

PERSPECTIVE



E-commerce Is Here to Stay

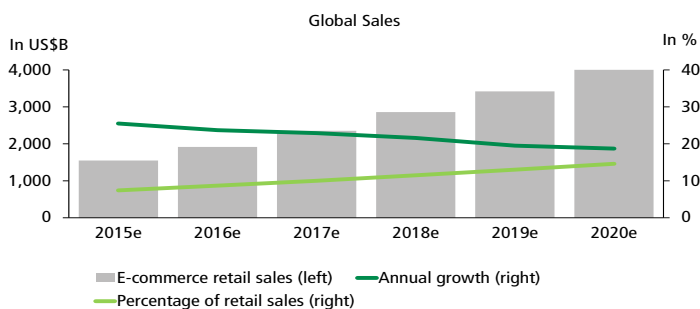
Electronic commerce is thriving: nearly 6 in 10 adult Quebecers shopped online last year, and the total amount of their purchases has increased over the last three years. Quebec retailers are faced with interesting challenges: how to take advantage of e-commerce to sell more to Quebecers and non-Quebecers? However, there's still a long way to go. New skills have to be developed at a time when the giants of online shopping appear to have unlimited resources at their disposal and unbeatable sales arguments for attracting shoppers from around the world. E-commerce is growing at a rapid pace. It's an evolving market where carving out a niche is no mean feat.

The phenomenon is in a state of constant renewal

Amazon remains the e-commerce leader worldwide, but it is no longer alone. Year after year, online shopping sites, including those of increasingly formidable competitors such as Alibaba, are growing in both number and sales. The increase in online sales is real and—if we can rely on the views published by eMarketer, a data research and production firm that looks at virtual commercial transactions, among other things—the trend won't be ending any time soon (graphs 1 and 2). Nonetheless, it would appear the pace of growth is less frantic, both in Canada and around the world.

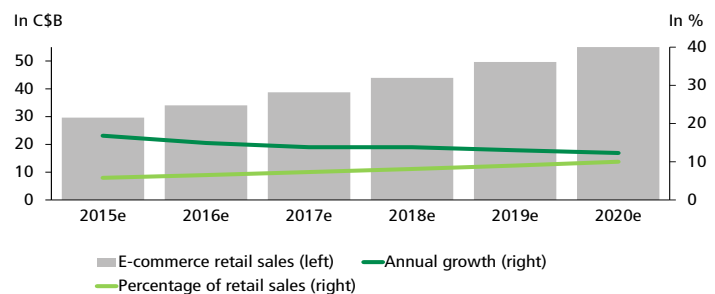
There is a sense that e-commerce is frenetic, as it continuously renews itself. For example, Amazon, which initially sold books and then gradually entered many other retail segments, has just expanded its operations to include the food industry. The company recently bought Whole Foods Market, the massive

GRAPH 1
E-commerce retail sales are expected to continue to grow between now and 2020



e: estimates
Source: eMarketer

GRAPH 2
E-commerce retail sales in Canada should also rise



e: estimates
Source: eMarketer

American organic-food retailer. According to some, the objective of this purchase was to acquire an outstanding distribution system. However, Amazon is already a champion in this area. Others feel it's about acquiring know-how in a field that differs significantly from the company's regular operations, not to mention a prestigious banner (brand image). Whatever the goal, the fact is the e-commerce giant has acquired 450 stores. It is moving out of the niches in which it traditionally did business and is threatening to disrupt the way things are done in North America's food industry.

Another sign of change involves companies that originally began online now deciding to open brick-and-mortar stores where customers can browse in person. They are following the opposite path taken by the overwhelming majority of businesses, seeing this as a way of complementing their retail selection and reaching

François Dupuis, Vice-President and Chief Economist • Joëlle Noreau, Senior Economist

Desjardins, Economic Studies: 418-835-2450 or 1 866-835-8444, ext. 5562450 • desjardins.economics@desjardins.com • desjardins.com/economics

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other customers. Amazon is one of them, having opened storefront booksellers and, more recently, testing stores with no checkouts (Amazon Go). In the latter case, transactions are made by smartphone. Other businesses that came into being thanks to e-commerce have also moved to a physical presence (eyeglass shops, men's and women's clothing retailers). The phenomenon is not only affecting the United States: Amazon filed three trademark applications for Amazon Go in Canada over the past year.

