

Special Report

E-COMMERCE IN CANADA

E-commerce comes into focus



From the editors of Internet Retailer

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U.S. e-retailers in Canada

U.S.-based e-retailers—by and large the major retail chains alongside Amazon.com Inc. and eBay Inc.—dominate e-retail sales in Canada today.

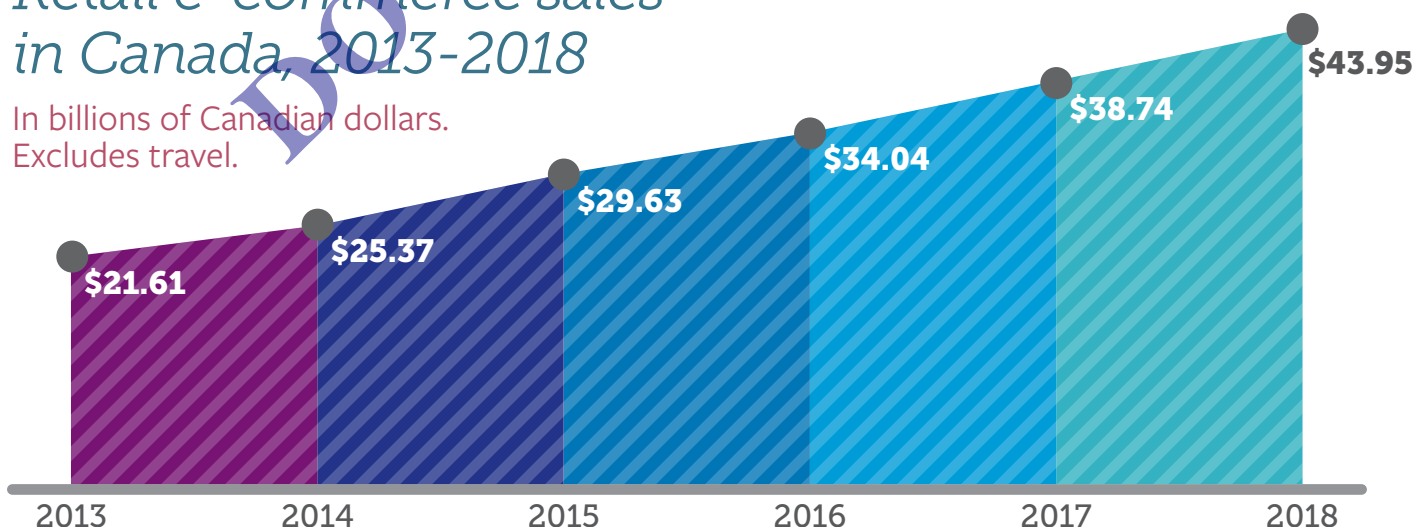
And these U.S.-based retailers aren't letting up on the gas. Quite the contrary. Many are making deeper investments in Canada as they seek to capitalize on Canadian consumers' shift toward spending a greater portion of their shopping dollars online.

Estimates for total e-commerce revenue in Canada last year range from roughly C\$16 billion (\$12.8 billion) to C\$25.37 billion (\$20.16 billion), per figures from BMO Capital Markets and eMarketer Inc., respectively. The BMO estimates measured e-retail sites and online marketplaces only, while the eMarketer includes event ticketing (see chart below).

While the Canadian e-commerce totals are a fraction of the \$304.9 billion spent by U.S. consumers online last year, according to the U.S. Commerce

