

Tapping the Canadian Ecommerce Opportunity: Facts for U.S. Multichannel Merchants

BY KARLENE LUKOVITZ

Growing numbers of U.S. multichannel merchants seeking to expand beyond the hyper-competitive domestic market are looking north to Canada.

The logic isn't hard to grasp. In addition to the significant advantages associated with proximity and a shared language, Canadians' education levels, culture and values are similar to Americans'. They're also affluent (median household income of nearly \$72,000), and 64% have disposable income (versus 50% of Americans).

The list of major American retailers pursuing new growth opportunities with bricks-and-mortar businesses and/or online presence in Canada is long and getting longer: Wal-Mart, Target, Costco, Nordstrom, J.C. Penney, Macy's, Best Buy, Future Shop and Amazon, to name a few.

There's also a less visible but no less significant cross-border online phenomenon underway, as U.S. merchants of all

sizes recognize Canada as a large, relatively untapped, accessible and receptive market for ecommerce. Canadians are serious online shoppers, and much of the country's ecommerce growth is being driven by their embrace of U.S.-based ecommerce sites and products.

Selling online in Canada, as with all cross-border sales, obviously requires planning and navigating government regulations, taxes and duties, marketing, and logistical and operational differences.

However, marketers and suppliers say that, because of the extensive and continually expanding roster of support services and solutions that now exist to facilitate U.S. retailers' success in Canada, expansion into this market should no longer be daunting even for merchants with limited resources and personnel.

The resources and options range from overall logistics specialists to national and regional carriers and shippers, couriers and consolidators (many of which

have service offerings extending well beyond shipping basics), as well as off-the-shelf and custom ecommerce solutions that incorporate pricing, shipping and tracking functions and other requirements.

Etailers can also consider options for marketing online to Canadians without setting up their own Canadian operations. For example, while large retailers fear Amazon, many U.S. SMBs are opting to launch in Canada by featuring products in one of Amazon.ca's vertical categories (with or without employing its fulfillment services).

Retail analysts point out that there's an important window of opportunity for specialty and other multichannel merchants looking to sell to Canadians from their U.S. home bases. Canadian retailers have lagged in developing ecommerce, and even formidable U.S. players already in the market are still in development and growth mode.

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Concentrated, accessible markets

While Canada is geographically massive, 80% of its 35 million people live within 100 miles of the U.S. border, and 46% live in six metropolitan centers (Toronto, Ottawa-Gatineau, Montreal, Vancouver, Calgary and Edmonton).

The concentration of population in metro markets is of course a crucial draw for U.S. retailers pursuing physical store expansion. Also, many U.S. retailers elect to focus their Canadian marketing primarily or exclusively in these hubs with close proximity to U.S. states.

Growth potential still being unleashed

Canada is an already-significant ecommerce market that's poised to see substantial growth over the next five years.

Nearly two-thirds (64.6%) of Canadians were buying online as of 2013, according to Forrester Research.

ComScore estimates that between 2011 and 2012, Canadians' total online transactions rose 17%, to 105.3 million (from 90 million), and their online spending rose 9.9%, to \$22.3 billion (from \$20.3 billion).

On a per-capita basis, Canadians are among the world's largest online spenders. In 2012, they spent an average of C\$1,452 per person (over 13 transactions)—up 6.6% from C\$1,362 in 2010, reports government agency Statistics Canada.

At the same time, growth to date has barely scratched the market's potential. By some estimates, online sales represented just 4% to 5% of Canada's total 2012 retail sales (which were C\$470 billion, according to Statistics Canada). In comparison, online accounted for 8% of total U.S. sales as of first-quarter 2013, reported 3DCart.

Key Best Practices

- **Be transparent about shipping costs.** Canada Post found that 54% of buyers on international sites had all fees charged at time of purchase, and 29% were charged no fees at all. Just 17% were charged fees at time of delivery.

Retailers that can't justify waiving shipping costs are strongly advised to display these costs up front as items are added to the shopping cart, to avoid shopper frustration or mistrust (35% of online shoppers who had abandoned their carts without purchasing cited failure to provide shipping costs prior to checkout as the reason).