The changes keep coming one after the other, from all perspectives, thus pushing the boundaries of online shopping almost daily. To illustrate, Amazon offers a service that allows the consumer to try on clothing ordered online before actually buying it (Prime Wardrobe). When they select at least three pieces from among a million options, consumers will receive them free of charge, delivered right to their door in a prepaid resealable box. Once they've finished trying on the clothes, they can return those that don't fit by leaving the box at their door, where it will be picked up. To make the experience even more enticing, Amazon offers a 10% discount if the three pieces of clothing are kept, or up to 20% if five or more pieces of clothing are kept. What could be better than that?

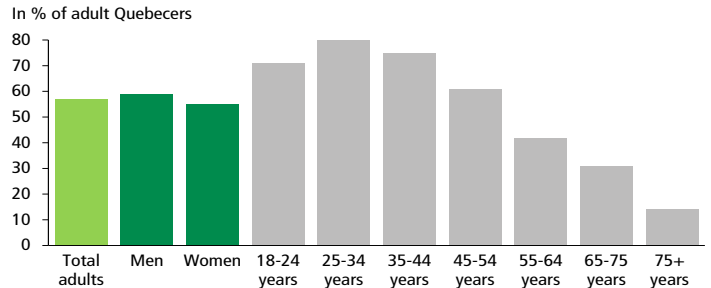
The changes don't stop there. The following example further proves that boundaries are being pushed. Beacon technology uses a small, wireless sensor that allows the retailer to communicate with the smartphone of a consumer (who has agreed to be connected). Thus, when a potential buyer passes near the device in a store, they will receive targeted promotions (such as discounts) on their phone. While not yet common, this technology could significantly change the way we consume. Then there's the potential use of drones to deliver purchases, which would really shake up distribution operations.

This brief overview provides some idea of the developments currently underway and all the buzz surrounding e-commerce. We are left with a powerful impression of the resources used, the business strategies implemented, and the speed at which all these changes are happening.

E-commerce and Quebecers

According to the latest¹ CEFRIO² survey, e-commerce is popular in Quebec. In 2016, a full 57% of adult Quebecers shopped online in the last year (graph 3). This rate is comparable to that of 2015 (58%). Online shopping is clearly preferred by 25 to 34-year-olds, but overall, those aged 18 to 54 are more active than their elders.

GRAPH 3
In 2016, nearly 6 in 10 adult Quebecers shopped online

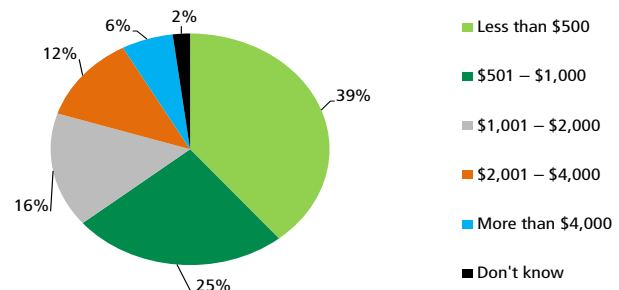


Sources: CEFRIO and Desjardins, Economic Studies

The survey focused on spending by adult Quebecers, revealing that purchases amounted to \$8.5B in 2016, an increase of 6% compared to 2015 (\$8.0B). This was the third year of growth in a row. The surge observed could be the result of an increase in average monthly purchases, estimated at \$325, which had been evaluated at \$309 the previous year.

What is the breakdown of online shoppers? The survey revealed that 64% of online shoppers spent up to \$1,000 in 2016, and 39% spent at least \$500 (graph 4). Furthermore, 34% spent more than \$1,000, while 6% estimated that they purchased more than \$4,000 worth of goods online during the year. Most purchases in Quebec are still made using more conventional means, but e-commerce is, nonetheless, reaching a large number of adult Quebecers, who are gradually adopting it. For some shoppers, the hole in their wallet remains contained, for others, it is significant. This is becoming even more of a concern when we realize that one in four dollars is spent shopping at Quebec businesses operating online, and that the remaining three dollars are spent outside Quebec, mainly in the United States.