Retail e-commerce sales in Canada, 2013-2018

*In billions of Canadian dollars.
Excludes travel.*



Source: eMarketer Inc., December 2014

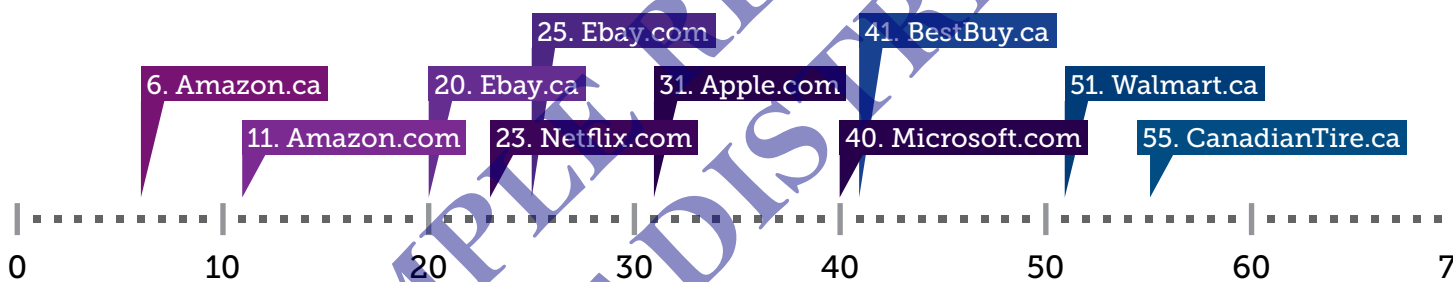
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Department, e-retail growth moving forward is expected to be strong in Canada, and to increase as a percentage of total retail spending. Forrester Research Inc. predicts Canadian e-commerce revenue will account for 7% of total retail spending in Canada this year and steadily climb to 10% by 2019. That compares to the roughly 9% share web commerce had in the United States last year and the 11% expected in 2019, Forrester estimates.

That growth appears to be luring some U.S.-based e-retailers to increase their investments in Canadian e-commerce. While more than half, 547, of the U.S.-based Top 1000 e-retailers in North America sold to Canadian consumers in 2014, some of the biggest players are stepping up their investments. Amazon.com Inc., No. 1 in the Top 500, began to aggressively increase the product selection on Amazon.ca, its Canadian e-commerce site, in 2013. That was the same year it began offering Canadians Amazon Prime, its two-day free

Most popular e-commerce sites in Canada, by traffic



shipping and more membership program. In November 2014, it further raised service levels by offering Prime members in Toronto and Vancouver same-day delivery of some 1 million eligible products.

Those investments are helping to entrench Amazon as the leading e-retailer by sales in Canada. While Amazon does not break out sales to Canadian consumers in its earnings—it lumps Canada sales in with U.S. sales—BMO Capital Markets estimates it generated C\$1.9 (\$1.53 billion) in Canada last year, or about 11.8% of total Canadian web sales by BMO Capital's estimate. This estimate includes sales on Amazon.ca, Amazon.com (the U.S. site) and on all other international Amazon-operated sites.

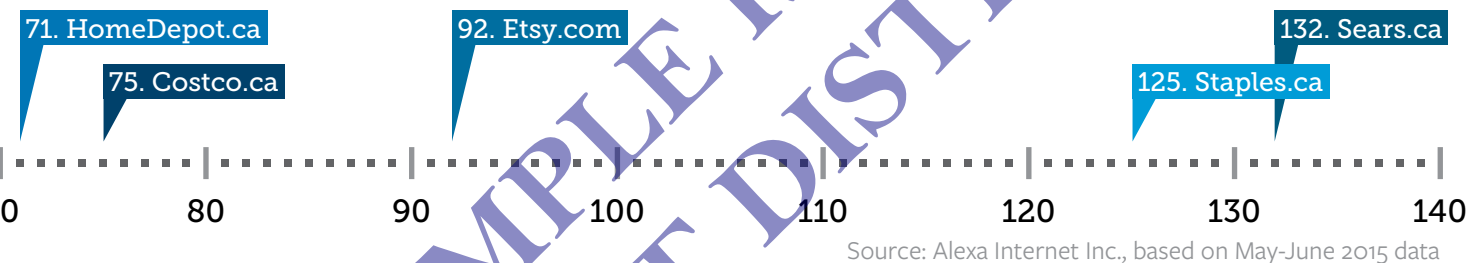
Any estimate for Canadian online sales has to look beyond .ca sites. Shoppers seeking a greater selection or better terms routinely look to retail sites operating outside of Canada for goods. Amazon.ca and Amazon.com, respectively, are the No. 1 and No. 2 most-trafficked retail sites by Canadian consumers, according to Alexa Internet Inc. data.

