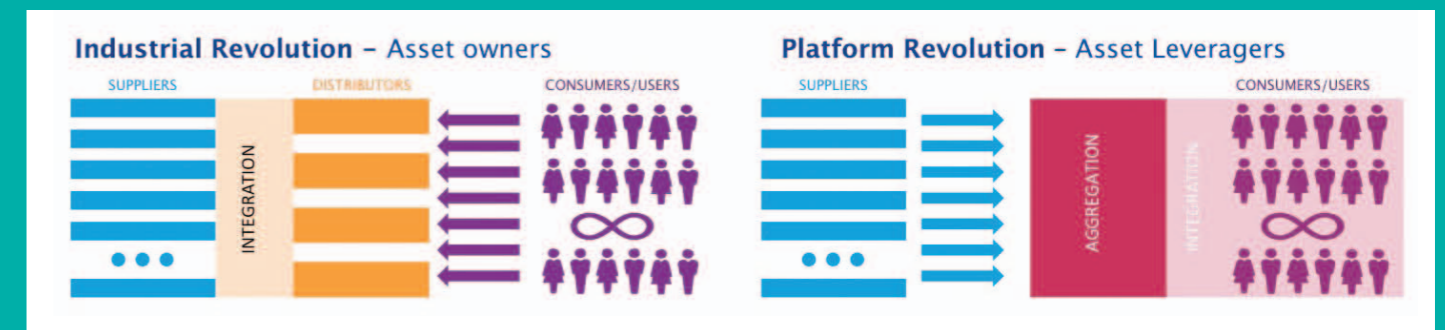
Key influencer of last product purchased online: Canada vs. Global



“Canadian retailers’ online and brick and mortar strategies both need to evolve to better draw customers and defend against global online retailers. In addition to great online experiences, we are seeing in-store innovation with smart shelves, robots, self-checkout, and interactive and virtual reality being deployed as retailers strive to compete on all fronts.”

— **Willy Kruh, Global Chair and National Leader, Consumer Markets**

The rise of online platforms



The online shift of the consumer decision journey has helped create and sustain the dominant business model of our era: the platform. By aggregating many of the influencers along the consumer decision journey, like advertisements / promotions, consumer reviews / blogs and links to other media, onto a single destination, platforms serve as the core interaction point between producers and consumers. This gives them power, allowing them to generate a massive user base to drive their core business, opportunities to branch into ancillary businesses and the flexibility to be innovative.

Platforms like Apple, Google, Facebook and Amazon have built deep portfolios of successful products and services that give them multiple channels to their consumers. The result is that these platforms now frequently encircle consumers’ lives and supersize their switching costs.

This is creating new challenges for Canadian and other retailers. Many now find smart, well-resourced digital platforms firmly entrenched between

them and their customers, fragmenting their relationships and capturing profits. Established platforms — with immediate global audiences and plug & play infrastructure — also drive down the cost and complexity of starting and scaling new businesses, amplifying small company competition against incumbent retailers and making it easier for their suppliers to go direct.

With value chains disaggregating everywhere, we see more and more specialized, platform-empowered start-ups carving footholds along the consumer decision journey, further separating traditional retailers from their consumers. The platform economy is one where players become co-dependent and must compete while cooperating to be successful. This is a highly unnatural shift for traditional retailers, many of which grew up in more regionally-focused, winner-take-all mentalities. With platforms not going anywhere anytime soon, retailers must embrace and adapt or risk missing opportunities with consumers that use these types of online shops.

Plug + Play Infrastructure

Google Analytics
 Amazon Web Services
 Facebook Log In

Immediate Global Distribution

Apple's App Store
 Google Play
 News Feed
 YouTube
 Google AdWords
 Facebook Ads

⁴ Source: Engaging Millennials: Trust and Attention Survey (The McCarthy Group).

2. Consideration:

The research also provides insights relating to the consideration process, whereby consumers aware of the offer take steps to further investigate it.

Canadian consumers were much more likely to consider price and promotions before making online purchases (37% vs global consumers at 27%). Price, more so than brand and product features, continues to be a key feature for online consumers in Canada, suggesting that retailers need to be very aware of how their products are priced versus competitors.

