

B2C e-commerce: catching up to a moving train

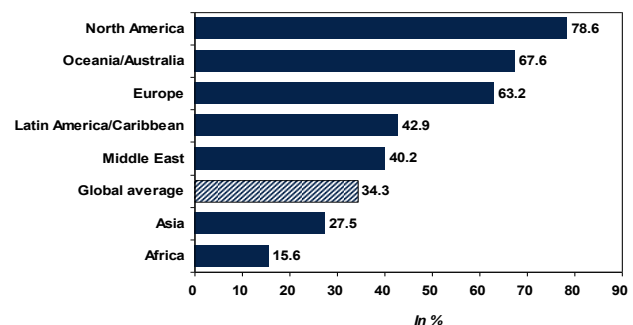
Now well under way, the 21st century is known as the Internet Age given the major role this technology plays in our daily lives. Online shopping for goods and services is a perfect example. Some retailers view e-commerce as a springboard to higher sales. For those who have yet to go virtual, the media's reports of failed attempts make the prospect frightening indeed. While it's true that there are risks, changing consumer behaviour and growing competition are leaving retailers with no choice but to establish an online presence. This includes Quebec's merchants, who would do well to hop on this moving train.

A GLOBAL TREND

A brief look at the Internet penetration rate around the world shows that North America is clearly leading the way in a phenomenon that is anything but marginal (graph 1), with a rate of 78.6% in the second quarter of 2012. Online buying (all types of companies combined) is also growing by leaps and bounds. According to the U.S. research firm eMarketer, over the next three years, that is from 2014 to 2017, online sales will increase 122% in the world and 74% in North America (table 1, in the appendix on page 5). Since e-commerce has already been around for some time in North America, its growth potential on this continent, although impressive, is less than in rapidly industrializing Asia. As such, online sales are projected to top US\$660 billion in 2017 in Canada, Mexico and the United States (which will account for nearly US\$440 billion of the total).

Many factors are driving e-sales. On the consumer side, our increasingly hectic pace of life leaves little time for conventional shopping. The convenience of being able to shop anywhere, anytime without having to go out in bad weather or deal with the hassle of parking is very appealing, as is the infinite choice and ability to compare prices in just a few clicks.

Graph 1 – Internet penetration rate* in 2012



* Penetration rates are based on a world population of 7,017,846,922 and an estimated 2,405,518,376 Internet users as at June 30, 2012.

Source: Internet World Stats – www.internetworldstats.com/stats.htm

On the business side, using information and communication technologies (ICTs) improves productivity and growth by reducing costs at many levels. Plus, with ICTs, merchants can reach many more consumers and disseminate a lot of information.

However, all this requires effort. Businesses that invest in e-commerce have to spend to learn how to reach customers they will never see face-to-face and win their loyalty. As well, online retailers who operate a brick-and-mortar store have to make adjustments, more specifically, maximize sales per square foot.

François Dupuis
Vice-President and Chief Economist

Yves St-Maurice
Senior Director and Deputy Chief Economist

418-835-2450 or 1 866 835-8444, ext. 2450
E-mail: desjardins.economics@desjardins.com

Joëlle Noreau
Senior Economist

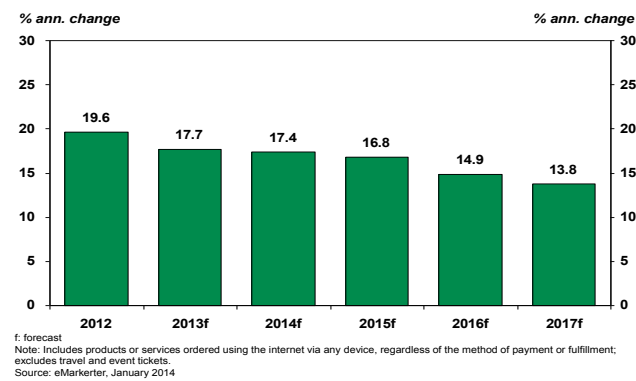
NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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CANADA'S IN THE GAME, BUT NOT AT THE FOREFRONT

While online buying is also a fact of life in Canada and Quebec, there is no consensus on the sales figures or the adoption rate by retailers. However, the experts do agree that Canada is not a world leader in e-tail, neither on the consumer nor on the merchant side. That said, prospective studies¹ show that Canada's sales growth potential until 2017 is more than 10% per year (graph 2). Although the pace is expected to slow over time, e-commerce is booming and is expected to perform better than the retail sector has in the last 10 years (average annual growth of 3.8% for Canada and 3.4% for Quebec).