Data from Statistics Canada, Canada's national statistics agency, back up the claim that Canadian shoppers are shopping beyond their national borders. In 2012, the last full year for which data is available, Statistics Canada reports Canadians spent C\$7.7 billion online with retailers based in Canada, whereas it estimated total online spending at C\$18.9 billion. In other words, nearly 60% of money Canadians spent online in 2012 was with sellers outside the country.

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More recent data shows this divide may be shrinking as retailers continue to increase the selection of goods available from sites designed to serve the Canadian market. According to retail and marketing consultants J.C. Williams Group, while two-thirds of Canadian online shoppers do buy from sites outside of Canada, sites based in Canada accounted for 49% of total digital spending in Canada in July 2014. J.C. Williams' data is based on a survey it runs quarterly among 1,000 Canadian online shoppers.



Amazon.ca, for example, which began e-retail sales in Canada in 2002 by selling books, music, videos and DVDs, in 2013 alone added goods from 14 new product categories and began offering Amazon Prime two-day shipping to Canadian shoppers for C\$79 a year. Amazon says the number of Amazon.ca orders shipped with Prime nearly tripled in 2014, and it added same-day delivery on 1 million eligible products to Prime members in Toronto and Vancouver in November. As of June 2015, Amazon says Amazon.ca has more than 100 million products for sale. (Amazon's U.S. site offers 365 million products, according to investment analyst Colin Sebastian of R. W. Baird & Co.) "We remain committed to expanding our selection and making the shopping experience easy and convenient for our customers," said Alexandre Gagnon, Amazon.ca country manager, in June in introducing 1.5 million SKUs of clothing and shoes onto Amazon.ca.

Walmart.com, No. 3 in the Top 500, meanwhile, announced this spring it will invest C\$35 million (\$28.1 million) to expand and improve Walmart.ca, its e-retail site for Canada. It will invest another C\$75 million (\$60.3 million) to build

additional distribution centers to expand its fresh food and e-commerce capacity in Canada. In May, it announced it is buying 13 stores in Canada from Target Corp. (No. 16), for \$290 million, which is over and above the 29 superstores it previously planned to build in Canada this year. (Target, after a big store push, shuttered all its stores in Canada this spring. It did not sell online at Target.ca.)

Walmart, in its Q1 earnings call in May 2015, called out Walmart.ca's sales growth for its strength. While e-commerce sales for the retailer grew globally at a rate of 17% during Q1, Walmart.ca sales grew at a rate "greater than 40%." Walmart.ca gets about 400,000 daily visitors, according to the company. It is the ninth most-visited e-commerce site by Canadian consumers, according to Alexa Internet data.

While executives are boasting about Walmart.ca's sales growth, they are still fine-tuning the online offering in Canada. In April, Wal-Mart ended its free home shipping offer for orders of less than C\$50 (\$39.41) before taxes, citing high shipping costs in the country. Consumers who want home delivery for smaller orders now must pay C\$4.97 for it. In-store pickup or pick up at a post office are still free. Walmart.ca offers more than 170,000 products. "Shipping is very expensive in Canada," Alex Robertson, Wal-Mart's director of corporate affairs, said at the time. "As a result of the rapid growth of Walmart.ca, we are now at a point where it is necessary to apply variable shipping fees, which we are working to do in a fair and democratic way."

Wal-Mart does not break out Canadian web sales in dollars, but BMO Capital Markets estimates Canadian consumers spent C\$482 million (\$387.7 million) online with the retailer last year, placing it eighth among the highest-selling e-retailers selling to Canadian consumers (See chart, page 7).