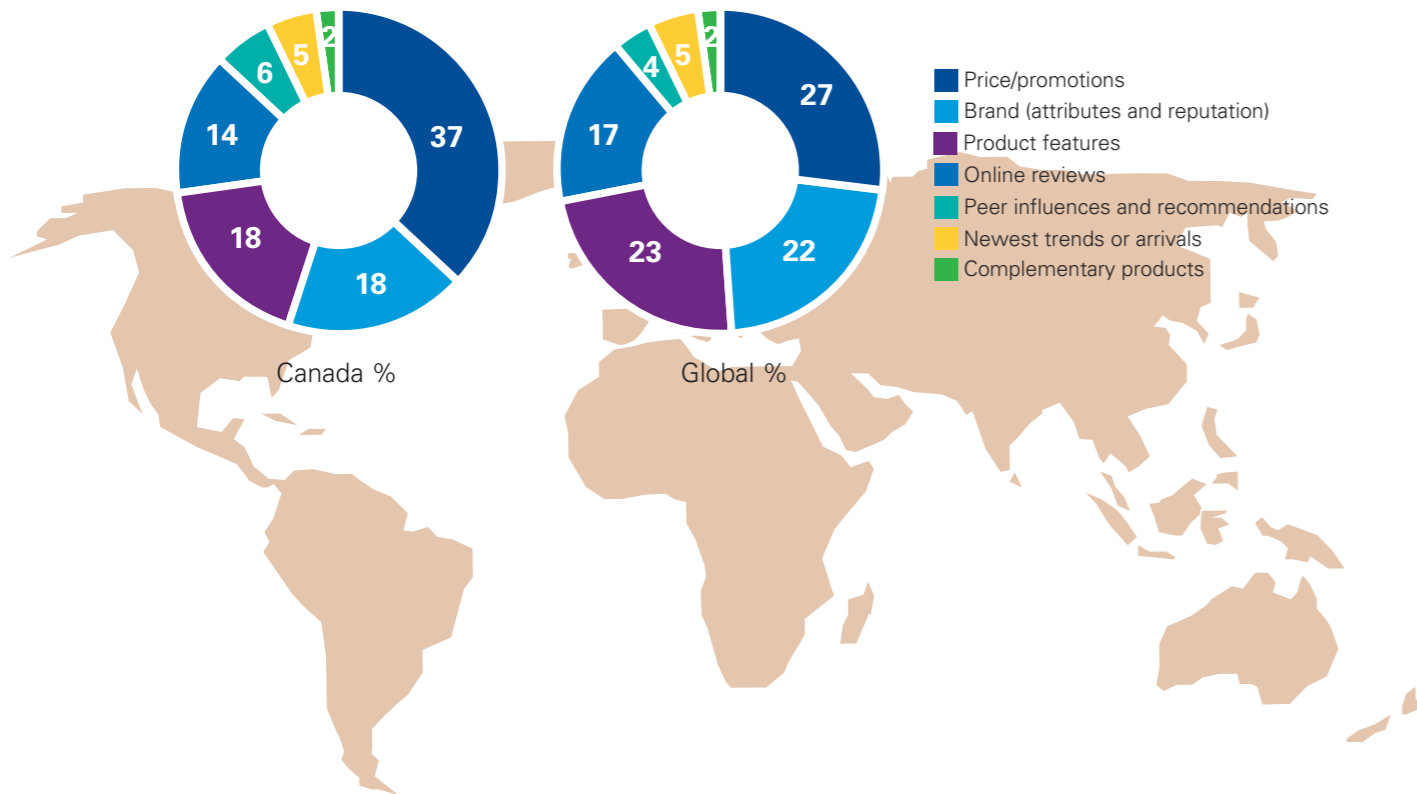
14% of Canadian consumers who made an online purchase considered online reviews as part of their consideration process. Tellingly, these reviews — often written by strangers but widely and easily available as part of the online process — were considered more than twice as often as peer influences and recommendations (6%).

The research shows that Canadian consumers are particularly interested in retailers' return policies to give them the confidence they want to make online purchases. When asked what was most important in deciding which online shops to buy from, 49% of Canadians

selected an "easy return policy," which was the second most cited answer after only "lowest prices" (65%).

In their search for low prices online, Canadian consumers are also more likely to value free shipping when considering their shopping options. Free shipping was cited by 44% of Canadians as a top reason to shop online, compared to 29% of global respondents. With free and short-turnaround delivery times increasingly becoming the norm, Canadian retailers will need to be thoughtful about how they compete.

Key considerations when making online purchase decisions: Canada vs. Global



3. Conversion:

In our survey, we asked Canadian consumers if they had purchased an item for each of 27 categories online in the past 12 months. The rate at which they had done so shows gaps to their global counterparts in most categories with the biggest gaps in food / groceries (14 points), household goods / appliances (9 points) and wine (8 points).