GRAPH 4
Roughly one-third of all Quebec online shoppers spent more than \$1,000 in 2016



Sources: CEFRIO and Desjardins, Economic Studies

¹ *NETendances 2016*, CEFRIO, March 2017, 23 p.

² Centre to facilitate research and innovation in business through the use of information and communications technologies (ICT).

Table 1 shows the breakdown of the amount spent online in 2016, based on age group. Thus, we see that the youngest group (18 to 24-year-olds), who practically grew up with the Internet, is the one that spends the least amount of money (60% spend less than \$500 per year), excluding those 75 and up. The 25 to 54 age group includes, on average, 40% of online shoppers whose spending exceeds \$1,000. However, the 35 to 44 age group has the highest proportion of people who have spent more than \$4,000 shopping online.

What kinds of products do Quebec's online shoppers find irresistible? Clothing, footwear, jewellery and accessories top the list for 30% of all online shoppers (graph 5). Next, it's entertainment, outings, and restaurants (29%), followed by music, movies, and video games (27%), electronics (26%), and software or mobile apps (25%). Travel and transportation purchases were down in 2016 compared to previous years. A one-off phenomenon? Turning point? The data for 2017 will shed light on this. On the other hand, last year saw gains in the areas of food, health and personal grooming, as well as home decor and household items.

Lastly, the majority of the purchases were made using a computer. However, tablets and smartphones are increasingly

being used. This goes to show that changes are not just happening in terms of what's being offered online.

E-commerce and the Quebec economy

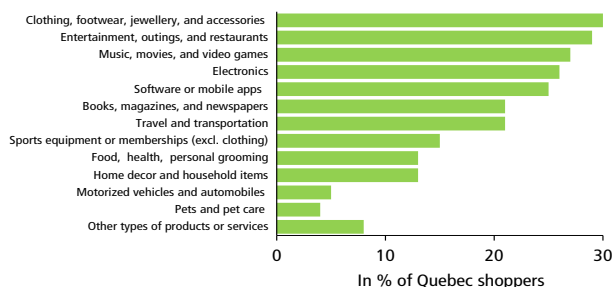
According to the work carried out by the Institut du Québec,³ together with the results from the CEFRIO survey, 25.8% of Quebecers' purchases were made from a Quebec retailer. Based on the data available at the time of the study (those for 2014), this number reached \$1.7B. The Institut considered that an increase of \$2B per year in sales for Quebec retailers through e-commerce could have very positive benefits for the Quebec economy. One benefit would be an increase in the GDP of \$550M (or 0.15% of total GDP). It has been estimated that the additional labour required for e-commerce could lead to the creation of 8,000 full-time jobs. Furthermore, the taxes collected on items purchased from Quebec retailers would represent \$193M in additional government revenue.

It is estimated that 70% of Quebec retailers' online sales are to Quebecers. This raises two questions. First, to boost sales, would it not make sense to increase the online purchases by Quebecers who only spend one of every four dollars online buying from Quebec retailers? Second, why not sell more to the rest of the world too? With this in mind, how can Quebec retailers attract foreign shoppers? What can they do to stand out, given the huge selection online?

Or course, we can't deny the fact that the products and services sold in Quebec are subject to the GST and the QST, which is not the case for foreign companies. Calls on the part of Quebec retailers to level the playing field are increasingly urgent. At the same time, certain researchers are studying this issue and the legislation elsewhere in the world. There is a lot of work that needs to be done in this regard.

³ [Le commerce en ligne au Québec : passer du retard à la croissance](#), Institut du Québec, 2015, 36 p.

