DECEMBER 2018

Special Edition White Paper

The Blended Commerce Imperative

Insights on today's consumer with advice and tips for retailers

Developed by

RCC RETAIL COUNCIL OF CANADA

CCCD CONSEIL CANADIEN DU COMMERCE DE DÉTAIL

Prepared in conjunction with

WisePlum

Google

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Introduction

A MESSAGE FROM RETAIL COUNCIL OF CANADA

Our latest White Paper summarizes the results of a 2018 Canadian retail study conducted in partnership with Google Canada, WisePlum™, Retail Council of Canada (RCC) and RCC's Marketing Advisory Council. The study was conducted in Fall of 2018 and surveyed 5,007 Canadian consumers to gather insights on their shopping preferences, expectations and needs.

The White Paper provides retailers with a better understanding of what today's consumer expects, and practical improvements retailers can make to enhance the overall shopping experience – in-store, on a mobile device or online. It explores the attitudes and experiences of Canadian consumers, based on their most recent purchase, across the entire shopping journey, regardless of channel.

Additionally, the full study examines similarities and differences across generations, regions, urban versus rural locations, and retail verticals. The White Paper also provides retailers with critical insights to better compete in a dynamic retail environment.

The White Paper looks at:

- Canadian consumers' attitudes and expectations while shopping in-store and online;
- Why Canadian consumers choose a specific channel and what drives their channel preference;
- Where consumers expectations are headed with service, experience & fulfillment – both pre- and post-purchase;
- How retailers can respond to consumers' needs and expectations regardless of channel; and,
- How retailers can eliminate friction points in the path to purchase to enrich consumers' experience and increase loyalty.

To download the complete study, RCC members can visit RetailCouncil.org/research where you can also access more of Retail Council of Canada's member-exclusive resources.

If you are not a member, we encourage you to join. As the Voice of Retail™ in Canada, we advocate for the entire retail industry from coast to coast. Membership information can be found at RetailCouncil.org/join-today.

Kind regards,

Diane J. Brisebois
President and Chief Executive Officer
RETAIL COUNCIL OF CANADA

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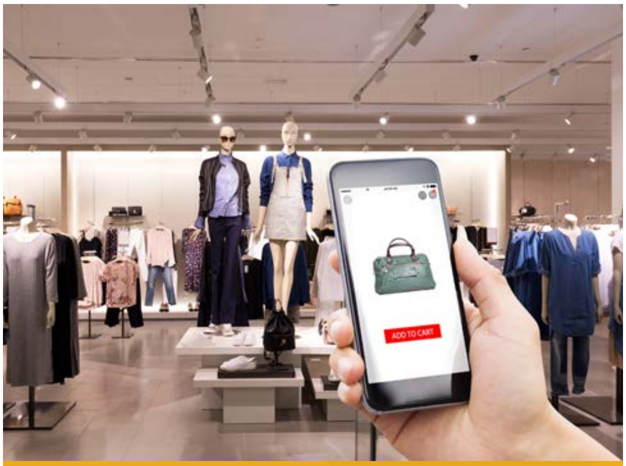
Executive Summary

In 2018, our study clearly indicates that all consumer demographics in Canada have embraced omni-channel shopping. However, the results also show consumers are less forgiving when they experience problems, both in-store and online. Well-informed, with little time to waste Canadians demand the ability to research, select, buy and receive their purchases, however, wherever and whenever they want.

