



Canadian retailers stepping up to disruption, but feeling the pressure of the “new normal”



Modern retailers face no shortage of changes and challenges on the horizon. And in KPMG International’s **2018 Top of Mind** survey, it’s clear there is much on their radars as they navigate the increasingly fierce competition, disruptive technologies, and demographic trends of the “new normal”.

Are Canadian retailers holding their ground? How far along are they in their digital transformations? How do they compare to their global peers? Ahead are key insights from Canadian participants in this year’s global Top of Mind survey. While the sample size isn’t large enough to speak to the Canadian retail landscape writ large, it does highlight interesting findings that point to an ever-changing consumer and retail industry in Canada.

Appetite for disruption

Canadian retailers share a conflicted relationship with change. They are both aware of the industry disruptors, yet reluctant to react. They recognize the value of new technologies and business models, but are unconvinced of their impact or ability to use them effectively.

This cautious approach is evident throughout this year’s Top of Mind survey. Nearly a third of Canadian retailers who participated in the global survey say they are struggling to keep pace with change, while almost a

half (46%) admit their desire to take action is being held back by an aversion to risk (compared to 36% of global respondents). Equally telling is that only half of Canadian retail executives feel prepared to confront their disruptive competitors and little over a quarter (26%) are intent on being the ones to disrupt within their market (compared to 40% global).

Even still, digital transformation remains high on the list of Canadian retailers’ priorities. Over two-thirds have made accelerating digital transformation a core business strategy and a majority are moving forward with confidence in their ability to overcome obstacles such as industry convergence, shifting demographics, new market entrants, and e-commerce competitors, including large global platform companies.

It’s a sense of confidence tempered by old fashion Canadian caution. An urge to compete cooled by a reluctance to depart from old ways. This may seem contradictory, but digital transformation is anything but straightforward.

En route to transformation

Cautious though they may be, Canadians are still committed to transformation. The 2018 Top of Mind survey reveals a growing interest in using cloud computing, AI, automation, and digital channels to drive operational efficiencies and forge stronger customers connections – both in Canada and globally. The rate at which Canadian retailers are adopting these technologies remains lower than that of the U.S. and other global jurisdictions, but the pace is picking up.

There are reasons why Canadian retailers are playing catch up. One is simply that the threat of foreign competition hasn’t been as motivating a factor as it’s been for retailers outside our borders. Canada is a multi-cultural nation spread thinly over a territory with uniquely different markets. As such, there is not tried and true “one-size fits all” business model to count on for new market entrants. This has made Canada a difficult prospect for foreign competitors, whereas homegrown retailers have the advantage of local market knowledge and experience.

Investing in solutions

Canada's appetite for digital transformation is demonstrated in its current and future investments. When asked which technologies they were using, 2018 Top of Mind survey participants from Canada noted to the top five answers:

Cloud-based tech

69.6% are using now 13% will adopt within 2 years

> global and North America

E-commerce platform

43.5% are using now 13% will adopt within 2 years

> global and North America

Biometrics/digital identity

34.8% are using now 34.8% will adopt within 2 years

< global and North America

Internet of Things/sensors/wearables

34.8% are using now 26.1% will adopt within 2 years

> global and North America

Cybersecurity

30.4% are using now 26.1% will adopt within 2 years

< global and North America

Canadians are also generally more conservative by nature. Retailers have been less willing to jump into technology investments until the business case is clear and those tools have been fully tested. To say Canadian retailers are complacent, however, would be a simplification. They've fared well moving at their own pace and have taken action to evolve when needed. And now that the impetus for change is stronger than ever, many are taking steps to gain more confidence around disruptive technologies and business models, and face competitors on their physical and virtual turfs.

Customers at the wheel

Canadians have digital transformation on their minds, and driving that mandate is a need to become closer with their customers. According to the Canadian data in the 2018 Top of Mind survey, customer centricity is the number one motivator behind digital investments (60.9%) followed by product innovation (39.1%), business model transformation (34.8%), supply chain upgrades (30.4%), and process management (30.4%).

Many of our clients echo this external focus. While back-office upgrades are on their radar, more are intent on using technology to improve the customer experience either through innovative in-store experiences, online channels, loyalty programs, or tech-enabled touch points.

And we're making progress. One need only look to "click-and-collect" programs among large-scale grocers, country-wide loyalty programs like PC Optimum, or hybrid digital and physical experiences from online clothing outlets like Harry Rosen for proof that Canadian retailers are making moves to connect to their target markets.

