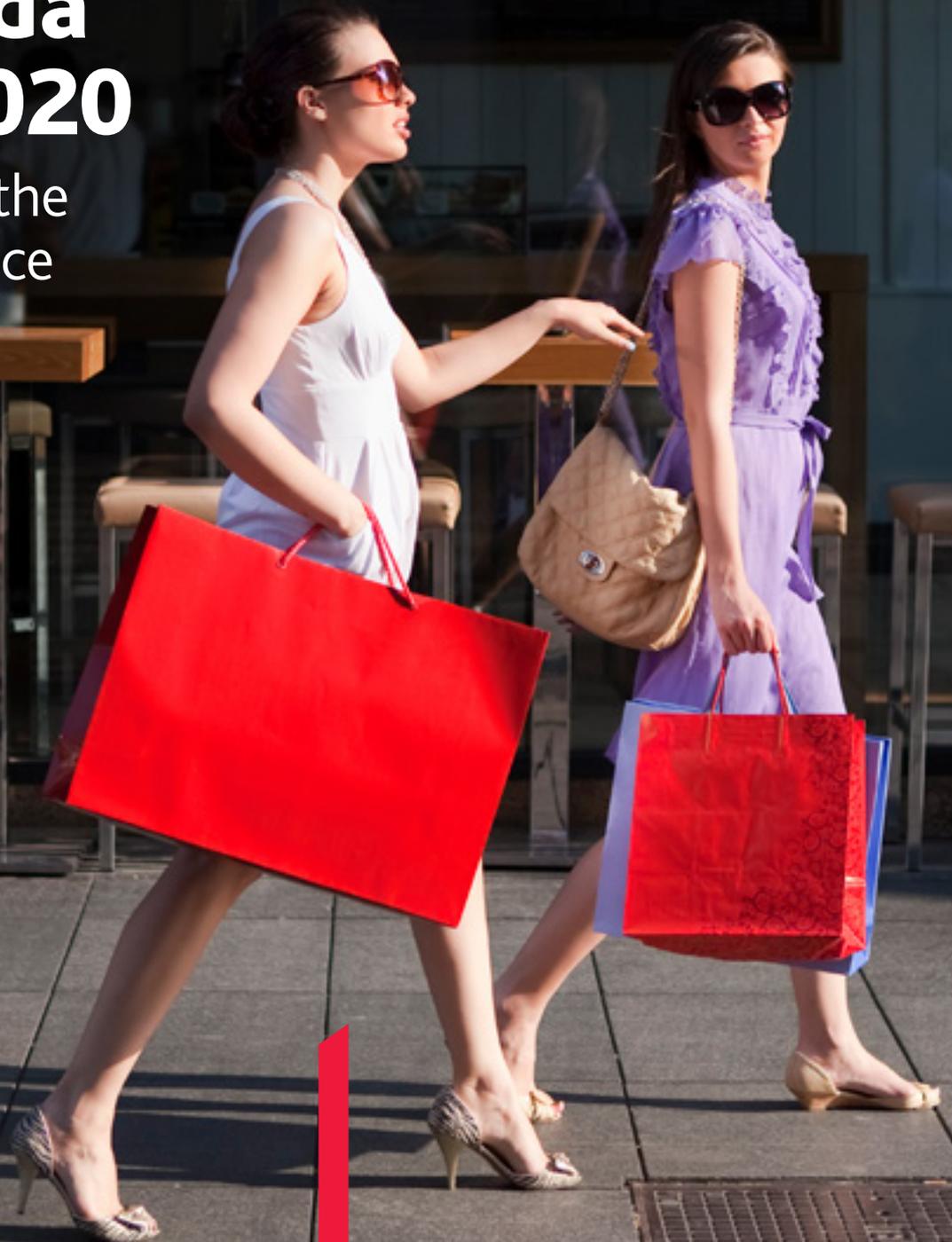


# Retail Trends in Canada 2019-2020

Transforming the  
retail experience



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## Introduction

### Retail is undergoing a revolution.

Consumers are changing, commerce is moving faster, and the old way of doing business is gone. Large retailers and non-traditional competitors are making big investments and taking big risks to gain market share.

The Canadian market is also a challenge. The sector has rebounded after a weak start in 2019, but predictions of an economic downturn are leaving many uneasy. Retailers are also facing a shift from the traditional business model to a digitally integrated, omnichannel way of operating — while still having to work within Canada's inherent logistical constraints. Whether independent and mid-market retailers realize it or not, their business is on the line.

This report provides insight on five key retail trends that will affect your business, now and entering 2020: market polarization, real estate strategy, digital transformation, omnichannel retail, and customer experience. For many retail business owners, these issues can seem overwhelming, but all have a common theme. Each one offers retailers the opportunity to transform the way they do business, grow their operations, and deliver on the customer experience.

In addition to offering actionable strategies for growth, we spoke with key industry stakeholders to get their perspective on pressing questions and concerns for retailers in Canada.

Over the next few years, it will be make-or-break time for many in the retail industry. It's time to decide the path forward.

## Market polarization

### What colour is your retail parachute?

#### The mid-price market is a tough place to be for independent and mid-market retailers.

Big retailers are fighting for market share and dominating sales, online and offline. Small and mid-size businesses are finding it harder to compete and in some cases, even closing up shop.