GRAPH 5
Online purchases by Quebecers cover a vast range of products (2016)



Sources: CEFRIO and Desjardins, Economic Studies

TABLE 1
Breakdown of the amount spent online over the last 12 months based on age group

	TOTAL 2016	MEN	WOMEN	18-24 YEARS	25-34 YEARS	35-44 YEARS	45-54 YEARS	55-64 YEARS	65-74 YEARS	75+ YEARS
AMONG QUEBEC ONLINE SHOPPERS (%)										
Less than \$500	39	30	48	60	35	30	28	46	46	83
\$501 – \$1,000	25	27	23	23	23	26	29	24	28	6
\$1,001 – \$2,000	16	21	10	6	23	19	16	14	8	6
\$2,001 – \$4,000	12	13	10	11	13	10	17	8	5	6
More than \$4,000	6	7	6	0	4	12	6	7	11	0
Don't know	2	2	3	0	2	3	4	1	3	0

Note: The total may not add up to 100 due to rounding.
Sources: CEFRIO and Desjardins, Economic Studies

Meanwhile...

As retailers try to benefit from e-commerce, a number of Quebec manufacturers have opted to reach out to consumers directly, bypassing the distribution and retail stages altogether. This is the case for certain clothing and furniture manufacturers, to name just two sectors. It is increasingly clear that there are fewer and fewer borders between manufacturers and buyers. This also holds true for retail: physical and virtual stores are offering increasingly interchangeable offerings that complement each other.

A whole host of activities has evolved around e-commerce. Hence, there has been a proliferation of jobs for designers of websites and e-commerce platforms. Carriers are increasingly in demand to make deliveries, and paper and cardboard printers and manufacturers to produce packaging.

Retail experts are seeing a drop in the physical size of businesses over the last few years, with surface areas shrinking. More and more, certain retailers are designing the physical space where they greet customers to resemble a showroom. They display the merchandise in a case and ensure their products and services look good, while giving customers the impression they figure in the equation. This is why the number of demonstrations, experiences or tastings is on the rise, depending on the type of product or service offered. The space that in-stock merchandise used to occupy is decreasing and merchandise is being relocated to suburban warehouses where storage costs are lower. Inventories are allocated according to need in stores and online.

Hand in hand with e-commerce

It's not just a matter of having a presence online and selling. You have to offer customer service. Bargaining with a flesh-and-blood customer is one thing, meeting expectations and responding to the occasionally harsh comments that some customers write or leave in your voice mailbox is another. Other skills need to be developed. The ability to respond in a reasonable amount of time is also required. How retailers interact with customers is not the same, whether in a physical store or online. It's also possible that customers who shop online may not necessarily be those who will visit a store, a difference that needs to be understood.

A shot in the arm

It is estimated that 90% of Quebec retail businesses have a website. Nonetheless, the proportion of Quebec retailers who sell their products and services online is only about 15%. At the same time, they know that the amount of money allocated to online shopping is rising each year and that most of it is going to businesses outside Quebec. They are well aware of the fact that consumers visit a store to buy online and, at the same time, browse the Internet to then buy in a store. The synergy between the two options is becoming better understood. However, things get complicated when putting this into practice and developing a transactional site. The expertise and financial resources are not always available. In day-to-day operations, the

feeling may be that there is little time and money available to devote to designing and maintaining a sales site, as well as the logistics of customer service (quick response time, delivery, return policies, etc.). To address these shortcomings, last spring the Quebec government awarded \$4.65M to the Conseil québécois du commerce de détail (CQCD). Thus, 1,325 retailers who "go digital" will receive assistance. Marketing training has become a must.

A steamroller?

E-commerce is expanding and there is no end to the buzz it is creating on the Web. Online sales are forcing their way into new consumer niches, the way to reach regular customers or potential buyers is constantly changing, the means of distribution are multiplying, and the use of new technologies is making it possible to tailor the selection to a point that is hard to imagine.

In fact, the rise of the e-commerce giants is beginning to resemble a steamroller. However, the creation of physical stores by the champions of virtual commerce makes you wonder. It appears that we've rediscovered the benefits of direct contact between customers and the merchandise. However, the ways of attracting new customers are far from conventional: in that sense, e-commerce is also redefining the approaches that need to be adopted by traditional commerce. Let's not forget that, despite the foray into bricks and mortar, e-commerce is continuing to grow at a rapid pace. It's an evolving market where carving out a niche is no mean feat.

Joëlle Noreau, Senior Economist