a. Key findings for retailers

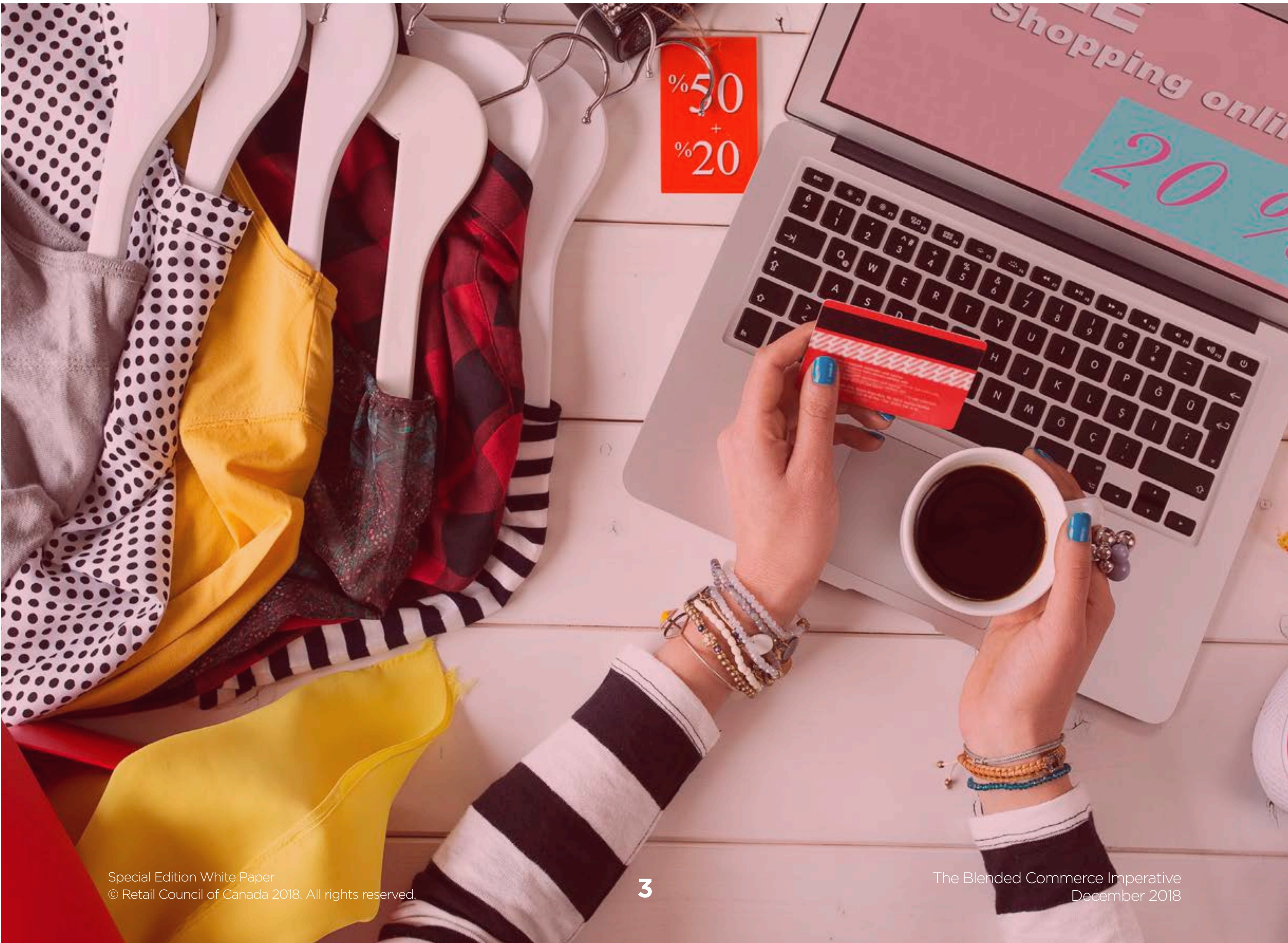
1. Canadian consumers are no longer willing to encounter problems when buying. Service and fulfillment issues with online purchases continue to be far greater than with in-store and consumers are no longer willing to remain loyal when things go wrong.
2. Consumers are well-informed and spend more time than ever researching their products before they purchase. Consumers use multiple channels, brick and mortar stores, mobile devices and online sources to learn about products, to compare prices and services, and, to determine where they will ultimately buy the merchandise.
3. Consumers are both channel-agnostic and decisive. Before they buy, they have already identified both the products they want and the retailer from whom they want to purchase these goods.
4. Consumers shift their brand preferences based on what consumers define as convenience and good service. An online shipment that takes more than a couple days to arrive or a store check-out line that is longer than five minutes is no longer tolerable.
5. Brick and mortar stores complete the brand interaction. The study's results continue to support that retailers with both physical and online stores have better chances of providing consumers with the full experience they are seeking.
6. Retailers that are not offering omni-channel shopping and frictionless transactions will increasingly lose market share. Consumers want speed, selection, service, experience, and price—well...they want it all.



Brick and mortar stores complete the brand transaction.

7. Young consumers are digital natives and see technology as integral to their shopping experience. Retailers with remarkable apps will be a step ahead with younger, new customer prospects.
8. Excessive packaging isn't a concern for consumers, yet. Consumers stated they are comfortable with the amount of packaging that comes with their products. However, this opinion is shifting, particularly with online purchases.
9. Traditional brand loyalty has faded, and loyalties to online channels are decreasing. Consumers will only be tied to the best service and experience, regardless of where they find it.

> Traditional brand loyalty has faded, and loyalties to online channels are decreasing



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How Canadians Shop in 2018

Consumers' desire for speed, convenience, service, selection and value were identified in the 2017 Canadian Consumer Study. The 2018 study results clearly highlight which "desires" have now become imperatives; retailers who are not providing fully integrated and excellent shopping across all channels are losing consumer loyalty.

a. Shifting consumer tolerance

Brick and mortar is still the primary choice for Canadian consumers as 86% of those surveyed acknowledged they bought their most recent product from a physical store. The 2017 study suggested shoppers had different expectations of brick and mortar and online shopping experiences, but were willing to accept a greater level of friction with their online purchases. In 2018, however, forgiveness for less than perfect shopping experiences is quickly eroding, regardless of the channel chosen for the final purchase.