#### Large retailers and marketplaces are leading the market

In 2017, 28% of non-auto retail sales were from the top three retail conglomerates in Canada (Weston Group, Wal-Mart Stores Inc., and Costco Wholesale Corp.), according to the Centre for the Study of Commercial Activity (CSCA).<sup>1</sup>

In 2018, marketplaces accounted for 52% of online retail sales globally<sup>2</sup> and revenues are expected to double by 2022.<sup>3</sup> In Canada, it's estimated that Amazon had more than \$3.5 billion in e-commerce sales in 2016,<sup>4</sup> while the company itself reported that Prime orders doubled in 2018.<sup>5</sup>

Amid all this growth, however, a number of mid-price retailers are closing their doors, including

prominent brands like Town Shoes, Payless, and Home Outfitters.

#### Canadians want convenience and value

In a recent survey by the Retail Council of Canada (RCC), 30% of respondents chose a retailer based on convenience, while 40% cited good value as a reason behind their choice.<sup>6</sup>

Big players and non-traditional retailers are delivering on these two fronts. Disruptors like UberEats are growing in popularity while retailers like Walmart and Loblaws are investing in technology and e-commerce to improve one-stop shopping and fulfillment capabilities.

It's never been easier for consumers to get the things they want, at price points that suit their budget.

#### Luxury and value retailers are growing

While the battle for the mid-price market goes on, the luxury and value ends of the shopping spectrum are thriving.

In 2017, almost 40% of international entrants to the Canadian retail market were luxury brands. That same year, Toronto was among the top 10 cities in the world for luxury retail store openings.<sup>7</sup>

**40%**  
of shoppers chose  
a retailer based  
on value.



Value and off-price retailers have found just as much growth. Brands like Nordstrom Rack, Muji, and Mumuso made buzzworthy Canadian debuts in the last few years, while Dollarama opened 65 new stores in its fiscal 2019 and expanded into online shopping.<sup>8</sup>

Canada is a prime market for both of these retail subsectors. Generally, Canadians enjoy a high standard of living and are becoming more affluent, but we are also value conscious and frugal. In the RCC consumer survey, 39% of respondents named finding a great deal as the shopping activity they enjoyed the most; a sentiment shared by all age demographics.<sup>6</sup>

### What does this mean for retailers?

Market polarization will intensify. The retail supply chain is faster and more compressed, driven by technology and consumer expectations for immediacy and convenience. Fulfillment speed is unlike anything we have seen before, and will only accelerate as larger retailers continue to develop capabilities like same-day delivery, buy online pick-up in store (BOPUS), ship from store, etc.

Retailers must rethink their business to align with today's shoppers, understand what makes the business unique, and give consumers a reason to return.

## Don't just survive — thrive

As polarization increases and consumer expectations grow, it's not enough to simply get by on being average. Canadian retailers must do more to remain competitive.

A recent BDO USA survey<sup>9</sup> divided retailers into three categories, based on a respondent self-assessment: thrivers (experiencing profit and growth), survivors (experiencing stability), and strugglers (experiencing lack of profit and/or difficulties competing). Those who identified as retail thrivers named some of their top competitive differentiators:<sup>\*</sup>



<sup>\*</sup>Respondents were able to choose more than one response.

### Build on your strengths

Independent and mid-market retailers have advantages that bigger competitors find challenging, says Diane Brisebois, President and CEO of the RCC. Personalization and close connections to customers are key differentiators in a competitive market, as well as the ability to attract loyal, dedicated staff.

“For a small retailer, it is essential to go that extra mile, to make the customer feel the experience is tailored to them. Independent retailers that are successful have been able to do this well. Their customers are devoted to them, and are usually their biggest promoters.”

- Diane Brisebois, President and CEO, Retail Council of Canada

### It may be time to pick a side

Are you Nordstrom or are you Dollarama? Are you a convenience provider or an experience provider?

While it may seem radical, it could be time to choose which side of the shopping experience you want to be on. Define your business and your customers, and resist the temptation to be all things to all consumers.

### What retailers can do next

For retailers who operate in the mid-price range, it's time to sharpen your game. In some cases, a polarized market could offer exciting new opportunities.

#### Cut through the noise with digital marketing

BDO's Retail Rationalized survey showed that marketing is an important priority for retailers, with 49% making significant investments.<sup>9</sup>

Digital marketing should go beyond creating a website or e-commerce site. Hire staff or employ partners that can create and manage a strategy that includes search engine optimization (SEO), email marketing, social media outreach, and mobile commerce.

#### Find strength in numbers

Changing your business can be difficult, no matter the size of retailer. While mid-size and independent retailers are often more nimble, they may not have the in-house expertise or resources to fully implement digital or fulfillment strategies.

For smaller and independent retailers, forming a buying group with other retailers can make it easier to roll out new programs at scale and stay competitive in the market. Collaborating with multiple small and mid-sized retailers on delivery and shipping services, for example, could create scale on fulfillment. For others, acquiring competitors or companies with complementary services could be a way to achieve growth.



### Get a formal strategy and operations review

Whether pivoting towards luxury or value, or revitalizing the business for the mid-price market, the first step should be the same: understanding where you are today so you can plan for the future. Without a full review of your business strategy and operations to inform your next move, any decision will be doomed to failure.

Engaging a professional, experienced consultant can provide retailers with a big picture view of the business. An advisor can help identify strengths, weaknesses, and opportunities for efficiencies, as well as establish a plan for future growth.