Graph 2 – B2C sales growth in Canada (2012–2017)
Annual change



THE SCOPE OF THE PHENOMENON

Reconciling the results of the various e-tail analyses is difficult because of the different bases of comparison used. Still, there is some common ground. As such, based on figures provided by Statistics Canada and the Centre facilitant la recherche et l'innovation dans les organisations (CEFRIO), table 2 in the appendix on page 5 shows the extent of online buying by consumers. In 2012, these sales amounted to \$18.9 billion in Canada and between \$3.1 and \$6.8 billion in Quebec.

According to Statistics Canada, some 56% of Internet users made online purchases in 2012. CEFRIO pegs the figure for Quebec at one out of two adults for that same year. Both found that online purchases are most likely to be made by men and women aged 25 to 34 and that, to no one's surprise, credit cards are the preferred method of payment.

Despite the different analysis methods used to determine the amount of the purchases, even the most conservative estimates are surprisingly high. Statistics Canada places the average number of purchases per buyer in 2012 at 12.6 for Canada and 10.6 for Quebec. Total annual spending was \$1,451 and \$1,098.50 respectively. That's no small change.

For its part, CEFRIO tracks the situation in Quebec with its Indice du commerce électronique, which measures changes month over month. Meanwhile, NETendances 2012 found that, on an annual basis, one out of two adults bought online, spending an average of \$333 per month (or \$3,996 annually) that year and that close to half of them spent more than \$100 in a typical month.²

To make sense of this in concrete terms, let's compare online spending to grocery shopping. For this exercise, figures are available for households only. According to Statistics Canada's Survey of Household Spending, the average Quebec household spent \$5,790 or roughly \$111 a week on groceries in 2012. Therefore, \$1,098.50 in online purchases can be equated to 10 weeks' worth of groceries that year. Monthly online purchases of \$333 add up to \$3,996 per year, or three times Statistics Canada's finding. This is more than 30 weeks' worth of groceries. This may be a simplistic example, but it shows just how big a part e-commerce plays in our lives.

RETAILING

On the retailer side, Statistics Canada found that 45.5% of privately-owned businesses in the country had a website (transactional or non-transactional) in 2012 (table 3 in the appendix on page 5). In Quebec, CEFRIO places that figure at one out of two. As for Canada, 53.7% of retailers had a website, a larger proportion than private businesses overall.

Statistics Canada also found that of those Canadian retailers who operated a website, only 17% had one with transactional capabilities. CEFRIO pegs the percentage at 21% for Quebec. In both cases, less than 25% of retailers were able to sell online. The Canadian analysis showed that 43.4% of retailers with a website used social media, thereby increasing their visibility.

¹ eMarketer, December 2013 on <http://www.eMarketer.com>

² CEFRIO, NETendances 2012, Le commerce électronique et les services bancaires en ligne au Québec, Vol. 3, No. 6, 2013, page 5.

As we can see, the retail industry is far from being in sync. To continue with the moving train analogy, some businesses are on board, others are running to catch the train and many of those who don't have websites are looking at the schedule but have yet to get on board.

NOT AN ILLUSION

Online purchases are on the rise, fuelled by an ever-widening and appealing selection. Their share of total retail sales varies depending on the source consulted. According to Statistics Canada, the \$18.9 billion of orders placed in 2012 accounted for roughly 1.9% of the country's nominal consumption. However, eMarketer places this figure at 3.9% in 2012 and 4.5% of total retail sales in Canada in 2013, a smaller piece of the pie than in the U.S. (5.8%) and the U.K. (11.7%) that same year. Based on this trend, this share is projected to grow to as much as 7.4% in 2017.

More and more people are shopping online. Statistics Canada found that e-commerce increased by 22.6% from 2010 to 2011, compared to just 3.8% for total retail sales. The growing number of Canadians participating in Cyber Monday, which is the Monday after Thanksgiving in the United States, shows just how popular online shopping has become on this side of the border. According to Moneris, online sales on Cyber Monday in Canada were up 29.3% in 2013, from the year before.³

eMarketer found that 60% of Canadian Internet users bought online in 2012 (table 5 in the appendix on page 6) and estimates that 50% of the population made online purchases in 2013. Although projected to grow rapidly, this figure is still less than in the U.S. (60.1%) and in the U.K. (71.0%) last year. Based on international comparisons, there is room for growth in Canada. This way of shopping is clearly here to stay; however, in order for our businesses to cash in on this trend, consumers have to be able to shop on Canadian and Quebec sites.

QUEBEC LAGGING IN ONLINE PRESENCE

The international comparisons presented earlier show that Canada and Quebec are lagging behind other industrialized nations in terms of the e-commerce share of total retail sales. CEFRIO's analyses draw the same conclusion.