The 2018 study shows consumers now treat brick and mortar and online purchases more similarly. Both brick and mortar and online stores must improve (speed up) their check-out process. Many retailers are already addressing this with more automated check-outs, mobile payments and scan & go technologies.

Consumers report significantly more problems with online purchases, particularly during pre-purchase research. Finding the right product, seeing accurate photos, having correct

> "From a jewellery perspective, although online continues to grow we have not seen any major shift to purchase online. The-instore experience is still the priority.
>
> Brett Holiday, President, Michael Hill

and detailed merchandise information, and being able to "experience" a product online continue to be areas that challenge retailers. The limitations of online shopping reinforce how brick and mortar stores can work to help improve consumers' overall experience.

b. Grocery leading delivery turnaround

As a retail format, grocery is leading with service and delivery innovation that will influence what consumers will increasingly expect from other retail sectors.

A significantly larger percentage of grocery consumers (44% vs 30% for non-grocery) indicated a desire for faster check-out. In 2018, the grocery sector has been particularly active, exploring multiple ways to better meet consumers' needs. Innovative new delivery concepts are being tested and optimized. For example, Walmart Canada has developed partnerships with Penguin Pick-Up, spud.ca (Food X) and Instacart to deliver different options and convenient choices for customers. Same-day, one-hour home to the fridge delivery, designated location pickup, curbside pickup, next-day home delivery, onsite lockers, etc. are some of the new choices becoming available. This multi-tactic approach provides consumers with flexibility and convenience for their shopping needs.

> "The path has changed due to the customer's lack of brand loyalty. We are focusing on our purpose and quality safe food.
>
> Peter Van Stolk, CEO,
> Sustainable Produce Urban Delivery

https://www.newswire.ca/news-releases/walmart-canada-teams-up-with-instacart-to-offer-same-day-grocery-delivery-in-as-fast-as-an-hour-to-greater-toronto-area-and-winnipeg-customers-693130581.html

Loblaws has also invested heavily in customer convenience and experience, first by providing different delivery and curbside pickup options, and now, by enhancing their in-store experience with new scan & go technology.

https://www.cbc.ca/news/business/loblaws-walmart-shop-and-scan-technology-1.4912024

Regardless of channel, retailers must continue to innovate in ways that make it easier and more convenient for their customers to get what they need and want, regardless of channel.

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Friction, Trust and Brand

How retailers marry consumer data and technology with customer service to create winning experiences will be an ongoing challenge for the sector – but one that cannot be set aside. Complexity in providing "seamless" interactions will increase, especially in light of ever-increasing privacy regulations in Canada and around the world. Savvy retailers will find a way to respect the boundaries while identifying the data points that match the customer's preferences and patterns.

For example, Sephora and Apple serve relevant communications and offers based on where a customer is in a store and when they enter. These communications are determined from a customer's profile, past purchases, and a deep understanding of how a customer's data should be used to elevate the customer experience and ultimately the final purchase.

Every touchpoint creates an opportunity to disappoint or delight, lose or create loyalty, and enhance or diminish your brand. As we know, one consumer's definition of cool may be another consumer's definition of creepy. The boundary between what is personalized or what is out of bounds is quite grey and will continue to create challenges in the industry's quest to develop customer loyalty and customization.

> "At Google, we're using machine learning to change the customer journey on our platforms and on our retailers platforms through things like voice technology, augmented reality and Google Lens, to name a few.
>
> Eric Morris, Director of Retail, Google

a. The convenience decree

Consumers want retailers to continue to improve the accessibility, availability, and ease in selecting and purchasing products. Convenience issues still reign supreme in customers' primary reported pain points and increasingly influence loyalty and the decision to recommend a retailer to others. In-store consumers want faster transactions, service and the assurance the products they want will be there.

Best Buy Canada, for example, has invested in more sales staff training and employee-discount programs to retain talent, and has made improvements to its internal search engine so that salespeople are both motivated and able to help customers get the information they need more quickly.

What improvements do shoppers want from their next in-store purchase?

Online consumers want retailers to build websites that are easier to navigate, provide more vibrant product photos and relevant details. They also want to be assured the product is in stock and that orders will be fulfilled as promised.