**49%**  
of retailers have made  
significant investments  
in marketing.

**Contact us for help with  
your business strategy**

## Refocusing real estate

### Think outside the (big) box

The reports of bricks and mortar's demise have been greatly exaggerated, but the challenges have not been.

E-commerce is undoubtedly growing, but that doesn't mean the physical store is dead. In fact, the RCC found that 86% of transactions take place in-store.<sup>10</sup> But as consumer demands change and the shift to omnichannel retail begins to take hold, retailers must rethink how their physical space aligns with the needs and behaviours of their customers.

#### It's a landlord's real estate market

According to the CBRE, Canadian real estate is a landlord's market, with record-low vacancy rates and an all-time high demand for commercial property. The need for industrial warehouse space is particularly pressing in urban centres, driven in part by e-commerce, but land supply in some areas is low.<sup>11</sup>

As real estate costs rise and land becomes scarce, retailers who want to expand their storefronts or their fulfillment capabilities may be limited by price and availability.

#### New formats offer new opportunities

Retail is no longer a one-store-fits-all environment. To boost foot traffic and optimize the value of real estate assets, retailers are tailoring and experimenting with pop-up shops, smaller stores, and new distribution strategies.

- ▶ **Urban and marketplace formats** allow retailers to reach shoppers in densely populated areas, who want the in-store experience without the necessary car ride. Grocers like Vince's Market and Longo's have already adopted this concept. While not yet available in Canada, Ikea introduced urban planning studios in New York and London as an alternative to its big box locations.<sup>12</sup>
- ▶ **Mixed use and shared spaces** are more common in retail, particularly as developers look to create community-based projects and divvy up leftover spaces from shuttered department stores. Grocers, again, have led the charge on setting up shop within new condo developments.

### The impact of the last mile

While always top of mind, the challenges of the last mile are becoming more prevalent. To meet customer demands and improve fulfillment, some retailers are making major investments to build state-of-the-art warehouses.

Others are taking a different approach by using stores as distribution points. Canadian Tire is piloting robotic pick-up towers in its storefronts at select locations across Canada, while Ikea is rolling out smaller-scale stores that focus on ordering and fulfillment.

## Shopping malls are in transition

Shopping malls in Canada have generally fared better than malls in the U.S., but they have not been immune to the changing market. Urban malls that focus on experience and luxury continue to succeed, but those in the suburbs are going through a period of reinvention.

As the mid-price market continues to struggle, mall owners are beginning to use their space in new ways. Anchor tenants are shifting from traditional department and big box stores to experiential ones, like gyms, restaurants, and movie theatres. Some are even repurposing for professional and medical office space.

### What does this mean for your retail business?

Real estate has always been, and will continue to be, important for retailers. What's changing is the traditional model of setting up your store, as retailers adapt to the multiple ways that people shop.

#### A different type of footprint

Bricks and mortar is still a key channel, but retail business owners need to rethink the purpose of their space. There will be a shift in retail real estate; the type of footprint (rather than the size) you have may need to change and veer more sharply towards either an experiential or a fulfillment focus.

#### The 'wow factor' is vital

For the RCC's Diane Brisebois, the 'wow factor' is everything. Retail is a tough industry. Every year, it gets a little tougher to stay competitive. Your store is more than just a place to display merchandise. Bricks and mortar locations must tell your story and create a sense of community and belonging for your customers.



**86%**  
of transactions  
take place in-store.



### What retailers can do next

Leasing space is one of the most significant costs for a retailer, which means it's important to get bricks and mortar right. Real estate considerations must be included in your overall business strategy.

#### Consider a new type of location

Shopping malls have often been the domain of larger chain stores and franchises, especially those that are located in more suburban areas. As these shopping centres look to reinvent themselves, they could offer new opportunities

for expansion and strategic locations — not to mention, a potentially good real estate deal.

In addition to shopping malls, consider growing or revitalizing neighbourhoods and non-traditional locations such as sports venues, theatres, and condos as potential spots to build new business.

#### Work alongside your landlord

Expanding your bricks and mortar strategy doesn't necessarily mean taking on new assets. It could be as simple as optimizing the space you have already.

Analyze your location(s), square footage, customers, value drivers, and overall business strategy objectively. Look for creative ways to use the space. A retailer who is focused on fulfillment, for example, could work with their landlord to provide dedicated parking or construct a small pick-up and loading zone.

#### Understand the full value of your assets

A valuation can help retailers understand what's really driving the worth of their business and how various assets contribute to its value. With this knowledge, a business owner can make a number of informed decisions, including how your real estate footprint affects the bottom line and how changes to your bricks and mortar space could drive additional profitability.

**Contact us to discuss your real estate strategy**

**47%**  
of respondents used  
smart speakers to  
search for products

## Digital transformation

### Taking tech to the next level

Digital is no longer an add-on or nice-to-have for retailers; it's the glue that holds your business together.

New technologies and disruptors are affecting all aspects of retail, from online, to storefront, to back office. Retailers must make smart digital investments that support business and operations to drive the customer experience.

#### Introducing the smart store

Bricks and mortar stores are getting more digitally connected. Smart shelves and RFID tags, mobile devices and tablets, and beacons are just a few of the technologies used to manage inventory, reduce friction, and personalize in-store shopping.