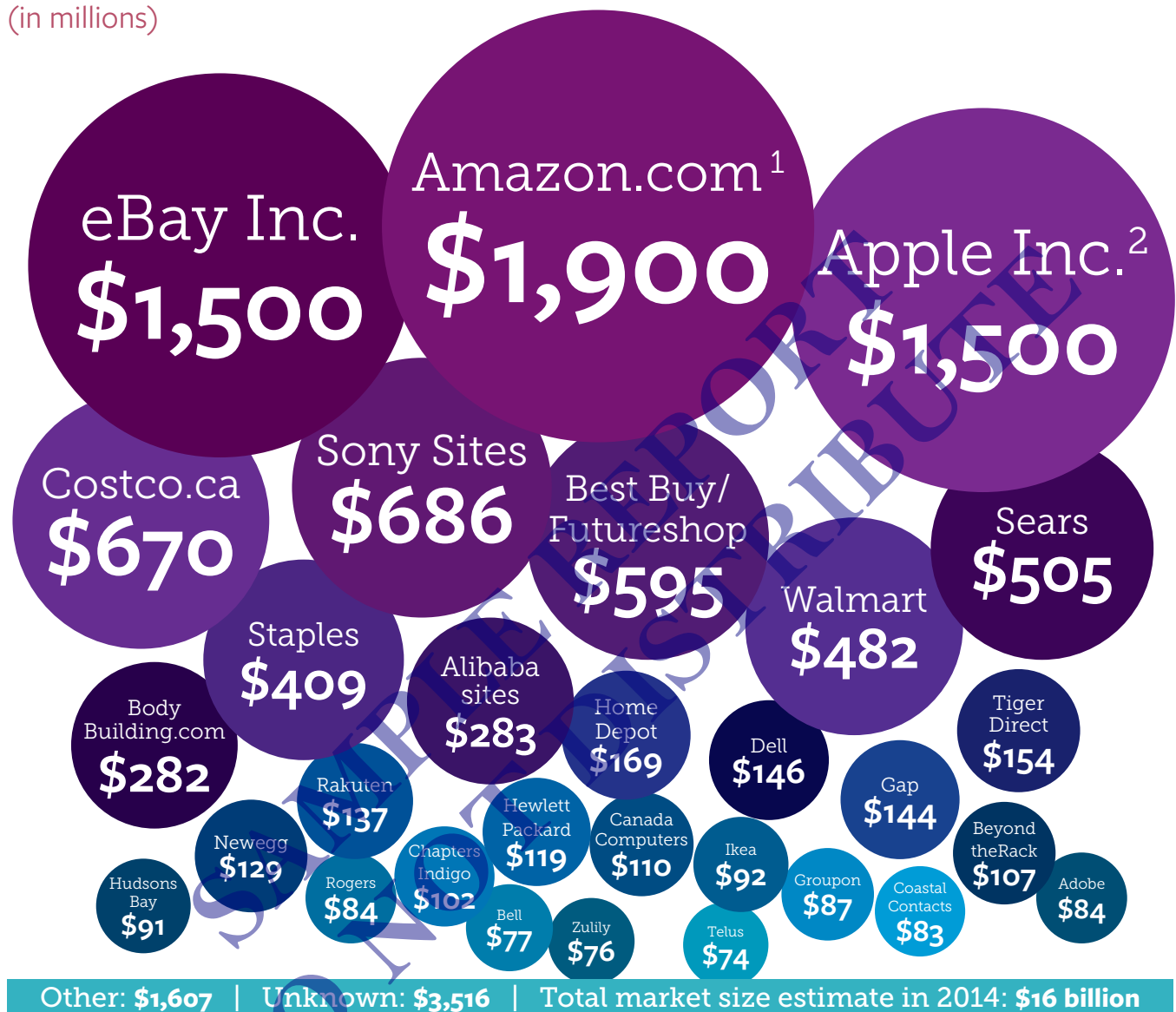
Other U.S.-based Top 500 e-retailers capturing more Canadian sales than any Canada-based e-retailer, per BMO estimates, include Apple Inc. (No. 2 in the Top 500), Costco Wholesale Corp. (No. 11 in the Top 500 and which has had a .ca e-commerce site since 2005), Best Buy Co. Inc. (No. 14, inclusive of sales on BestBuy.ca and FutureShop.ca, a Canadian retail chain Best Buy acquired in 2001), Staples Inc. (No. 4) and Sears. Sears in Canada is operated by Sears Canada Inc. Until recently, Sears Holdings Corp. (No. 5 in the Top 500), owned 51% of Sears Canada. After an arranged stock sale in November, it now has about a 12% stake in the company.