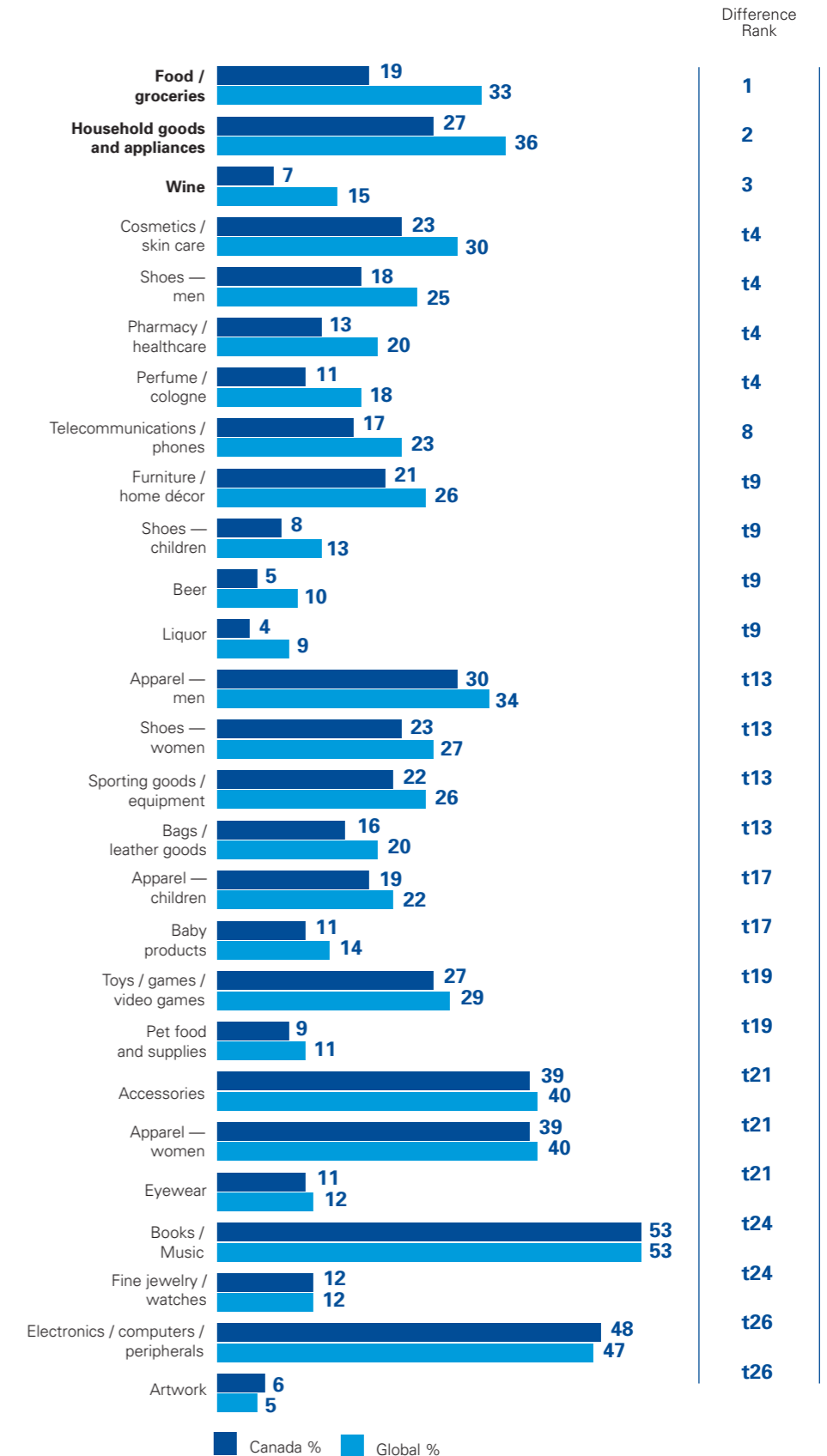
It is interesting to see that in well-established categories (books / music, consumer electronics), Canadians are as likely to buy online as their global peers yet they lag in their online purchasing overall. In line with that, low penetration in some categories is no doubt driven by lack of supply — grocers and liquor agencies have been slow, for example, to move offerings online rather than a hesitancy for clients to buy online.