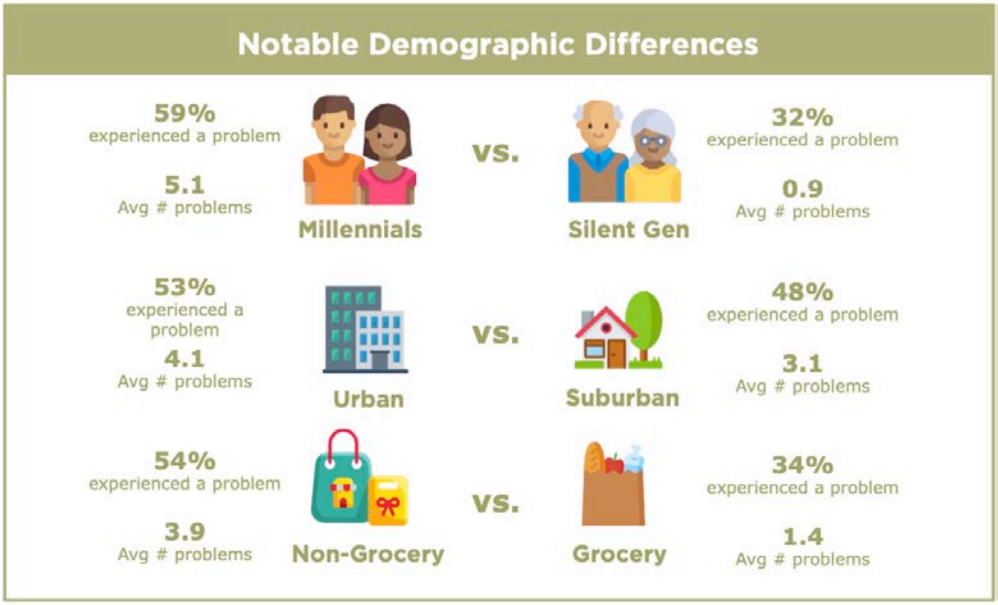
What improvements do shoppers want from their next online purchase?

Consumers are more likely to report a problem for an online purchase (67%) than an in-store purchase (41%). In general, Millennials appear to be the most highly sensitive to "friction". On average, Millennials report 5.1 number of problems vs the average of 3.4 number of problems. Urban dwellers are also more likely to report problems (4.1 number of problems) than suburbanites (3.1 number of problems). And non-grocery retailers receive more consumer complaints (average of 3.9 problems) vs grocery (average of 1.4 problems).

Summary of Problem Experience

	Total (N=5,007)	In-Store (n=3,258)	Online (n=1,744)
% who experienced a problem while...			
Researching & choosing	34%	26%	49%
Purchasing	40%	31%	55%
Making a payment	13%	9%	21%
After purchased/received	21%	14%	35%
Total experienced a problem	50%	41%	67%
Average # of problems experienced	3.4	2.2	5.8

Who is most likely to report experiencing a problem



b. Declining trust

While retailers across Canada are investing millions in their brick and mortar stores to provide faster and more convenient service, consumer confidence in a brick and mortar store's ability to bring value to their shopping experience is *decreasing*.