It's not only the biggest U.S. e-retailers that are investing in Canada. New Jersey-based Vitamin Shop Inc. (No. 214 in the Top 500), launched Vitapath.ca in February to serve the Canadian market. It offers 6,000 products from more than 200 brands; the e-commerce launch followed the opening of three Vitapath stores in the Toronto metro area. "Vitapath.ca allows the company

Canadian e-commerce sales estimates for major retailers

(in millions)

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to expand beyond Toronto and provide all Canadians access to Vitapath's offerings," a spokeswoman said at launch.

The number of Top 500 and Second 500 e-retailers that are based in Canada is relatively small. 19 Top 1000 e-retailers are based there, composed of 12 Top 500 (see profiles, starting on page 17) and seven Second 500 merchants. Collectively the 19 e-retailers generated \$2.40 billion in North American web sales last year, or less than 1% of the \$302.56 billion generated by all Top 500 merchants. Those web merchants represent between 12% and 15% of Canadian online retail purchases, based on the estimates of BMO Capital Markets and eMarketer. ♦

Source: BMO Capital Markets, used with permission

1. Includes sales placed by Canadian consumers on Amazon.com, Amazon.ca and other international Amazon sites.

2. Includes consumer electronics, computer devices and digital downloads

The Canadian online shopper

As of July 2014, Canada had an estimated population of 35.54 million, up 1.1% from the year prior, according to Statistics Canada. Much of that growth comes from immigrants entering the country; one in five Canadians today was born in another country. That makes the population of the Canada larger than Texas (26.96 million) and slightly less than California (38.80 million). 90% of Canadians live within 160 km, or 100 miles, of the U.S. border, and 85% of Canadians live in four provinces: Ontario (38.5%), Quebec (23.1%), British Columbia (13.0%) and Alberta (11.6%). Those four provinces correspondingly account for in excess of 85% of Canada retail sales (See chart below). The three largest metro areas: Toronto, Montreal and Vancouver collectively account for 31% of residents.

Regions, as a percentage of total retail sales, 2012

Ontario	35.3%
Quebec	22.4%
Alberta	14.7%
British Columbia	12.8%
Saskatchewan	3.7%
Manitoba	3.6%
Nova Scotia	2.7%
New Brunswick	2.2%
Newfoundland and Labrador	1.8%
Prince Edward Island	0.4%
Northwest Territories	0.2%
Yukon	0.1%
Nunavut	0.1%

2012 is the most recent annual data available.

Canadians have a high level of disposable income—the equivalent of \$82,800 per household after taxes, roughly double that of U.S. households—and Canadians like to spend. The average savings rate in 2014 was 4%—meaning Canadian's spent 96% of their household income—versus the 5.3% average savings rate in the United States, according to the Federal Reserve.

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Canadian consumers are spending an increasing amount of their retail dollars online, according to Forrester Research.¹ In 2014, Forrester estimated e-commerce accounted for 6% of total retail spending in Canada, excluding sales of goods not commonly purchased or not available for purchase online, such as cars, prescription drugs, gasoline and sales at restaurants and bars. In 2019, it predicts online sales will account for 10% of retail spending. That compares to the roughly 9% share web commerce has in the United States today and the 11% expected in 2019, according to Forrester's estimates. The research firm credits lower shipping costs and a greater assortment of products available for sale online for spurring the growth in e-retailing in Canada. In 2014, nearly 60% of Canadians shopped online, spending an average of C\$1,210 (\$1,074) doing so. Those numbers are expected to reach nearly 64% and C\$1,860 (\$1,652) in 2019.