Truth be known, Canadian and Quebec retailers are hardly raking it in. In 2013, CEFRIO found that on average, just one dollar out of four was spent on a Quebec site.

We tried to understand why Quebec firms were not as well represented in the e-tail market. The most frequently cited reason is the fear of making a big investment with an unknown return. The fact is that the vast majority of retailers are SMEs that lack the means to launch into the World Wide Web.

There are essentially three factors that play against Quebec and Canadian retailers versus their foreign competitors. First, the systematic taxation of online purchases on this side of the border is off-putting for some consumers, who do not automatically encounter this obstacle on U.S. sites.⁴ Second is the charge for shipping, which is often free in the U.S., and last but not least, is the inability of small retailers to develop a website.

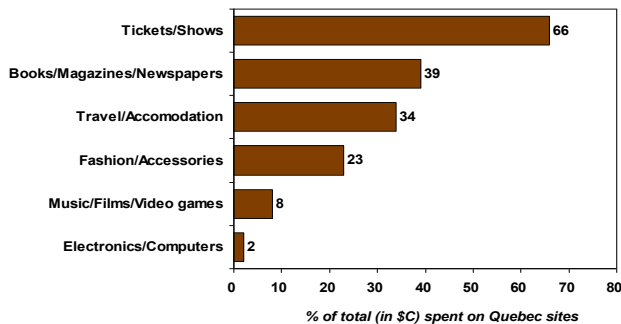
The Conseil québécois du commerce de détail (CQCD) has been urging retailers to establish an online presence and gradually tap into e-marketing channels, as have other stakeholders from public organizations and the private sector. The first step is to launch a website to serve as a showcase. Next is to leverage social networks such as Twitter, Facebook and Pinterest to capture the interest of their members, who may one day become customers. To help them, the CQCD is thinking about creating a "B2C institute" that would provide local retailers with the tools and coaching they need to speed up adoption of e-commerce technology.

³ Moneris Solutions Corporation, Black Friday and Cyber Monday gain popularity in Canada, press release, December 6, 2013.

⁴ For more details, refer to pages 27 to 29 of the report of the Standing Senate Committee on National Finance titled The CANADA-USA Price Gap, February 2013, 75 pages.

Although most Quebec merchants don't have transactional websites, those who do have been doing well. According to CEFRIO, Quebec firms are leaders in the category of "online ticketing and shows," which accounted for 66% of the purchases (in Canadian dollars) made on Quebec sites in 2012–2013 (graph 3). The corresponding figures for "books, magazines and newspapers" and "travel and accommodation" were 39% and 34% respectively. In the fashion industry where competition is fierce, Quebec merchants captured a 23% share. The vast majority of these merchants also have brick-and-mortar stores. Only a handful conducts business solely on the Internet. Still, there are some areas in which Quebec retailers are missing, namely electronics, where U.S. multinationals are ubiquitous.

Graph 3 – Quebec carves itself a place despite fierce competition (2012–2013)



Source: CEFRIO, Indice du commerce électronique au Québec 2012-2013, Results of an exclusive survey of the online buying habits of adult Quebecers

The number of web designers offering transactional sites has soared in recent years. There are two schools of thought in this regard: one that believes that anyone can design their own site and another that believes in going all out for a sophisticated, professionally designed, turnkey solution. Either way, success is not immediate. It is, however, attainable. Generating online traffic takes time and effort, and customer satisfaction must be a priority since success is measured in sales.

AN EVER-CHANGING MEDIUM

E-commerce has already changed dramatically since its inception. Beyond setting up an e-store and transactional capabilities, retailers have worked hard to attract, accommodate, convince and win the loyalty of consumers by increasingly personalizing the shopping experience.

For instance, shoppers can now virtually try on clothes or order made-to-measure garments for which they choose the fabric, cut and style. Consumers can now also redesign their kitchens from the comfort of their homes. As well, sites are no longer "static." Whereas in the past, e-tailers had to wait for consumers to come to them, today they can reach out to prospective buyers through such mediums as RSS feeds, social media, videos and mobile marketing, to name but a few.

Online merchants understand that there's strength in numbers. It is therefore commonplace today to see other sites referenced when placing an order. Merchants are also forming associations. The Regroupement des commerçants électroniques du Québec (RCEQ) is one such example.

FAR FROM MARGINAL

Regardless of the market share attributed to online shopping (1.9% to 3.9% in 2012 for Canada, depending on the source), e-commerce does not appear to be a huge threat. Still, it is one more thorn in the side of local brick-and-mortar retailers. Just like the U.S. banners that slowly made their way into Canada and then picked up the pace until they established a dominant presence, e-commerce is here to stay.