Why in-store shoppers would switch to online

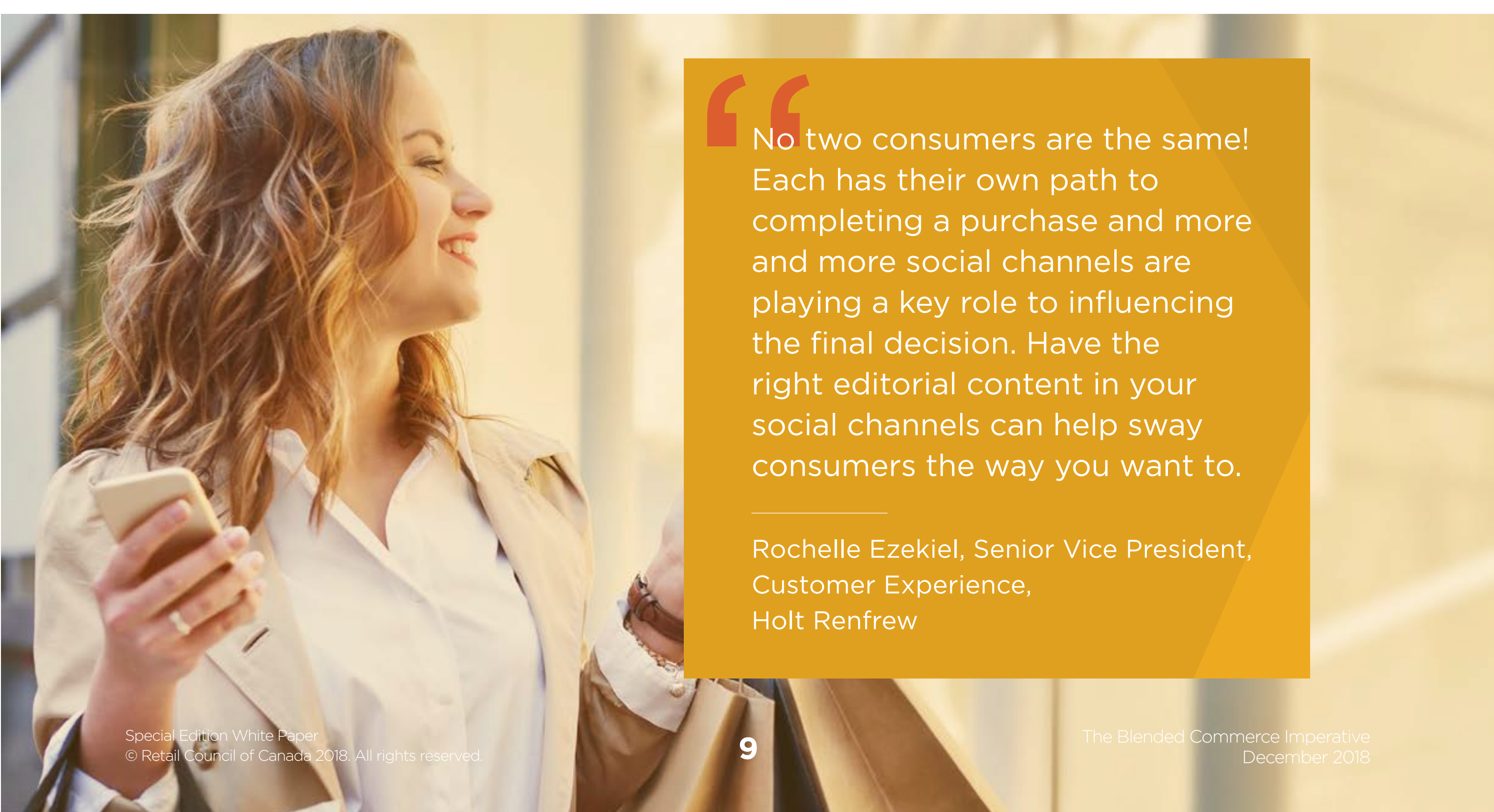
	2018	2017 Change
Trust I don't have sufficient confidence in the retail store to use it again the next time I purchase	31%	+11↑
Convenience The retail store didn't make it as easy to buy as I thought it would	35%	-3
Usefulness I think the online store will be more useful in providing all the information I need in order to make a good purchase	25%	n/c
Best Fit The retail store isn't the best fit for purchasing most recent item	19%	-4
Selection I think that the online store will have a better selection	23%	-3
Promotions I think that the online store will have better sales and promotions	27%	-6
Feels Good It feels good to shop at a retail store	20%	+4
Enjoyment I enjoy shopping (new channel)	19%	+2
Other	1%	-3
None of the above	6%	+2

Consumers are becoming less likely to recommend an online retailer to others, especially if they encountered a problem. This is a significant shift from the 2017 study. Current findings indicate that consumers' tolerance for friction while shopping online is ending.

Consumers Who Definitely Will Recommend a Retailer to Friends & Colleagues

The demand for a better experience is being driven by Millennials who report more problems with both online and in-store purchases. Younger consumers expect close to perfect shopping. Regardless of channel, when Millennials do decide to shop, they want personalized service, a great experience, and convenience.

When it comes to branding, retailers can no longer simply rely on creative advertising and great products to build connections with consumers. Top brands must continually earn consumers' trust through consistent, exceptional in-store and online service, respecting the time and effort consumers invest in making a purchase decision. Providing an assortment of well-executed choices, not only in products but also in service and delivery options can quickly help a retailer stand out from its competitors.



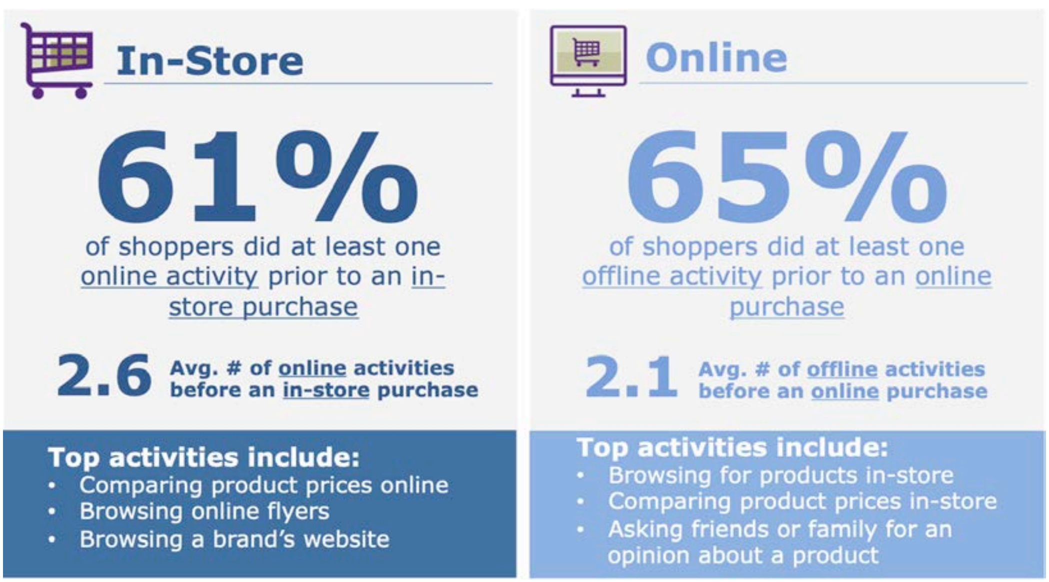
> No two consumers are the same! Each has their own path to completing a purchase and more and more social channels are playing a key role to influencing the final decision. Have the right editorial content in your social channels can help sway consumers the way you want to.
>
> Rochelle Ezekiel, Senior Vice President,
> Customer Experience,
> Holt Renfrew