1. Canadian Online Retail Forecast, 2014 to 2019, Forrester Research Inc.



Source: Statistics Canada

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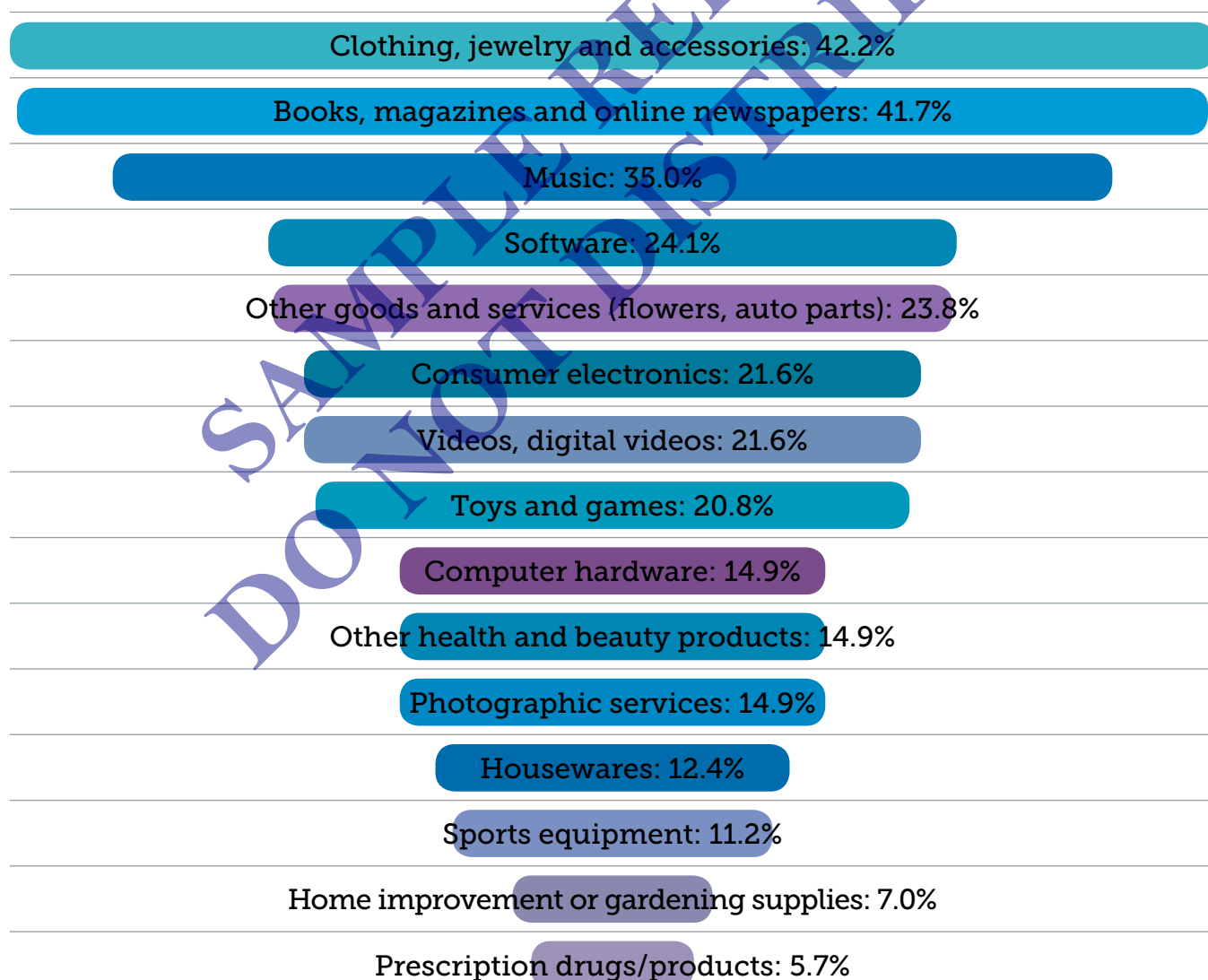
2. Digital Future in
Focus Canada 2015,
comScore Inc.

