Future of Shopping

Canada Market Report

2021

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Foreword

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We believe that technology will play a vital role in the recovery of brick-and-mortar retail and boost the shopping experience both online and in-store.

This might sound counterintuitive – new technologies are often seen as negatively disruptive after all. But, done right – and built around human behaviour, rather than the other way round – the impact can be very positive and lead to a step-change in innovation.

The growth of online shopping has undoubtedly disrupted brick-and-mortar retail over the past several years, which only further accelerated during the pandemic. But technology has also helped to inspire retailers to play in, and contribute to, the increasing overlap between online and physical environments which is so fundamental now to many of our lived experiences. So technology, rather than sounding the death-knell for brick-and-mortar retail, has led to a shift that benefits both shoppers and retailers.

For this study Snap commissioned Foresight Factory to build a factual view of what the future of shopping looks like for retailers and consumers. From this a new picture of shopping has emerged which clearly shows that rather than existing separately, physical stores and e-commerce increasingly cross over and there is a huge opportunity for everyone where they intersect.

Here at Snap, we believe that technology can be a powerful enabler – giving us the opportunity to do things that we haven't been able to do before, or to do things better. Snapchat describes itself as a camera company. From our beginnings almost a decade ago, we recognised that the camera was evolving from a tool to preserve memories, to a way in which people could express themselves and share how they were feeling with their friends by talking in pictures. We realised that augmented reality – putting dog ears on your head or vomiting a rainbow – could enhance that self-expression and allow people to feel more comfortable expressing themselves. Over time we came to realise that it could also be so much more, and that the camera has become a dynamic link between the physical and online worlds, bringing them closer together.

More than five billion Snaps are now created on Snapchat every day and they are not only using the camera to express themselves and have fun together – they are also using the technology to connect with brands they care about, learning about their products in new and unique ways.

There is perhaps no better evidence for this than in the shopping sector, where retailers have been using our augmented reality (AR) mobile camera technology for several years to blend the physical and digital, to create immersive shopping experiences with use cases transitioning from entertainment to utility. Examples abound from Lego launching a UK virtual AR pop-up fashion store in 2019, to FARFETCH using voice enabled controls to browse and try on clothes in AR and Estee Lauder's MAC Cosmetics, who earlier this year created AR Lenses that allowed users to experience a range of make-up products – from eyeshadow to lipstick – virtually.

Through this study, we have learnt that consumers worldwide feel their shopping experience has been greatly enhanced by the camera and the digital innovations around it. There is no doubt shoppers are keen to get back into stores post lockdown, but they want to also keep all the advantages that technology has to offer when they return to shopping in-store.

By recognising and understanding these trends in this study, we hope to inspire retailers of all types and sizes to consider how they can capitalise on the positive disruption taking place in the shopping space. Ultimately, we see the camera as the future of retail. We see a future where the physical shopping experience will become increasingly "connected" and interactive, and we believe the internet – once viewed as the great enemy of brick-and-mortar retail – will be more accurately understood as an important lever in driving people back to stores.

Introduction

The retail industry has been on the front line of technological change since the start of the 21st century. As the digital revolution has accelerated around the world, the rise of e-commerce, mobile and virtual shopping has transformed how consumers shop and interact with retail brands. While the pace of innovation is set to continue in the 2020s, the COVID-19 pandemic has further accelerated the rate at which retail innovation needs to be adopted by global retailers.

While the extent to which consumers have endured lockdowns and store closures varies across global markets, the majority of shoppers have faced significant levels of disruption, and it is evident that this has fundamentally impacted shopping behaviours and attitudes worldwide.

As the world gradually looks to emerge from the pandemic, global brands and retailers now face the challenge of identifying and addressing the future needs and demands of customers that will shape the shopping experience and journey in the next decade.

To provide an in-depth picture of the shopping landscape at this critical time, this consumer-focused research across 12 global markets (see full methodology below) investigates how shopper expectations and needs are evolving in the post-pandemic world across online, in-store and on phones. In this report we examine the specific needs of Canadian consumers, and the retail solutions and technologies that will enable Canadian retailers to meet these shopper needs.

We would like to thank our panel of voices from the retail industry across the world who were interviewed as part of this study, and who shared their views on the challenges they have faced as well as insights into the technological solutions set to transform the industry.

Methodology

To construct this study, we combined Foresight Factory's proprietary data methodologies and existing trends intelligence, with newly commissioned quantitative and qualitative research across 12 global markets:

Trends Analysis: Review of Foresight Factory's database of 80+ global consumer trends, in order to understand the macro consumer landscape and identify key areas to explore in relation to the future of shopping.