"The [shipping] cost may deter some customers, but others will factor it into their spending and adjust accordingly," notes Canada Post. "After all, the customer looks for transparency, and no one likes to be hit with an unexpected charge. In fact, the upfront awareness of shipping costs may actually increase the quantity of goods sold, with many shoppers adding additional items to their carts so that their purchase total qualifies for free shipping."

- **Simplify data collection and transactions.** Ease of checkout is second in importance only to shipping fees, so it's crucial to speed the process by collecting only the critical customer data and minimizing the number of steps to purchase completion. Each additional step or field increases the likelihood of abandonment. Self-populating forms and retaining address and payment information for the customer's next visit are always recommended.

- **Be transparent about returns policies.** Canada Post estimates that about 12% of all orders are returned—and importantly, "returners" were found to spend 25% more than "non-returners" over a three month period. Clearly, consumer-friendly returns policies can pay off in customer loyalty and lifetime value.

State your returns policy in clear language in an easily-found location on your site, and strive to make the returns process as simple as possible. For example, half or more of Canadian shoppers strongly agree that it's desirable to receive a return label with the original delivery.

- **Provide order tracking.** Canadians also rank this as a very important part of their ecommerce experience. Providing accurate information about delivery times up front and transparent tracking sets expectations and reduces customer service calls and the costs associated for retailers. Canada Post reports that 82% of recent online buyers chose regular shipping, versus 12% opting for expedited.

- **Be culturally sensitive:** Like all consumers, Canadians respond best to marketers that not only offer relevant, quality products and services, but communicate in relevant, culturally appropriate fashion. It stands to reason that it's always a plus, if possible, to go the extra step to use Canadian word spellings, images that resonate with Canadians, and pricing in Canadian dollars in marketing materials and on websites.

Online's modest share of total sales to date reflects a late start in the development of domestic ecommerce channels, which for some time limited Canadian consumers' options and restrained growth. (A 2012 study by a Parliamen-

tary committee found that Canadian businesses were investing about 40% less on information/communications technology than U.S. businesses.)

Analysts say that the initial lack of online impetus is attributable to a number

Marketing: Catalogs, Direct Mail Highly Effective

A whopping 95% of Canadians read their mail the day it arrives.

Perhaps it's not so surprising, then, that Canada Post's research showed that mail outperformed online channels as a driver of online purchases. Over a six-month period, ads in the mail resulted in 39% of Canadians buying a product or service online. In comparison, 27% purchased as a result of exposure to email and digital display ads, and just 8% were moved to action by social media.

Catalogs are also very effective—in part because, in comparison with their American consumers, Canadians are less saturated with these marketing vehicles. Canada Post's study found that roughly half of Canadian Internet users receive catalogs for various types of merchandise. More than a third said they keep their catalogs for reference for some time, and more than a quarter reported visiting the retailers' sites and/or stores as a result of perusing catalogs.

of factors. For many years, a small number of traditional, dominant Canadian bricks-and-mortar retailers enjoyed little competition (in part due to the duty and shipping costs for U.S. products). In addition, the concentration of population, and retailers, in a few metro areas has made shopping physical stores relatively convenient for Canadians.

Today, Canadian retailers are focused on making strides in ecommerce offerings in order to compete more effectively with the sophisticated offerings of U.S. competitors.

But the key takeaway is that there's no question that Canadians' online spending, through both non-Canadian and domestic channels, is on a serious growth curve.

Forrester projects that over the next five years, Canada's total online sales will grow by at least 10% annually, to

reach \$32.8 billion and represent 10% of total retail sales by 2018. The researcher estimates that by that date, nearly 70% of Canadians will be buying online, and their average annual spending will reach \$1,507.

Many signs also point to Canadians' online habits increasingly resembling those of Americans.

In 2013, a Deloitte holiday outlook survey found 28% of Canadians saying they prefer to shop online rather than at malls. Black Friday has become an important event for Canadians: Last year, 10% bought from sites in Canada, and 3.5% from U.S. sites, according to a DIG360 Consulting survey. And MasterCard Spending Pulse reported that online's share of retail sales in Canada reached 7.8% during December 2013, a record high for any month to date.

Why non-Canadian sites' share is large and growing

Forrester's 2013 "State of Canadian Retail" report found 68% of Canadian online shoppers reporting that they had made some purchases from websites based outside of Canada, with 43% reporting they'd purchased from U.S. sites.