Canadian consumers were also asked if they intend to purchase an item online in the next 12 months. The research confirms that we are at an inflection point, with 13 categories showing a greater than 10% increase in intent to purchase when compared to the previous 12 months.

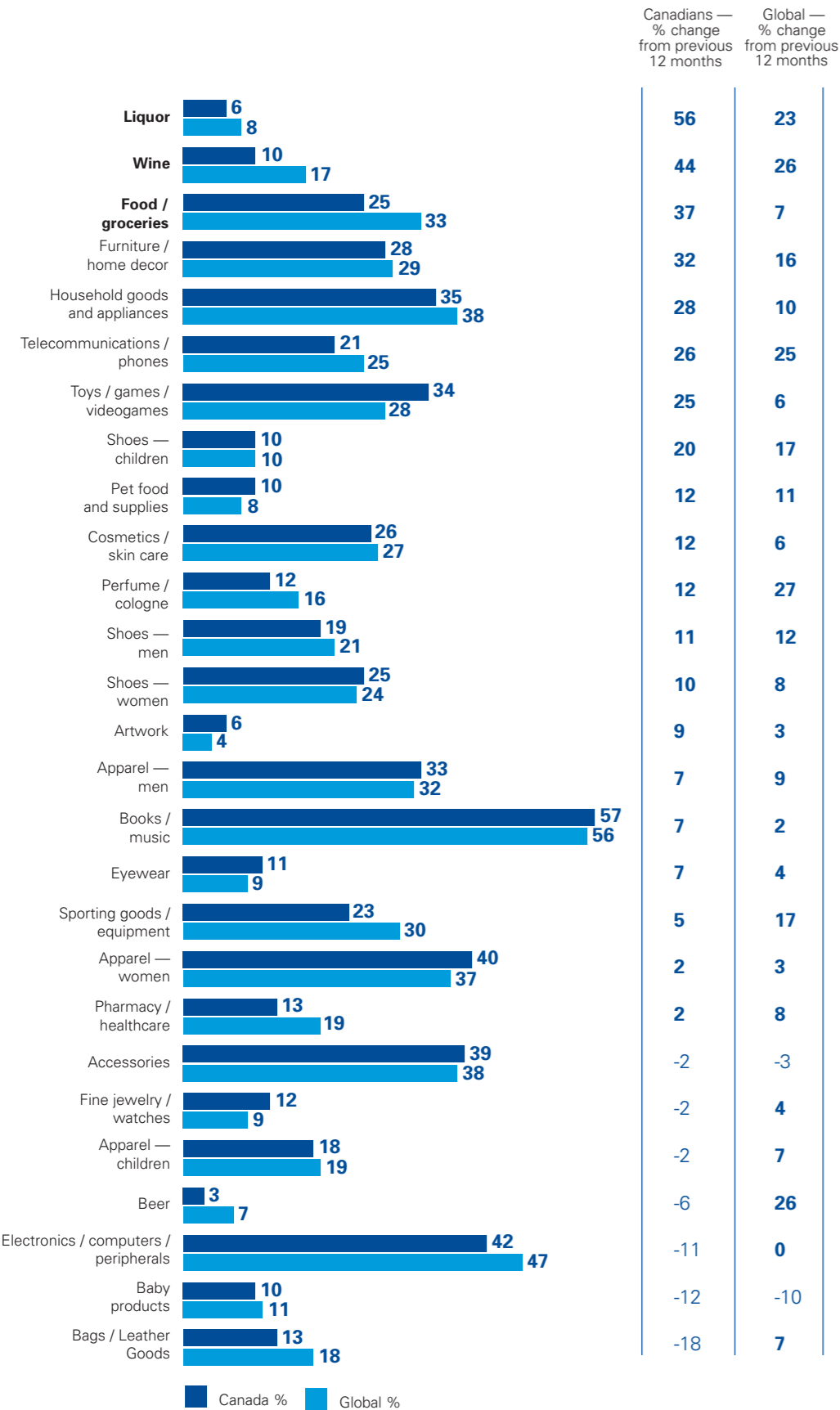
In particular, the opportunity for growth in online categories are liquor (56% increase), wine (44% increase) and food / groceries (37% increase).

We also see that despite this increase, Canadian consumers will continue to lag their global counterparts in terms of likelihood to make online purchases across most categories. Given the convergence of Canadian online purchase behaviour with global peers in mature categories like books / music and consumer electronics, we feel that this represents further opportunities for online growth in the Canadian market.