U.S. grocery chain Kroger made headlines in early 2019 by announcing its smart stores pilot, which will incorporate digital shelves, LED signage, and automation<sup>13</sup> But they're not the only retailer that's upping the digital ante:

- ▶ **Canadian Tire** outfitted its concept store, North Point, with tablets on the sales floor and in the change rooms. Customers can

call sales associates for assistance and check product availability and details.<sup>14</sup>

- ▶ **Home Depot** integrated wayfinding and barcode scanning capabilities into its mobile app, to help shoppers locate and review products in store.<sup>15</sup>
- ▶ **Indigo** armed sales associates with mobile devices connected to back-office systems, to speed up customer checkout during a busy holiday season.<sup>16</sup>

#### The automation of the shopping journey

Artificial intelligence (AI) and automation will have a major impact on the retail industry. As shoppers feel more pressed for time and look for convenience, AI-enabled automation can help create a frictionless retail experience.

Many of the building blocks for shopping automation already exist or are in development, such as self-checkout, mobile apps, and delivery drones.

## Retail's biggest tech disruptors

Technology is no longer the sole purview of big retail conglomerates; it's becoming more accessible for all retailers. These tech trends have the potential to change the industry.



Data



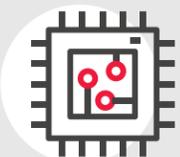
Mobile



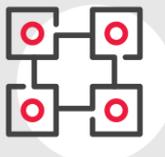
Voice



Social



AI



Blockchain



5G

Voice technology could be the next big disruptor to drive automation. A survey by Adobe Analytics found that while actual shopping was still an emerging use, many smart speaker owners used the devices for early stages of the shopping journey, such as research.<sup>17</sup> Of the survey respondents:

**47%**  
used voice to search for products

**32%**  
used voice to compare prices

**43%**  
used voice to make shopping lists

**28%**  
used voice to research store information

### Data-driven retail

Data is changing the way retailers do business. Business owners are enhancing the shopping experience and making smarter business decisions by using data insights to determine stock levels, layout and merchandise displays, and store locations.

Using data for personalization can provide a competitive edge; it's in high demand from consumers of all generations. A recent study by Salesforce found that 68% of Millennial and Gen Z consumers enjoy receiving product recommendations based on their purchase history, with 62% of Gen Xers and 55% of Baby Boomers/Traditionalists agreeing.

The same study found that while click-through was low on personalized offers, those shoppers that accepted accounted for 37% of revenue.<sup>18</sup> Despite the lower click-through rate, personalized offers still have the capacity to drive sales, and can have value as part of a larger data strategy.

### What does this mean for your retail business?

Technology is an equalizer for mid-market and independent retailers. Over time, and used correctly, it can help level the playing field against larger competitors with greater resources.

### Digital must integrate with operations

Digital will define how your retail business operates, including how you go to market and grow customer loyalty. It's not enough to treat it as an administrative support function or a separate business unit — it must be ingrained in your operational DNA.

One of the most common missteps is building operations around technology. Digital transformation must be implemented within the context of a larger business plan and not ad hoc.

### Retailers need to invest wisely

A wide breadth of tools and solutions are available, including analytics platforms, e-commerce and inventory management systems, mobile apps, interactive screens and digital signage, social media tools, and much more. Choosing the wrong one could result in a

poor customer experience and lead to a negative impact on your business.

While technology is becoming more affordable, most independent and mid-market retailers still can't spend as much as their larger and non-traditional competitors. Business owners need to do their homework. The bets you're placing now are bigger than ever.

### Your business is on the line

Long-standing barriers to digital have been cost and the ability to prove return on investment. As more tech companies roll out affordable and scalable solutions for small and medium-sized businesses, those obstacles are lessening.

The ROI of some technologies can be elusive, but there is little doubt that a significant qualitative effect is customer retention. Digital can help you deliver a good and consistent customer experience that reduces friction and boosts loyalty.

### What retailers can do next

Retailers must shift their way of thinking and build digital into their vision and strategy from the very beginning. Technology cannot be the fourth or fifth business decision; it must be the first.

**Contact us to get started on your digital transformation strategy**

### Take the first steps to digital transformation

Reimagine your retail business through a digital lens. How can technology help you to reduce barriers or points of friction and increase efficiency and revenue? Not everything needs to be done overnight. A well-conceived plan has long-term goals with short-term priorities to achieve incremental change.

A digital consultant can help you build an overarching strategy with tactical roadmaps that address:

- ▶ Technology selection and implementation
- ▶ Change management and staffing
- ▶ Financing plans
- ▶ Risk management
- ▶ Essential business structure changes (accounting, tax, back-office considerations, etc.)

### Start with the end goal: the customer experience

The vast number of technologies and digital solutions available can be overwhelming, but the first question that any retail business owner must ask is, what is driving the overall customer experience?

Look for the parts of your business that cause the most friction or have back-office inefficiencies. Work backwards to determine which aspects of your business model need to change and how digital can optimize the shopping journey. For a greater understanding of what consumers want, consider surveying your customers for



Business owners need to do their homework. The bets you're placing now are bigger than ever.

their feedback and/or studying your peers and competitors for ideas and best practices.

### Develop a proactive cybersecurity plan

A shift to digital can include new risks. Retail is a highly susceptible industry for cybercrime. An attack can lead to significant financial and customer losses and many retailers are not adequately prepared.

In a recent [BDO survey](#), 28% of retail respondents named cybersecurity concerns as their top challenge to implementing new digital initiatives.<sup>19</sup> A cybersecurity advisor can help you

assess and safeguard your business against risks by building a plan that includes measures for prevention, crisis response, and recovery.