Quantitative Research: Survey of 20,000 consumers across 12 global markets, including 1,657 Canadian respondents, in May 2021, with interlocking quotas set for age and gender.

Expert Panel: In-depth interviews with experts from global retailers, retail specialists and technological start-ups on the front line of shopping solutions/innovations.

Proprietary Data Analytics: Use of proprietary Foresight Factory methodology to construct a bespoke prediction for the future use of augmented reality in the shopping process by 2025 (at a global aggregate level and across each of the 12 markets).

Key Takeaways

A post-COVID return to physical retail

Shoppers returning to store post-COVID will be looking for the social and tactile experiences they have missed out on in the last year, combined with the convenience and safety of shopping online. Half of Canadian consumers have missed the social aspect of shopping in-store since the start of the pandemic, rising to 58% among Gen Z.

Technology will drive shoppers into stores

3 in 10 Canadian consumers would go out of their way to visit a store if it had interactive virtual services such as a smart mirror that allowed them to try on clothes or makeup, demonstrating the role that advanced retail technologies can play in enhancing in-store experiences and enticing customer footfall.

Mobile will connect brands and consumers across the shopper journey

1 in 3 Gen Z consumers in Canada select mobile devices as their preferred channel when shopping for products, and more than 6 in 10 Gen Z and millennial consumers say they never go shopping without using their cell phone. As the findings of this report prove, mobile devices are empowering connected shoppers across entire shopping journeys, connecting online and offline channels, and bridging shopping and social interactions.

Virtual try-on could accelerate e-commerce further

Over 4 in 10 state that not being able to see, touch and try out products are the most significant factors that put them off online shopping, highlighting the extent to which new solutions to product previewing and testing via online channels will be critical for an optimized e-commerce experience.

Shoppers will demand widespread AR

The research presented here predicts that in less than five years we will see a 115% increase (from 20% in 2021 to 43% in 2025) in the proportion of Canadian Gen Z shoppers who use AR before buying a product. Significantly, 46% of Canadian consumers who have already used AR when shopping claim it encouraged them to make a purchase. Such findings demonstrates that AR continues to prove its commercial clout, moving consumers closer to the checkout.

Retailers must get ready for the virtual economy

46% of Canadian consumers would consider buying a virtual product, signaling a significant expansion of the virtual economy over the coming decade. Increasingly, the exclusivity offered by NFTs will be a key USP for virtual products, offering consumers the chance to own one-of-a-kind pieces, regardless of their physical existence.

Resale platforms cement their position as a credible alternative

More than 4 in 10 Canadian consumers have bought and sold something via a resale platform, which are attracting shoppers searching for cheaper prices and unique products and providing a more sustainable alternative to the current marketplace dominated e-commerce landscape.

1
The Return to Stores

Physical retail must combine the convenience of online with the social experiences shoppers have missed

Following a year of curtailed access to physical retail, it is clear that Canadian consumers have missed key elements of in-store shopping. Indeed, over half of Canadians claim that they have missed the social aspect of shopping since the start of COVID-19. At the same time, with the accelerated use of e-commerce channels during the pandemic, Canadian consumers also demonstrate a clear demand for in-store services that can match the convenience of online shopping, and data indicates that this growth in e-commerce will be sustained, and even continue in the year ahead. Almost 1 in 4 of shoppers indicate that they will shop online even more in the year ahead compared to the last 12 months, vs. just 14% who say they will shop online less.

But this new landscape is not evenly distributed across sectors. In fashion, we see that 34% plan to do the majority of their shopping online in the next year, compared to 24% for toiletries and 14% for food.

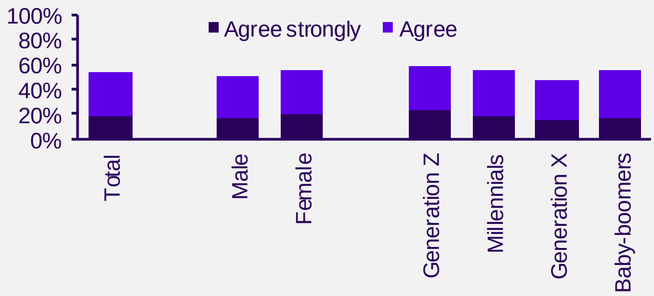
Taken together, such findings pinpoint the need for retailers to enhance in-store services to optimize the seamlessness of the shopping journey, while also amplifying social interactions to establish a clear USP for physical retail. Responding to such consumer demand will be critical for retailers in Canada who wish to capitalize on the heightened support for local businesses as a result of the COVID-19 lockdown, to drive footfall to their stores.

Retailers must **dial up social interactions**

Half of Canadian consumers have missed the social aspect of shopping in-store since the start of the pandemic, rising to 58% among Gen Z.