The Informed Consumer

a. Webrooming and showrooming co-exist

For years, brick and mortar retailers feared the "showroom" effect, with stores being used to "touch and feel" products that customers would ultimately purchase online. However, today's consumers are using both physical and digital stores to make their purchase decisions. "Webrooming", which is researching products online before purchasing in-store, has surpassed showrooming activities. Tracking cross-channel research behavior is important in understanding the respective ROI of investments in media and digital properties.

Prior to Purchase Activity



The ability to explore options ahead of buying products has also created highly invested consumers. They become frustrated if a product is not available in the channel of their choosing after they have decided to buy it.

b. Adding value at every interaction

Informed consumers are also benefitting from value-added experience and options at the point of purchase. Canadian consumers continue to love loyalty programs and are becoming increasingly adept at redeeming and managing points online, using both mobile apps and digital coupons throughout the purchase journey.

> "Consumers are more informed than ever... Today it starts online.
>
> —
>
> Eric Morris, Director of Retail, Google

Consumer Activities During A Purchase

	Total (N=5,007)	In-Store (n=3,258)	Online (n=1,744)
NET Completed at least one activity	**79%**	**89%**	**60%↓**
Made my purchase in-store at the general check-out	61%	61%	n/a
Used my loyalty program to collect rewards	26%	27%	24%
Asked an employee for help or information in-store	11%	11%	n/a
Used an online coupon when making my purchase	11%	5%	23%↑
Loaded coupons or offers onto my mobile app and made a purchase on my smartphone	11%	n/a	11%
Used the self-checkout service in-store	10%	10%	n/a
Used my loyalty program to redeem points/ miles for the purchase	10%	8%	12%
Average # of Activities Completed*	**1.5**	**1.6**	**1.4↓**

Astute retailers are constantly building on consumers' appetite for new information by offering extensive product details, as well as opportunities to test, sample and interact with merchandise, and customer reviews. For example, Canada Goose's "bringing the arctic indoors" live demonstration allows customers to go into a Canada Goose store and try on a coat in an arctic freezer. This provides Canada Goose with immediate and convenient product testing and feedback. It provides an amazing photo opportunity to support Canada Goose's social media and viral campaigns.

https://business.financialpost.com/news/retail-marketing/canada-goose-is-turning-the-dressing-room-into-a-freezer

Retailers are also rewarding consumers with shared loyalty programs that capture attention early, are easily understood, and can be effortlessly utilized across banners. A great example of this is Canadian Tire's new Triangle Rewards Program, which combines, simplifies and digitizes rewards for Mark's, Sport Chek, and Atmosphere.

https://www.newswire.ca/news-releases/triangle-rewards-from-canadian-tire-corporation-is-now-live-across-canada-682365031.html

https://triangle.canadiantire.ca

When customers are provided with the information they are looking for and the experience they are seeking, they are motivated to buy. Informed consumers are decisive, convert more quickly and can drive brand loyalty.