### Retail tip

What are the biggest cybersecurity risks for your retail business? Our infographic explains what to look for and how to prevent an attack.

## IN CONVERSATION WITH Canadian Tire's SVP of Merchandising

Regardless of size, location, or subsector, many retailers in Canada are asking themselves the same questions. How can we stand out in a competitive market? What are the right investments for the business when it comes to digital technology? What's the best way to deliver on customer experience? How can we successfully implement an omnichannel strategy?

We spoke with Mike Magennis, Senior Vice-President of Merchandising at Canadian Tire, to get his perspective on some of the key issues in this year's Retail Trends report and the industry itself.

### On differentiating in a competitive market

Retailers need to understand what shoppers truly want to stay competitive. The key, Magennis says, is maintaining relevance with your customer base. "Retail is changing, like everything else. It used to revolve around product, price, and brand—now the importance of brand and experience is expanding."

"For customers, it's not just about getting the product at the right price; it's how they experience

our brand. As we think about the shopping process, we need to think about how we are engaging with those customers along the way."

Canadian Tire uses a number of programs to gather information and create meaningful connections. By embedding this information into core decision-making processes and business strategies, says Magennis, it can deliver on attributes that customers value through programs like Triangle Rewards or Tested for Life in Canada.

### Data as an important digital investment

Data is a vital tool for retailers, but business owners must go beyond simply collecting information. It must drive the business forward.

"If you're data rich and insight poor, that data is not going to be helpful," says Magennis, "There is a lot of great, valuable information available, but the key is to present and use it in a way that is digestible, transparent, and actionable in terms of moving the business forward."

He cites the potential of predictive analytics, as well as automation and AI, to drive efficiency and

experience. These tools can help retailers manage non-complex tasks and free up capacity for strategic work. They can also contribute to better customer relationships, by allowing retailers to identify high-value customers and create personalized experiences.

### The role of bricks and mortar

Bricks and mortar still has a big role to play in retail, says Magennis, but it's now embedded in an omnichannel experience, where digital and physical elements work together.

"That experience in the store, the touch and feel of the product, is very important," he says. "The store needs to represent our brand promise. We see the store as the hub when we think about our retail strategy."

Things like localization, community, and brand elevation are of the utmost importance—they must be reflected in everything from the product assortment, from the size and layout of the store to the fulfillment options.

### Omnichannel challenges

Omnichannel retail is fundamentally changing the industry, but it's not without its challenges. One of the biggest issues, says Magennis, is pace. Helping customers to shop for the products they want, when they want, and how they want is crucial, but that type of frictionless experience needs consistent and careful execution. As an omnichannel retailer, Canadian Tire takes care not to roll out new capabilities at the expense of the customer experience.

"For some, pace is more important than successful execution. There has to be a balance between the two," says Magennis. "[Frictionless retail] is complicated, it's dynamic, and it's not cheap. These are specific investments that retailers are trying to make; you have to be very deliberate and very strategic in your approach."

### The drivers of the customer experience

At Canadian Tire, the customer experience is centred on consistency and delivering on the brand promise. Consumers are enabled to shop whenever and however they want to, and get the same experience across the entire network.

But consistency doesn't mean staying the same.

"You're never really done," says Magennis. "There's always change, because you're dealing with people. It's the nature of the business we're in." He highlights the test-and-learn culture as highly important. Retailers need to find better ways of doing things, whether that means trying out new initiatives or improving on existing ones—then build best practices into the business.

"Understand the question you're trying to answer and measure it," says Magennis. "If it's working, scale it out. If not, move on. Be methodical and deliberate in driving the types of initiatives that will improve execution."

Above all, a meaningful relationship has to exist. "Customers have an emotional connection with the Canadian Tire brand. We take that as a real privilege and take pride in it. We don't take it for granted; we want to build on it."

# The new omnichannel reality

## A new way of thinking

### Retailers must accommodate omnichannel retail to grow, but it's opened up a new world of opportunities and risks.

With fewer retailers taking a pure-play approach, business owners must fully understand what it means to go omnichannel in order to succeed.

#### There are more ways to engage customers than ever

Consumers use multiple channels to shop; online or in-store, they expect a personalized, consistent, and frictionless experience. Mobile commerce is a growing platform, as more people use their smartphones to research and purchase products. Voice-activated shopping may not be far behind.

Social commerce is poised to have a big impact, as platforms roll out new retail features. Instagram introduced in-app checkout capabilities on shoppable posts for brands and influencers.<sup>20</sup> Snapchat is working with Shopify on similar functions and announced plans to develop a visual search tool with Amazon.<sup>21</sup>

#### And more options for fulfillment

Retailers are providing greater flexibility and innovation at the purchase and fulfillment stages. At Walmart's new urban supercentre, customers can shop and pay for items using a mobile app.<sup>22</sup> Space is devoted to customer pick-up areas, which the company is emphasizing over home delivery.

The grocery sector, which has long relied on a traditional bricks and mortar shopping experience, is undergoing dramatic change. A recent study predicts that Canada's e-grocery market will grow by 21% CAGR by 2023.<sup>23</sup> Major chains like Loblaws, Sobeys, and Costco are making significant investments in online shopping and fulfillment, leading to more options for in-store pick-up, click-and-collect at designated hubs, and home delivery.

#### Integration is the new standard

There is more to consider than just e-commerce. Retailers must integrate customer-facing aspects of the business with back-office processes and systems, and engage customers both online and off.