Enabling closer connections between store staff and customers, as well as curating social interaction among shoppers, will be vital to drive footfall post-pandemic.

How strongly do you agree or disagree with the following statements about shopping since the COVID-19 pandemic?
I have missed the social aspect of shopping in-store



Demand for **social shopping** influenced by mobile sharing

The rise in sharing product images with peers is an example of the type of social shopping retailers can seek to replicate – both between people in-store and between the shopper and their wider networks.

1 in 2

Of Gen Z (50%) and millennials (46%) in Canada have been **sharing more photos/screenshots of products they are interested in** with family or friends since the start of the pandemic.

Enhanced convenience and try-on services will entice footfall

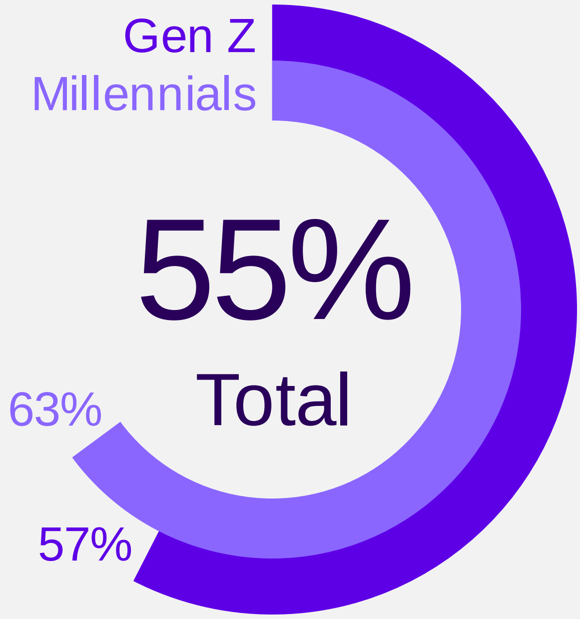
A key frustration for over half of Canadian consumers during COVID-19 has been the inability to try on products in-store before purchasing them. Combined with increased demand for touchless retail as a result of the pandemic (44% of Canadian consumers remain nervous about catching COVID-19 in store), this indicates the importance of technological retail solutions that can support virtual product personalization and testing at the point-of-sale. Such findings also point to a gap in the current e-commerce experience in providing sophisticated product testing that can match the in-store experience.

At the same time, the increased use of online shopping channels during the pandemic has driven new demand for convenient shopping solutions in-store. From pre-booking store visits and home delivery services to mobile-led product recommendations, consumers indicate significant levels of interest in service and technological innovation that can provide a seamless shopping experience in-store. As retailers continue to invest in enhanced convenience solutions across online channels, brick-and-mortar stores will need to act fast to ensure they do not fall behind fast-evolving shopper expectations.

Product testing frustrations during COVID-19 pandemic

The inability to trial and try on products prior to purchase has been a clear hindrance to the shopping experience of Canadian shoppers during the COVID-19 pandemic.

55% of consumers claim that they have found this frustrating, and this figure rises even further to 58% among Gen Z and 65% among millennials.



"How strongly do you agree or disagree with the following statements about shopping since the COVID-19 pandemic?"
I have found it frustrating not being able to try clothes/accessories/makeup on in-store before I buy them

Physical retail must match the convenience (and safety) of online

A key strategy for Canadian retailers to promote increased footfall will be providing in-store service that can match the level of convenience and personalization available online. For example, 19% of Canadian consumers state that they would go out of their way to visit a store that provided a service which offered instant access to stock information – rising to 28% of millennials. A further 47% of consumers, and 45% of millennials, would use such a service if it was available in a store they already planned to visit. And 28% say they would go out of their way to visit a store with covid safety measures, highlighting the need for touchless solutions.

"How likely would you be to choose to shop in a store because they offered the following features?"

Localism energized

Support for local communities and businesses has been a key feature of the COVID-19 crisis and will power retail footfall post-pandemic. Millennials have shown the greatest change, with 61% saying they have supported local business more since the start of the pandemic.

59% of shoppers say they like it when stores support independent brands, indicating how Canadian retailers could capitalize on this support for SMBs.