Still, roadblocks remain. A majority of Canadian retailers are still relying on antiquated legacy systems to support their digital ambitions, and more still are reluctant to foot the bill for much-needed upgrades. Indeed, budget constraints is among

the topmost obstacles to digital transformation in this year's survey, followed by ROI uncertainty, lacked of skilled resources, and legacy systems to name just a few.

In addition to the costs of digital transformation, many are now also contending with the change management aspects that come along with embedding AI and data analytics, or migrating traditional operations and skills to the cloud. As such, Canadian retailers are still on the path to aligning (and finding) the technology, talents, and governance approaches to unlock the full potential of the data at their fingertips.

Data-driven strategies

In the digital era, to get closer to customers is to become adept at collecting, managing, and analyzing data. The good news is Canadian retailers are pursuing these capabilities at increasing rates. They're wielding data to enhancing both back-office operations and customer-facing services. Across the board for Canadian survey participants, data analytics is being used to inform dynamic pricing (47%), customer segmentation (43%), retail space planning (39%), consumer behaviours (30%), and any number of functions. Furthermore, Canadians are likely to increase their usage of data analytics for all business strategies by 2020 and, in many cases, more so than their global peers. The verdict is still out on whether or not they can be effective in using it, but confidence is growing.

Rising to the competition

Many things keep Canadian retailers up at night, yet one of the biggest is being out-competed by the Amazons, Alibaba's, and other disruptive business models of the world. When asked which market trends will pose the most significant challenges for their company, Canadians ranked "new

competitors with a disruptive business models and brands" and "competition from e-commerce platforms and companies" as their topmost concerns at 43.5% each.

The fear of being "out-Amazoned" is high among Canadians across all retail sub-sectors. It's even higher than our global peers, who have arguably been contending with online competition and digital disruptors for a longer time. And with even more disruption and competition to come, Canadians are now motivated than ever to face their new market entrants head-on.

The case for brick and mortar

Many have foretold the death of brick and mortar, yet those predictions may be exaggerated. Certainly, 60% of Canadian retail executives surveyed in the global survey believe physical retail outlets will look significantly different over the next two years and 70% are themselves planning new business models or re-evaluating existing ones. Nevertheless, a majority still conduct most of their business through physical stores (and expect to continue doing so for the foreseeable future) while fewer than half predict they will decrease the number of retail stores over next two years.

While some clients suggest they will be thinning their portfolio, there appears to be a trend beginning in the opposite direction. A number of companies that originated online are now beginning to introduce physical "showrooms" to offer hybrid experiences for customers; while anecdotal evidence from our clients suggest players in the grocery space are eyeing even more locations in the years to come.

In fact, brick and mortar stores may last longer in Canada than other jurisdictions. We don't yet have the logistics to support online-only shopping across our large and spread out population in a cost-effective manner. The demand to move product across

the country is too much for our current talent pool, and we have yet to roll out the self-driving vehicles and automated transportation networks to make up for the lack of human drivers. Herein, until we can adequately support an online dominated retail market, physical locations aren't likely to go away any time soon.

Making allies

The journey towards digital transformation is one that Canadians aren't likely to take alone. To secure the new technologies, platforms, and innovations in time to compete with new market entrants, a majority of Canadian retailers (83%) said they are much more likely to partner with technology providers when adopting new technologies – 20% more than global competitors.

Payment modernization

Canadian retailers are less prepared for digital currency than their worldwide counterparts. Only half of Top of Mind survey respondents say they are moderately prepared for digital currency, while barely a quarter are confident in their ability to adapt to cryptocurrencies.

This attitude may seem at odds for a country known for being the highest penetration of debit cards in the world. But then, our lukewarm reaction to cryptocurrencies may be owed to the fact that the likes of Bitcoin or Ethereum haven't become mainstream (or trusted) enough to deserve attention.

Canada's payments modernization efforts will influence future attitudes towards digital payments. As we get closer to open banking and third-party overlay services, customer awareness around digital currency will likely grow. Here again, retailers can attempt to stick to tradition, but are better served by looking to the future.

Consumer markets are becoming crowded and the price to play is rising. Despite this, Canadian retailers are not backing down from the competition. They may still be in the earlier stages of our transformation, but they're catching up fast.

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