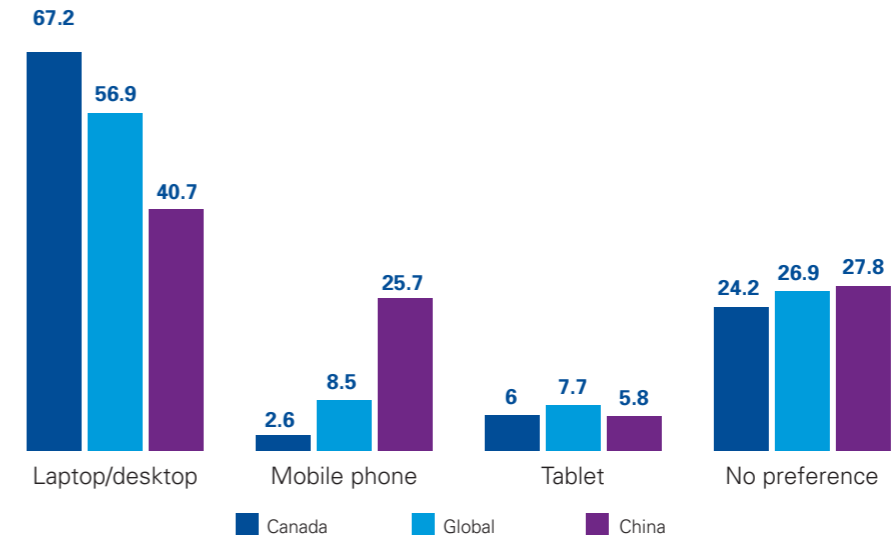
Purchases online in the past 12 months: Canada vs. Global



Expected purchases online in the next 12 months: Canada vs. Global



Device preferences for online shopping: Canada vs. Global vs. China



The study also looked at what channels Canadians are using to make their online purchases. More so than global peers, Canadian consumers prefer using their laptops/desktops (almost 70%) over mobile phones (less than 5%) and tablets (7%) when shopping online.

The sharp contrast in behaviours, particularly with China, likely reflects culture as much as it does that the mobile shopping experience in Canada is still emerging.

25% of Chinese consumers now prefer the mobile shopping experience.

The impact that market leaders — in China's case mobile platform leaders like Alibaba and WeChat — can have on consumer behavior cannot be overstated and we expect more retailers to invest in mobile platforms in the coming year.

Today, though, it is easier to browse and toggle across multiple windows of information on desktops and laptops than smaller mobile devices. Entering order information is also easier with a keyboard. But in other areas, once consumers have a positive experience

with a new technology (such as Wi-Fi on planes or one click ordering) they are quick to adopt new behaviours — and the convenience is a strong motivator!

Although we expect growth in online channels, most purchases are still happening in physical stores. The reasons listed below emphasize what influences that choice with convenience, price and selection appearing as the top drivers of purchasing online.

“In our view, mobile commerce has yet to take off in Canada not because Canadians don't want to make purchases from their phones, but rather because their retailers have yet to make it a simple, convenient, enjoyable experience for them to do so. Those who move first to improve the mobile commerce experience can expect a wave of Canadian consumers to follow them.”

— **Katie Bolla, Director, Customer & Strategy**

Top reasons for purchasing online rather than in-store



Top reasons for purchasing in-store rather than online



Top reasons for purchasing in-store reflect that consumers prefer seeing, feeling and trying on products before purchasing. This preference is driving pure play digital retailers to open store fronts and highlights the importance of serving consumers across both online and physical channels. It also explains why some categories, like fresh

grocery, have been slower to move online.

The next two reasons for preferring in-store to online (high shipping costs and long delivery times) are likely to be less of a barrier over time, particularly as new business models introduce faster turnaround and flat rate delivery pricing.

As consumer expectations rise, it is not enough to just offer or launch an online channel — this channel must satisfy consumer expectations and derive value. In the case of many Canadians, this means free shipping, quick delivery times and hassle-free returns.

“It is difficult for grocers to get their online grocery model right, but when they do, consumers seem ready to embrace it. Winning companies in this category have focused on specific segments, finding ways to encourage higher margin products and scale in their logistics.”

— **Andrea Baldwin, Partner, Customer & Strategy**

4. Evaluation

24% of Canadian consumers share their experience with others online. While this lags the global average of 31%, this will likely increase over time. China is the current global leader with 59% of its consumers sharing their experiences with others online.