Walmart's urban supercentre is a prime example. The store integrates its e-commerce aisle with in-store assistance, for a seamless experience. It's not just the superstores that are embracing this concept:

- ▶ Shoppers at **Mountain Equipment Co-op (MEC)** can use the brand's app to browse online or scan in-store barcodes for detailed product information, before checking current store stock levels.
- ▶ **Starbucks Rewards** app users can check and reload the balance on their loyalty card in real time, using any device or channel.
- ▶ **Brooks Brothers** uses software to integrate its North American bricks and mortar stores, using them to fulfill online orders.<sup>24</sup>

#### What does this mean for retailers?

It's an exciting time to be in retail, but it's also a challenging one. The bar is continuously rising when it comes to consumer expectations.

#### Change is necessary

For some business owners, omnichannel may seem too expensive or too big to undertake, especially if current business is steady. As time goes on, however, more consumers will choose to spend their time and money on retailers who have a digital presence and the ability to fulfill in a way that meets their needs.

Customers are constantly evolving in terms of their shopping habits. Younger generations are digital natives and expect an omnichannel experience that is enabled by technology. Retailers must be able to deliver.

In addition to digital and logistics, your ability to fulfill the brand promise must be up to the task. Experience will be the make-or-break

### Shopify's big game-changer

A major announcement from Shopify could change everything. The e-commerce platform unveiled plans to build and operate a warehouse and fulfillment network in the U.S. that would allow two-day shipping capabilities.<sup>25</sup> While no plans have been announced for Canada, the network could foreseeably extend to merchants here as well.

For small and mid-size retailers who have struggled to compete with Amazon, this could make the shift to omnichannel more achievable.

element — it's a key driver of online reviews, word of mouth, and customer loyalty. Today's technology makes it easy for reviews (good and bad) to spread quickly and in real time.

#### Retailers need to plan for the costs

Retail is expensive in Canada. Geography, population distribution, wages, and operational and logistical costs all play a part. Layering in the omnichannel way of shopping brings a new set of challenges, especially for business owners who have historically underinvested in technology.

Return rates, which are often higher for online purchases than in-store ones,<sup>26</sup> are of particular concern. In 2017, retailers processed US\$400 billion in returns;<sup>27</sup> Statista estimates the costs will grow to US\$550 billion in 2020.<sup>28</sup>

Many businesses are implementing stricter policies to combat serial returners but this could negatively affect the customer experience; most shoppers want (and expect) hassle-free, no-cost returns. Retailers should also consider ways to solve the problem proactively through more robust sales and customer service procedures.

#### Real-time supply chains will be a differentiator

Nothing is more frustrating to a customer than being unable to get what they need, yet this is a common scenario. Customers check product availability on the website, only to arrive at a store to find there is no stock available. Shoppers

## Preparing your staff for omnichannel

"The greatest challenge, particularly for mid-sized retailers, is training your in-store people to be comfortable with omnichannel retail. The role of the associate changes substantially. They need to understand and be comfortable with the fact that they are becoming curators of experience and convenience. Getting the experience right and training your staff to serve customers via their preferred channel is the key to success."

- Diane Brisebois, President and CEO,  
Retail Council of Canada

A recent study predicts that Canada's e-grocery market will grow by **21% CAGR** by 2023.

order items in bulk online, only to fall short when they attempt to check out.

Most back-office systems are poorly equipped to accommodate omnichannel, but technology is catching up. E-commerce platforms that integrate with ERP systems and provide real-time inventory management — both online and in store — will be key.

### What retailers can do next

#### Take customer relationships to the next level

Proactive customer service is important. Enhancing the content and product descriptions on your website, for example, can help to reduce returns. To help customers select the right apparel the first time, Under Armour provides highly detailed sizing charts for online shoppers.

Smash + Tess provides a visual size guide, and encourages customers to post photos of themselves wearing their purchases, so other shoppers can see what the products look like on different body types.

Other retailers use augmented reality to assist customers with a purchase. Some home stores allow shoppers to visualize furniture in a certain room or upload photos of their home to test out different paint colours.

Creating membership clubs or subscription services that provide personalized offers and flat rates (think Amazon Prime or PC Insiders) is another option. In addition to encouraging loyalty, fees from these programs can help offset fulfillment costs.

#### Review your business model

While it may seem daunting, retail business owners must review and rethink their entire business model. Not doing so may be detrimental to your business, now and in the future.



### Retail tip

Learn about your sales tax obligations when selling to other provinces in our interactive tax map.

### Consider these three areas:



**Technology** – Upgrading legacy back-office systems and integrating new technology, such as mobile apps or in-store tablets, to help strengthen relationships with current customers and target new segments.



**People** – Changing the way you hire and train staff in your stores, back office, and warehouse. Different types of employees are needed to deliver the experience customers want.



**Processes** – Strengthening internal policies and procedures to find a balance between operational efficiency and brand experience.

#### Re-examine your tax and accounting structure

Omnichannel can give your business access to new markets and help you engage customers in new ways. In some cases, it can even lead to expansion and international sales.

To grow sustainably and successfully, your house must be in order. A professional advisor can help you organize your tax and accounting structure to handle the financial implications of business and financial changes, digital investments, additional tax jurisdictions, etc.

Contact us to discuss your omnichannel retail strategy

## Customer experience 2.0

### Go beyond the product

Throughout all of the trends, disruptors, and changes to the retail market, one thing is certain: experience will define your retail business.