A closer look reveals that online orders are growing steadily and at a much faster pace than retail sales overall. And the speed with which new tools are being developed to simplify e-shopping, including the multiplication of platforms to access e-stores, is simply dizzying. The consumers are clearly there; it's up to our merchants to reach out to them, and there's no time to waste. If the trend holds, online shopping will continue to grow at a rapid pace, and since disposable income is not increasing in tandem, traditional merchants will feel the pinch. They must therefore innovate to hold onto their business while at the same time establishing a presence online. Online shopping is not a passing fancy: foreign retailers have figured this out and are capitalizing on it. The World Wide Web is open to all, and Quebec firms must carve out their piece of the pie.

Joëlle Noreau
Senior Economist

ANNEXE

Table 1 – B2C e-commerce by region (2012–2017)

<i>In US\$ billion</i>	2012	2013^f	2014^f	2015^f	2016^f	2017^f
Asia-Pacific	301.2	383.9	525.2	681.2	855.7	1,052.9
North America	379.8	431.0	482.6	538.3	597.9	660.4
Western Europe	276.8	308.9	342.0	374.5	404.0	432.6
Central and Eastern Europe	41.5	49.5	58.0	64.4	68.9	73.1
Latin America	37.6	48.1	57.7	64.9	70.6	74.6
Middle East and Africa	20.6	27.0	33.8	39.6	45.5	51.4
Global	1,057.6	1,248.4	1,499.2	1,762.7	2,042.5	2,345.0

f: forecast

Note: Includes products and services ordered and leisure and unmanaged business travel sales booked using the internet via any device, regardless of the method of payment of fulfillment; numbers may not add up to total due to rounding.

Source: eMarketer, January 2014

Table 2 – Characteristics of online buyers in Canada and Quebec

	<i>Statistics Canada</i>		<i>CEFRIO</i>
	<i>Canada</i>	<i>Quebec</i>	<i>Quebec</i>
Total online sales (2012)	\$18.9 billion	\$3.1 billion	\$6.8 billion
Buyers (2012)	56% of Internet users	--	1 out of 2 adults made online purchases in 2012
Average buyer (2012)			
- Number of purchases	12.6	10.6	\$333/month
- Amount	\$1,451/year	\$1,098.50/year	
Age group most inclined to buy online	25 to 34 year olds	--	25 to 34 year olds
Most popular payment method	Credit card	Credit card	Credit card

Sources: Statistics Canada, Canadian Internet use survey, electronic commerce, electronic orders, for Canada and regions, CEFRIO, Indice du commerce électronique du Québec (2012–2013), NETendances 2012.

Table 3 – Characteristics of Canadian and Quebec retailers

	<i>Statistics Canada - Canada 2012</i>	<i>CEFRIO - Quebec 2013</i>
Businesses with a website	Private sector: 45.5%	1 out of 2 businesses
Businesses with a website	Retail: 53.8%	--
Purchases	--	On average, one dollar out of four is spent on a Quebec site
Retail business	Of retailers with a website: - 17% offer online payment; - 43.4% used social media; - 16.2% had an optimized version for mobile users; - 29.5% personalized their websites for regular users.	21% of retailers have an e-commerce site

Sources: Statistics Canada, Survey of Digital Technology and Internet Use, CEFRIO, NETendances, 2012, 2013

ANNEXE

Table 4 – E-tail sales in Canada as a % of total retail sales

	2012	2013f	2014f	2015f	2016f	2017f
Online sales (\$ billion)	18.36	21.61	25.37	29.63	34.04	38.74
As a % of total retail sales	3.9	4.5	5.2	5.9	6.7	7.4

Note: Includes products of services ordered using the internet via any device, regardless of the method of payment or fulfillment; excludes travel and event tickets; eMarketer benchmarks its Canada total retail sales figures against Statistics Canada data, for which the last full year measured was 2012
Source: eMarketer, December 2013

Table 5 – Proportion of Canadians who buy online

	2012	2013f	2014f	2015f	2016f	2017f
In millions	14.4	15.2	16.2	17.1	17.6	18.0
% change	8.4	5.6	6.5	5.4	3.0	2.4
% of Internet users	60.8	63.1	66.2	68.9	70.1	71.0
% of the population	49.3	51.6	54.4	56.9	58.2	59.1

Note: Ages 14+; internet users who have made at least one purchase via any digital channel during the calendar year, including online, mobile and tablet purchases
Source: eMarketer, June 2013, confirmed and published in December 2013