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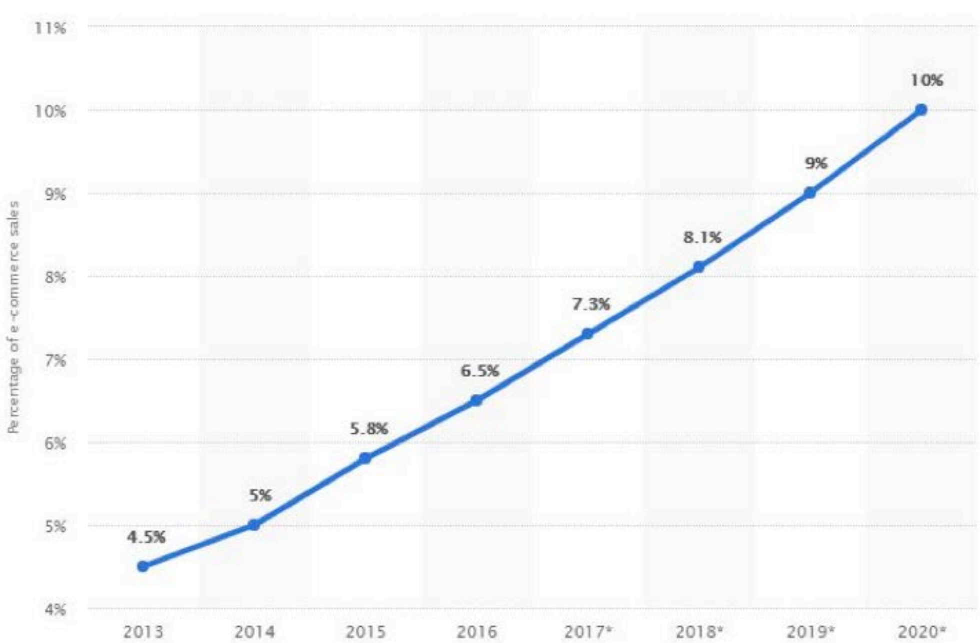
The Online Retail Honeymoon Is Over

We've just passed the 20th anniversary of the first eCommerce transactions in Canada. For the first 15 years, eCommerce growth in Canada was slow and choppy and was not widely accepted or trusted by consumers. Transactions were made through a desktop computer and consumers were hesitant to provide credit card information. Products would take weeks to arrive, and selection was often limited to only a few product categories. How times have changed!

a. Growth of eCommerce in Canada since 2013

Within the last five years, technology and business processes have more than caught up with the eCommerce promise. The explosion of consumer interaction with mobile technology has also contributed to an explosion in eCommerce growth.



The chart above provided by Statista shows the remarkable increase in overall market share for eCommerce in Canada since 2013 and it coincides with a dramatic increase in mobile use and engagement.

b. Increasing expectations of online

The 2018 study clearly shows consumers are growing increasingly intolerant; the percentage of overall problems reported with an online purchase far outpaces the frustration associated with in-store purchases.

Problems Experienced with a Retail Purchase

	Total (N=5,007)	In-Store (n=3,258)	Online (n=1,744)
Experienced a problem purchasing	**40%**	**31%**	**55%**
Was forced to log-in/sign up to complete purchase	26%	n/a	26%
You could not order an item online and have it delivered to a local store	17%	n/a	17%
A coupon or gift certificate could not be used online	16%	n/a	16%
The store website was slow	15%	n/a	15%
The product you wanted was not available online	15%	n/a	15%
The store website was difficult to navigate	13%	n/a	13%
There were no stores close to you	13%	9%	20%↑
The item/s that you were looking for were out of stock	12%	9%	16%↑
The line at the register was too long	12%	12%	n/a
The price online was different from the price in the store	12%	9%	19%↑
Was unable to add items to cart	12%	n/a	12%
No sales associate was available to help you make this purchase	11%	9%	14%↑

c. Problems experienced post-purchase

Problems Experiences Post-Purchase

	Total (N=5,007)	In-Store (n=3,258)	Online (n=1,744)
Experienced a problem after purchase	**21%**	**14%**	**35%**
Item took longer than expected to be delivered	17%	n/a	17%
I could not track my order	16%	n/a	16%
After you shipped your item back, it took a long time to see the refund on your statement	12%	n/a	12%
It was inconvenient to ship the item in order to return it	12%	n/a	12%
You did not receive the loyalty points associated with your purchase	9%	7%	12%↑
The return policy was confusing	7%	5%	12%↑
You had to pay delivery charges to return your item	7%	5%	12%↑
Could not get answers to questions about your purchase	7%	5%	12%↑
The item/s that you purchased were damaged	6%	4%	11%↑
You had to wait too long in line to return items	5%	5%	n/a

The amount of problems online shoppers experience and the willingness to report those problems are growing. Online shoppers expressed a clear desire for better service and indicated they also had issues when a physical store was not located nearby to support their purchase, thus reiterating the advantage of an omni-channel presence.

Packaging is one area where consumers seem to give retailers high marks, or at least, are satisfied with the trade-offs they are making between travelling to the store and having a product safely delivered to their doorstep. The survey indicated 81% of consumers think there is just the right amount of packaging. Only 8% believe there is too much/unnecessary waste.

> Our store team members own their customers no matter the sales channel, thus encouraging them to support customers shopping in whatever channel they want.
>
> Susan Sanderson, Chief Brand & Customer Experience Officer, The Vitamin Shoppe

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Conclusion

Retail is alive and well in Canada. In fact, Canada is ranked as the seventh top nation in the world as a destination for international retailers. Physical retail still dominates, but most transactions include both physical retail and digital interactions.