In total, Forrester estimates that about 25% of Canadians' online spending is through non-Canadian sites.

The dominant reasons for purchasing from non-Canadian sites are wider product selections and cheaper prices.

In Forrester's study, nearly three quarters (72%) of those buying from non-Canadian sites said they did so because they couldn't find what they wanted through domestic retailers, and 59% cited cheaper prices as a factor.

A third said they'd buy through non-Canadian sites even if they might be charged extra for duties—perhaps not surprising, given that 68% said they typi-

cally found Canadian retailers' shipping charges too high.

Similarly, in a 2012 survey of Canadian shoppers conducted by J.C. Williams Group for Canada Post, the country's postal system, nearly half said that their purchases from U.S. and other international sites were more than 20% cheaper than the Canadian equivalents, even after all shipping, taxes, customs and duties were factored in. Two-thirds of recent online buyers said that free or discounted shipping is very important in their buying decisions, and 44% of all online buyers strongly agreed that they're more likely to make additional purchases from online retailers who offer special products, discounts and rewards..

Forrester summed it up this way: "In the eyes of the consumer, the downsides of buying from a U.S.-based retailer rather than a domestic Canadian retailer are diminishing...Canadian online shoppers will sacrifice any loyalty to Canada-domiciled retailers if they can find the same product cheaper at an online marketplace or via a U.S. or international retailer."

Still, Forrester and others have confirmed that the transactions process, delivery speed and other service options and policies are also significant factors in Canadians' choice of ecommerce channels. For instance, the Canada Post survey found 61% of recent online buyers citing ease of checkout, and 59% citing a clear returns policy, as being very important in their purchasing decisions.

And as retail analysts as well as researchers have pointed out, in many cases, U.S. and other non-Canadian sites also have been surpassing domestic sites in delivering the fast, seamless online experiences, easy transaction processes and customer service levels desired.

Profiling Canadian e-shoppers: a closer look

Like other studies, Canada Post's research found that eshoppers tend to be somewhat younger (35 and under) and wealthier than the general population averages.

In the survey, online shoppers over-indexed in the 18-to-24 demographic, although the most recent buyers were dominated by the 25-to-35 age group, with a strong skew toward college/university education and higher household incomes.

Seventy percent of those 18 to 34, and 72% of those with household incomes of \$70,000 to \$99,000, had made purchases in the past 90 days.

Canadians, like Americans, are also big online researchers: 78% of all respondents (and 91% of those 18 to 34) researched online before making their recent purchases. Nine out of 10 of these

"researchers" had college degrees or were engaged in full-time studies.

Online shoppers are about evenly split between males and females (females slightly outnumber males within the overall Canadian population).

While some U.S. retailers contemplating Canada are concerned about language issues, fully 82% of eshoppers reported that English is their first language.

The most-purchased types of products and services among Canadian eshoppers include travel bookings, event tickets, clothing, shoes, jewelry and accessories.

The promise up north

In short, U.S. merchants, smaller as well as large, have compelling reasons to investigate the potential that's just over the border. Canadians are more than

open to American retailers' overtures, if they get the selection, pricing, logistics and customer service right.

The Canadian ecommerce opportunity is also refreshingly lower-key in comparison with the intensely competitive U.S. market, where consumers have seemingly endless options.

"Canada looks like an easier place to do [ecommerce] business" and a "more comfortable target" for expansion than the U.S., at least at this point in time, observed WSL CEO Wendy Liebmann, in a 2013 white paper from Dx3, the leading Canadian digital conferences business. "Canada feels less stressed. It feels more like it was in the U.S. five years ago."

Given that Canada is poised to see its own significant ecommerce growth spurt over the next five years, marketers that establish a presence and customer base now stand to reap rewards both in the short and long term.



Median Canadian household income is

\$71,952

vs. \$61,632 in California



Average overall annual household expenditure is

\$72,654

vs. \$63,972 in U.S.

Across all retail channels, Canadians spend an average of



\$3,323 per year on apparel and accessories

vs. \$2,184 in the U.S.



\$3,670 on recreation and entertainment

vs. \$3,418 in the U.S.



and **\$2,005** on household furnishings/equipment

vs. \$2,027 in the U.S.