3. Retail Council of
Canada E-Commerce
Benchmark Survey 2015

Canadians spend more time online viewing web pages and content from a desktop computer than their U.S. counterparts, according to comScore Inc. data. They spend 36.7 hours online each month on desktops versus 35.2 hours for U.S. consumers, and watch more video content, too, 1,476 minutes monthly versus 1,170 minutes for U.S. consumers. Canadian's spend half their digital time on desktop computers, 35% of their time on smartphones and 15% on tablet computers. In retail specifically, 60% of time spent with retail web sites is on the desktop, 23% on smartphones and 18% on tablets.²

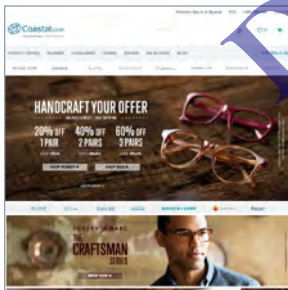
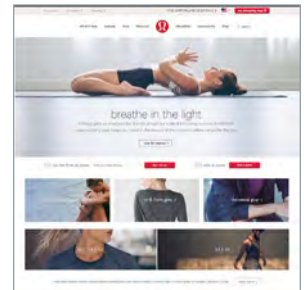
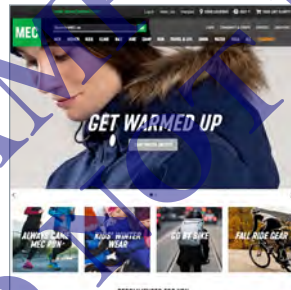
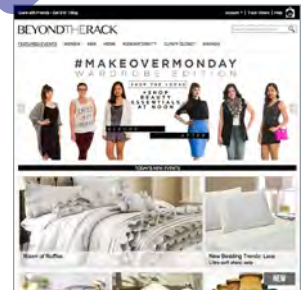
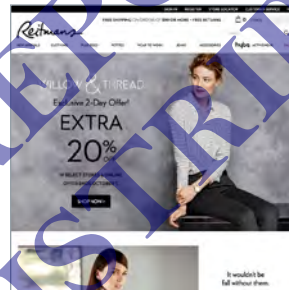
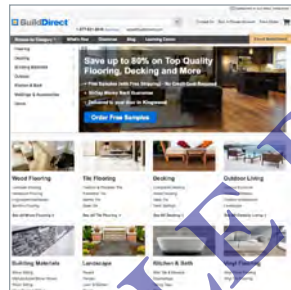
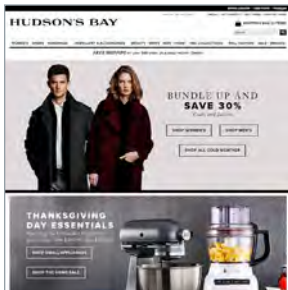
Separate research finds mobile is not yet considered a high priority among Canadian e-retailers.³ Canadian e-retailers ranked mobile fourth—behind marketing, omnichannel efforts and site merchandising—on their list of priorities for 2015. ♦

Percent of Canadian adults who have bought the following types of products online, 2012



AT A GLANCE: CANADA'S TOP E-RETAILERS

The following are the 12 Canada-based merchants whose web sales place them in Internet Retailer's Top 500 Guide. The Top 500 Guide ranks e-retailers by the web sales they generate in North America.

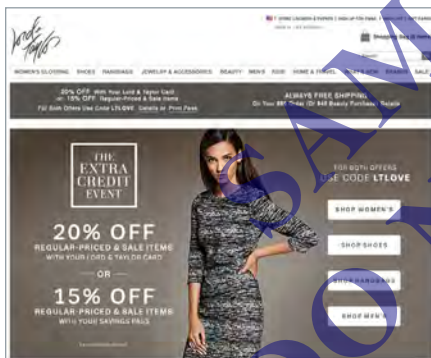
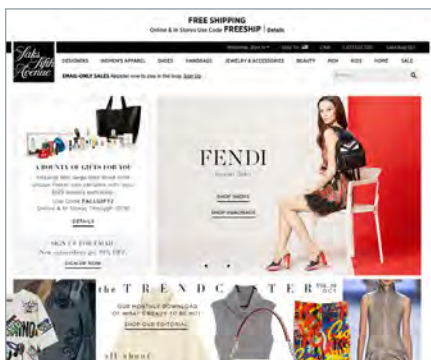