This behaviour of evaluating products online post-purchase provides new information to retailers, giving them the opportunity to get immediate feedback, a better understanding of consumer expectations and an opportunity to

reinforce the loyalty loop, converting one-time-consumers into repeat consumers, and repeat consumers into advocates.

To build this long term loyalty, organizations need to earn consumers’ trust. The overwhelming top concern for Canadian and global consumers alike in this area is safeguarding their personal information and ensuring secure transactions.

Surprisingly, this is an area which business executives seem to be underestimating. While 65% of

Canadian consumers are concerned about companies protecting their data, only 26% of Canadian executives considered it a top-5 strategy for building trust⁵. A similar variance exists globally as well, with 63% of global consumers who felt that companies needed to focus on data security. Yet, only 27% of global executives considered it to be one of their top 5 strategies to building trust with consumers.

Tactics for organizations to build consumer trust: Consumer vs. Executive perspectives



⁵ Source: 2016 Global Consumer Executive Survey: Seeking Customer Centricity (KPMG International and The Consumer Goods Forum) and 2017 Global Online Consumer Report: The truth about online consumers (KPMG International)



The time to act is now

“We are not at the point of disruption in retail in Canada. We are already being disrupted.”

The key to achieving growth in the online channel will be a client centric offer across channels that delivers on consumers’ rising expectations.”

— **Willy Kruh, Global Chair and National Leader, Consumer Markets**

Overall, Canadian consumers want many of the same things as their global peers when shopping online. They are both interested in compelling offers, expanded selections, convenience and value that online shopping can afford. They are both demonstrating willingness and readiness to adapt their behaviour and decision-making for a seamless, intuitive end-to-end shopping experience. And they are both putting their trust in organizations that their data and sensitive information will be safeguarded in exchange for their business.

There are, however, several distinctions worth noting.

- Canadians tend to be more price and value driven than other consumers, and shop online with the expectation of special promotions and savings, including free shipping.

- Canadians lag in online purchasing across practically all product categories with the biggest growth in the next year expected in liquor, wine and food / grocery.
- Canadians are less likely to shop with their mobile devices.
- Canadians are not yet as active in sharing their post-purchase evaluations online as other global consumers.

As consumer expectations continue to rise, basic online offerings are becoming table stakes, with successful companies already looking beyond seamless integration of their sales channels to becoming the sales platform with their consumers at the centre⁶. There is great opportunity in the online channel but the time is now.

⁶ Source: 2016 Global Consumer Executive Survey: Seeking Customer Centricity (KPMG International and The Consumer Goods Forum)



How KPMG can help

KPMG’s Global Consumer Markets practice and Global Customer Center of Excellence work together to uncover the latest insights regarding the issues that consumer and retail businesses face, and the customers they serve. Our specialized industry teams have developed leading and innovative business strategies and solutions which are tailored to individual client needs. Utilizing these insights and solutions, we leverage our deep consumer and retail experience to help companies achieve and maintain the competitive edge they need to succeed.

Customer strategy and digital innovation

We want to help you reduce costs and grow your enterprise. We’ll work integrally with your business to define which innovative customer and digital propositions will drive enterprise value and optimum customer engagement.

Customer experience

We bring an outside-in perspective to help you understand what your customers are experiencing. By spotlighting your most critical customer journeys, underpinned by customer insights, we’ll help you define relevant and engaging customer experiences to drive customer retention, positive word of mouth, services and, ultimately, sales.

Marketing sales and service transformation

The front office is being revolutionized by digital disruption and rising customer expectations. We can help you envision the ecosystems and platforms you can leverage and design customer-centric service processes.

Customer data and analytics

Understanding and leveraging your customer data is vital to business transformation. This starts with a master data management strategy which we’ll help you define, alongside the governance and tools you’ll need to manage data securely across your enterprise.

Customer technology solutions

The ecosystems of technology that are the backbone of your business are more important than ever. We can help you source, develop and integrate technology solutions to complement existing business capabilities and create commercial value.

A customer-centric organization

The edges of the organization are blurring and digital is revitalizing the way we want to engage in the workplace. We can help you create a modern, digitally enabled organization structured around your key customer journeys.

About Consumer Markets

The retailers who succeed in today's environment of vast customer choice will be defined by their ability to make focused choices about the markets in which they compete, the customers that they serve and the experiences that they deliver.

At KPMG, we combine a deep understanding of the Consumer Markets industry with operational experience to help your company realize its potential with the customers of tomorrow.

For more information about our services, please contact us:



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