Consumer loyalty is not an easy thing to accomplish. Retailers must go beyond the traditional view of a product or transaction to think about the customer experience in an entirely new way.

#### A new definition of service

To build strong customer relationships and improve loyalty, many retailers are exploring new services and partnerships to provide an experience that goes beyond the point of sale.

Realizing that many consumers are short on time and big on convenience, Ikea acquired TaskRabbit to provide furniture assembly services for a flat fee. Other retailers are using the trend to boost their bricks and mortar presence. Cadillac Fairview worked with rideshare app Lyft to bring shoppers to and from the Toronto Eaton Centre at preferred rates with dedicated pick-up zones.<sup>29</sup>

#### New consumer economies

Call it the Netflix effect, the Uberization of the economy, or the Millennial influence — new generations of consumers are less interested in buying things.

In a recent Harris Poll survey, 78% of Millennials said they preferred spending money on an experience or event instead of a product.<sup>30</sup> Many are also driven by a desire for minimalism and to reduce their environmental footprint.

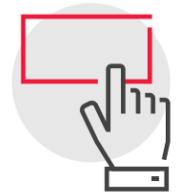


#### Retail tip

Read about the five guidelines for a good customer experience.

**68%**  
of shoppers said  
sustainability was  
important when  
making a purchase

As the spending power of Millennials and Gen Z grows, some retail subsectors will need to learn how to adapt or combat these growing consumer trends:



**Subscription** – Clothing, food, beauty/personal items, and cars are just a few of the retail subsectors that offer subscription services. The subscription sector was worth more than US\$2.6 billion in 2016.<sup>31</sup>



**Rental/sharing** – Big ticket and one-time or limited-use items such as tools and outdoor equipment are increasingly rented, but new startups have extended the idea to items like clothing and luggage as well.



**Reselling** – Also known as the second-hand economy. A report from Kijiji estimates the market is worth \$28.5 billion in Canada and will reach \$64 billion within the next ten years.<sup>32</sup>

### Sustainability and ethical sourcing

Environmental and social concerns often have an effect on retail, but the last few years have seen increased attention on issues like climate change, packaging, and ethical sourcing.

In a recent survey by CGS, 68% of respondents said sustainability was important when making a purchase, while 47% said they would be willing to pay a higher price for a sustainable product.<sup>33</sup>

Concerns over single-use plastics and local, organic products are most prevalent for grocery and restaurant business owners. Retailers in the apparel, beauty, and food and beverage sectors should also pay attention to the increased demand for eco-friendly products and packaging and supply chain transparency.

### What does this mean for retailers?

#### Every touchpoint must reinforce the brand

At each point of customer interaction, retail business owners must ask themselves how it reflects the brand. This means taking a critical look at a number of things, such as:

- ▶ Creating a store layout that is recognizable across locations, with room for customization.
- ▶ Training all staff to provide the same level of service, both online and in-store.
- ▶ Ensuring digital and mobile interactions align with the brand.
- ▶ Providing a consistent e-commerce experience.
- ▶ Associating with sponsorships and causes that match your brand values.

#### Changes to your supply chain

Consider how your suppliers align with the overall brand story and target customer market. Meeting consumer demands for sustainability and ethical sourcing will almost certainly affect your supply chain.

A grocer who specializes in organic offerings may want to consider sourcing more eco-friendly packaging. Similarly, a retailer who is committed to ethical and fair-trade products must perform due diligence on the factory locations and labour law compliance of their vendors, among other things.

### What retailers can do next?

#### Think strategically about your brand

Take a critical look at your business and your value proposition. Does the experience you provide truly align with the experience your customers want? Remember that not everything needs to be epic or newsworthy in order to be valuable for the customer and profitable for the retailer.

Ensure that your presence online and offline is consistent and integrated by hiring the right people to oversee store standards. Spend time and resources on developing strong processes and compliance.

#### Invest in information

Information is crucial for any brand, yet only 41% of retailers are making significant investments to understand their customers.<sup>34</sup> Data analytics and customer relationship management (CRM) software can provide a wealth of information and are becoming more affordable and scalable. Social media tools can also help you to gather feedback.

“Know thy customer,” says Diane Brisebois, who recommends that retailers keep open lines of

communication. Talk to your customers, conduct focus groups, test new things, and get feedback.

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“The best retailers, small and large, are the ones who listen to their customers on social media, respond quickly to comments, share information with their employees, and build teams that are attentive and empathetic to customers’ needs and wants. At the end of the day, you can have the best technology in the world, but if you don’t know what your customers really want, you’re never going to succeed.”