What has clearly emerged in the 2018 study is the need for blended commerce. Consumers are increasingly looking for ease of shopping across channels. Retailers must be wherever the consumer wants to be - online, in-store, and/or mobile. Loyalty to a specific channel is evaporating and nimble retailers understand the need for providing a seamless experience.

Augmented reality, virtual reality, voice recognition and opportunities to build "community" through shopping are taking centre stage as retailers try to respond to ever-changing and increasingly demanding consumer needs.

Opportunities to build "community" through shopping are taking centre stage as retailers try to respond to ever-changing and increasingly demanding consumer needs.

While technological advancements will allow for increased efficiencies and enhanced personalization, there is nothing that can replace our ability to speak in person with a knowledgeable expert or to truly feel and touch a product.

The idea of the store becoming a theatre, a source of experience, an entertainment and community hub is connecting with consumers of all ages. This realization has spurred new creativity in store design (i.e., barbershop or wine bar added to the store layout), services (i.e., manicures, personal stylists) and consumer involvement and interaction (i.e., yoga classes, personal trainers) and the list goes on.

We may have arrived at a time where we see eCommerce supplementing in-store experiences versus replacing them completely. There is no doubt that Amazon and other retail disruptors continue to make it difficult for the traditional retailer. However, it's possible for companies to compete and thrive if they clearly articulate a committed strategy based on the in-store value proposition.

The 2018 study makes it pretty clear – never take your eyes off the consumer and never assume you know what they want unless you have definitive proof. Retail continues to change – it's more interesting, entertaining and innovative every year.

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About the Study

This study is a collaboration between WisePlum™, Google Canada, Retail Council of Canada (RCC) and RCC's Marketing Advisory Council. Conducted between October 11 to 25, 2018, researchers surveyed 5007 Canadian retail shoppers in every major retail vertical. Field quotas were used to control the distribution of region, age and gender. To allow for accurate comparisons, 2018 results were weighted to the same proportions as 2017 in terms of verticals within the purchase channel.

About WisePlum™

WisePlum™, a collaboration between LoyaltyOne and The Verde Group, is a product created to answer one critical question: where should a retailer invest in the customer experience to increase top line revenue growth and market share. Through a software-as-a-service delivery model, WisePlum™ provides retailers with customer experience insights that are financially quantified, benchmarked against the competition and delivered weekly for continuous market monitoring. LoyaltyOne is a global leader in the design and implementation of coalition loyalty programs, customer analytics, and loyalty services. Verde Group is a preeminent provider of customer experience measurement and management strategy solutions.

www.WisePlum.com/

About Google Canada

Google's mission is to organize the world's information and make it universally accessible and useful. As a global technology leader, Google's innovations in web search and advertising have made its website a top internet property and its brand one of the most recognized in the world. Google Canada has offices in Waterloo, Toronto, Montreal, and Ottawa with nearly 1,000 Canadian Google employees working on teams across Engineering, AI Research, Sales, Marketing, PR, Policy, and HR.

For marketing insights, data and useful tools designed to help Canadian retailers and brands stay informed and inspired, visit www.ThinkwithGoogle.ca.

About Retail Council of Canada

Retail is Canada's largest employer with 2.1 million Canadians working in our industry. The sector annually generates over $76 billion in wages and employee benefits. Core retail sales (excluding vehicles and gasoline) were $369 billion in 2017. Retail Council of Canada (RCC) members represent more than two thirds of retail sales in the country. RCC is a not-for-profit, industry-funded association that represents small, medium and large retail businesses in every community across the country. As the Voice of Retail™ in Canada, we proudly represent more than 45,000 storefronts in all retail formats, including department, grocery, specialty, discount, independent retailers and online merchants.

www.RetailCouncil.org

Toronto Office
800-1881 Yonge Street
Toronto, ON M4S 3C4
Toll Free: (888) 373-8245

Prairies Office
201 Portage Avenue, 18th Floor
Winnipeg, MB R3B 3K6
Toll Free: (888) 254-1654

Quebec Office
550 Sherbrooke Street West
Suite 1680, West Tower
Montreal, QC H3A 1B9
Toll Free: (877) 229-0922

Western Office
890 West Pender Street, Suite 410
Vancouver, BC V6C 1J9
Toll Free: (800) 663-5135

Ottawa Office
222 Queen Street, Suite 1404,
Ottawa, ON, K1P 5V9
Toll Free: 1 (844) 656-7900

Atlantic Office
201-5121 Sackville Street
Halifax, NS B3J 1K1
Toll Free: (855) 422-4144

RetailCouncil.org