HUDSON'S BAY COMPANY

Top 500 Rank in 2015: 97

2014 North American web sales: \$400.2 million¹

2013 North American web sales: \$214.0 million¹



Hudson's Bay Company, based in Brampton, Ontario, just outside of Toronto, has the distinction of being North America's oldest company, having been granted its incorporation in 1670 by English royal charter. Today the publicly traded company has strayed far afield of its fur trading roots, operating more than 300 department stores and e-commerce sites under the banners of Hudson's Bay, Lord & Taylor, Saks Fifth Avenue and Off 5th primarily across Canada and the United States. Its e-commerce business began shifting into higher gear in 2012, growing nearly 70% after it acquired Lord & Taylor and its web business, and accelerated further when it acquired Saks in 2013 for US\$2.9 billion (see chart, page 14). Web sales grew nearly 87% year over year in 2014 due in large part to Saks.com. Hudson's Bay is currently in the process of building out the first Saks stores in Canada. In June, the retailer announced it would be acquired by the German Metro AG's Galeria Kaufhof retail chain (www.galeria-kaufhof.de) for US\$3.2 billion. Hudson's Bay executives have said digital is key to its future as it strives to reach \$10 billion in annual sales by 2018.

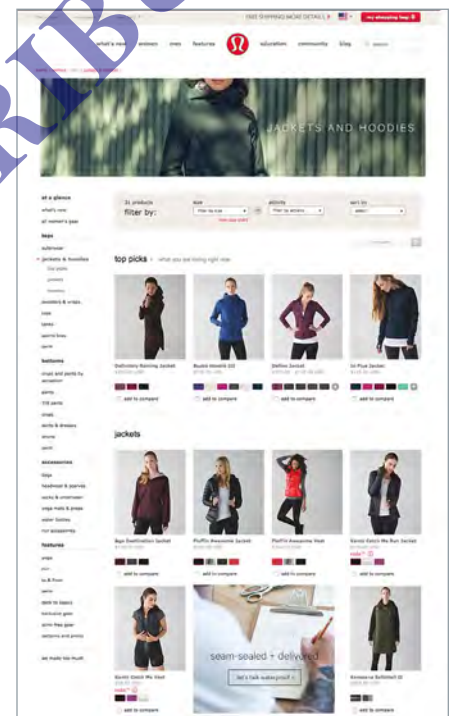
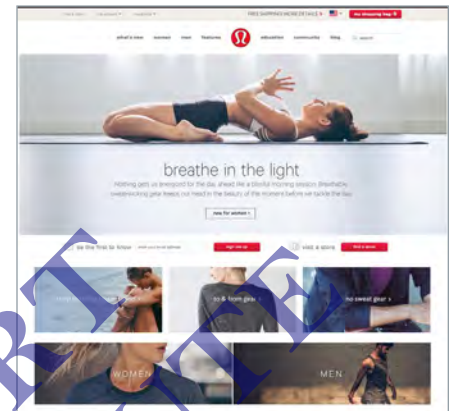
LULULEMON ATHLETICA

Top 500 Rank in 2015: 108

2014 North American web sales: \$330.0 million¹

2013 North American web sales: \$236.1 million

Lululemon Athletica is partly to blame for your seeing yoga pants outside the yoga studio. The Vancouver-based retailer is a driving force behind the so-called “athleisure” trend, designing and selling premium-priced casual athletic-wear that goes from studio to street. The retailer launched in 1998, started selling online in 2009, and now the company generates roughly 20% of its total revenue on the web. It operates 52 stores in Canada, more than 275 in the United States and 30 more spanning Europe and Asia. Orders placed on Lululemon.com can be shipped to consumers in more than 80 countries. Its web sales grew nearly 40% from 2013 to 2014, a slowdown from even faster growth in recent years. Lululemon’s five-year compound annual growth rate is nearly 55%.



1. Internet Retailer estimate