- Diane Brisebois, President and CEO, Retail Council of Canada

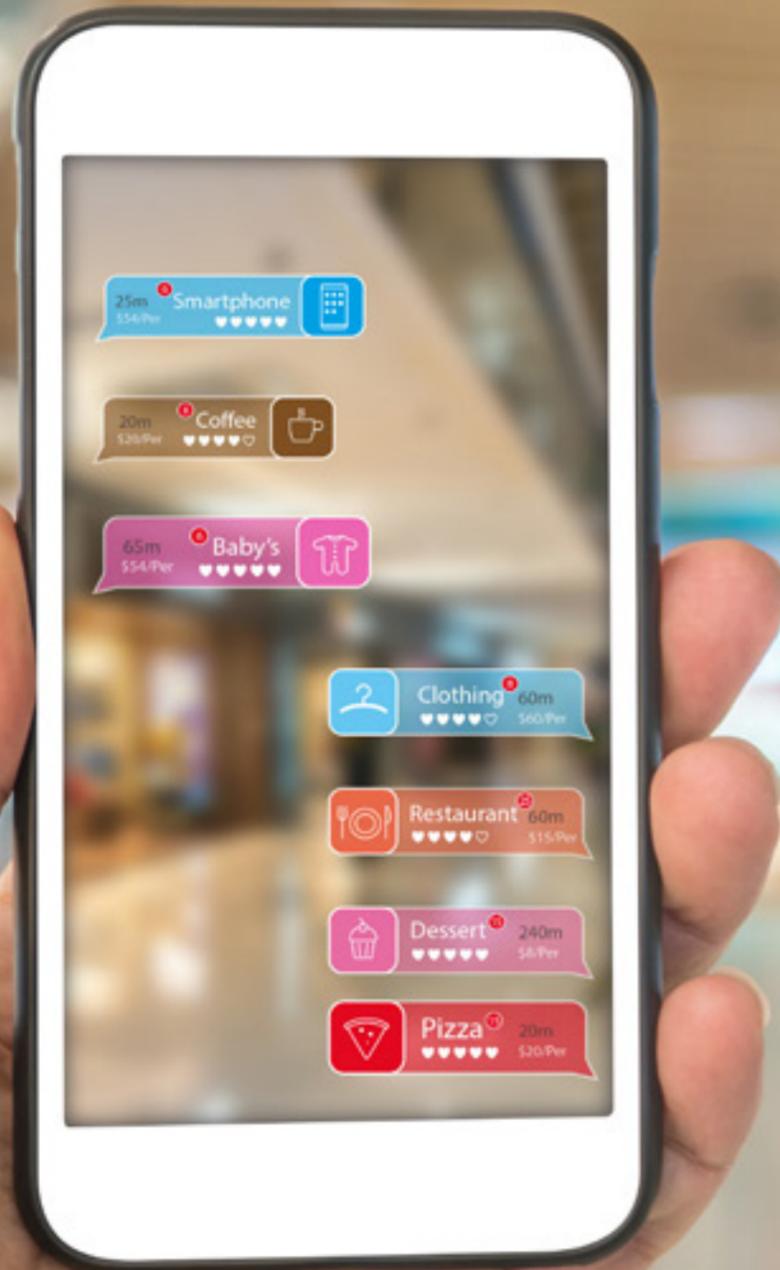
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### Consider new services and partnerships

Expand your thinking on where your retail business begins and ends. Consumers, especially younger generations, have different shopping and social interactions that influence their expectations. Shoppers may be open to paying for integrated services — as long as they add meaningful value.

A furniture retailer, for example, could change the fulfillment model by offering delivery and set-up services. To accommodate the sharing and second-hand economies, the same retailer could establish an online platform to rent, buy back, and resell items.

The right plan and the right team can help you take incremental steps towards a stronger future.



## Retail wrap-up: the path to transformation

Changing your business may seem like an insurmountable task, but the right plan and the right team can help you to take incremental steps towards a stronger future.

These considerations can help retailers as they navigate the path to transformation:

### Have a laser focus on experience

Start by determining what your customers want. Build your assets, store layout, business partners, e-commerce site, procedures, policies, staff training, etc. around that experience. Finally, review and refine. Consider each step of transforming your retail business through the lens of the customer experience, including digital investments, supplier choices, real estate, and business strategy.

### Build the right workforce

The way you hire, train, and compensate employees will need to change significantly to support the future of the business. Retailers will need to look for different types of employees,

with different levels of education and commitment, such as:

- ▶ **Brand ambassadors**, both online and in-store, who have knowledge and experience beyond regular training and can provide product information and recommendations.
- ▶ **Order pickers**, in the store and the warehouse, who can concentrate solely on fulfillment.
- ▶ **Behind-the-scenes talent** to support digital and IT initiatives, omnichannel strategies, and marketing outreach.

### Know your value drivers

What's really behind the success of your retail business? Value drivers can include product selection and exclusivity, price, customer experience, location, etc. Understanding these

# Transforming your business is impossible to do alone.

elements can help you determine whether your business strategy is viable moving forward, or if a new direction is required. This knowledge can drive specific business decisions, such as whether to invest more heavily in a certain area of the business, or divest of particular assets.

## Rethink your logistics strategy

As e-commerce and omnichannel retail grow, fulfillment, warehousing, and transportation issues will become even more pressing. Large competitors like Walmart and Amazon have already made significant strides to develop their logistics strategy. Independent and mid-market retailers must prepare themselves to solve for the last mile. This could include partnering with each other and with logistics firms to keep pace with the market.

## Learn from others

According to Diane Brisebois, one of the most critical things for a retailer to do is to remove themselves from the business and take a big picture view of the industry. Find the time to look at what other retailers and service providers are doing to attract customers. Learn from their successes and failures, and use them as benchmarks for yourself.

## Find strong advisors

Most retailers are used to doing things themselves. Transforming your business, however, is impossible to do alone. Digital transformation, new sources of capital, a reworking of your business model, real estate decisions, supply chain changes — all of these things must work together to be successful. An experienced retail advisor can help you map your vision for the future, determine tactical strategies, obtain financing, and execute the plan.

## BDO can help

BDO's retail industry team assists independent and mid-market retailers across all subsectors with managing change and creating strategies for sustainable growth. To learn more about how we can help your business with these issues and more, contact us today.

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