55%

of Canadian consumers have **supported local businesses more** since the start of the COVID-19 pandemic

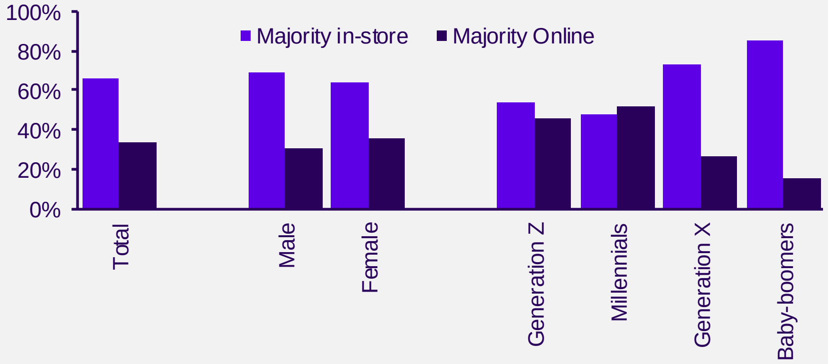
But **intent to** shop in-store post COVID-19 **varies** across product categories

Evidence points to the fashion sector being at risk of not drawing all shoppers back to brick-and-mortar stores post-pandemic, but this pattern varies across demographics. Gen X and Boomers show the greatest enthusiasm from shoppers to carry out the majority of their shopping in-store in the next 12 months, while Gen Z and millennials are most likely to shop online. Indeed, a slim majority of millennials (52%) say they plan to do the majority of their clothes shopping online in the next 12 months.

"Thinking about the NEXT 12 months, are you planning to do the majority of your shopping online or in-store for the following categories?" **% selecting online**

14%	24%	34%
Food	Toiletries	Fashion

Planning to do the majority of clothes shopping in-store vs. online in the next 12 months



Promote **seamless and social** shopping

To capitalize on increased consumer engagement with local businesses, retailers must look to offer greater support for independent brands. Longer term, building sustained engagement with physical retail will require brick-and-mortar stores to elevate their convenience propositions and foster enhanced social interaction in-store. To facilitate this, investment and adoption of new in-store technologies will be critical, especially for sectors such as fashion where there is lower stated intention to shop in-store post-pandemic. The specific technologies that can best service these needs are explored in the next chapter.

2
Retail Reloaded

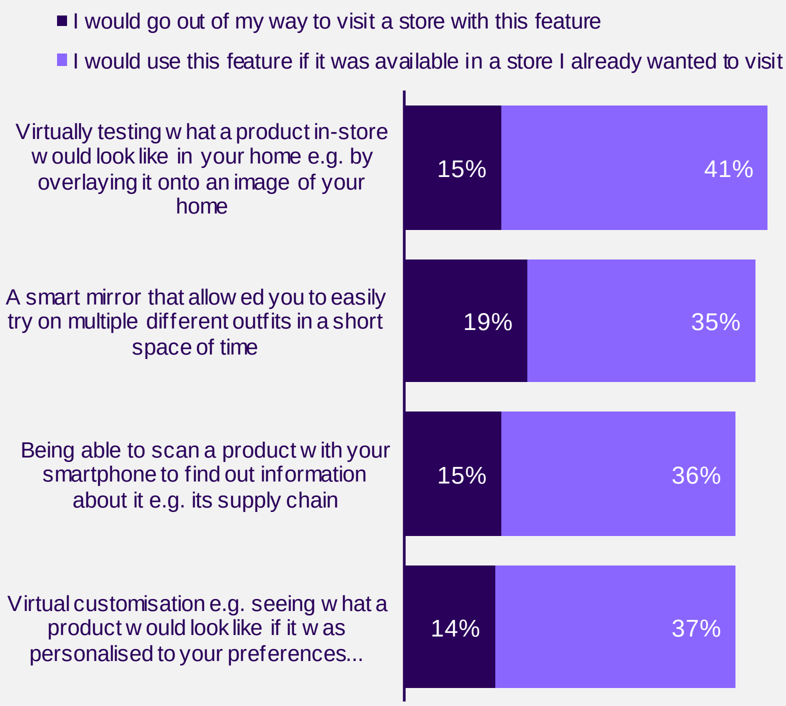
Technological innovation will drive sustained engagement with IRL retail

Advanced retail technologies provide significant opportunity to enhance in-store experiences and entice customers to visit, and spend, at physical retail locations. In Canada, 3 in 10 consumers would go out of their way to visit a store if it had interactive and virtual services such as smart mirrors that allowed them to try on clothes, smart screens that allowed shoppers to customize products, and technology that enabled customers to review how items would look in their own home. Such technologies not only provide a sophisticated level of personalization to meet the expectations set by online shopping services, but also provide novel experiences that can transform stores into must-visit destinations in their own right.

Virtual technology will drive customers to stores

31% of Canadian consumers would go out of their way to visit a store that had at least one advanced technology feature such as smart mirrors and interactive screens. Being able to try on clothes and makeup virtually, or creating unique, personalized products on screens in-store are examples of differentiating technology-led features likely to entice shoppers to brick-and-mortar retailers.

“”How likely would you be to choose to shop in a store because they offered the following features?

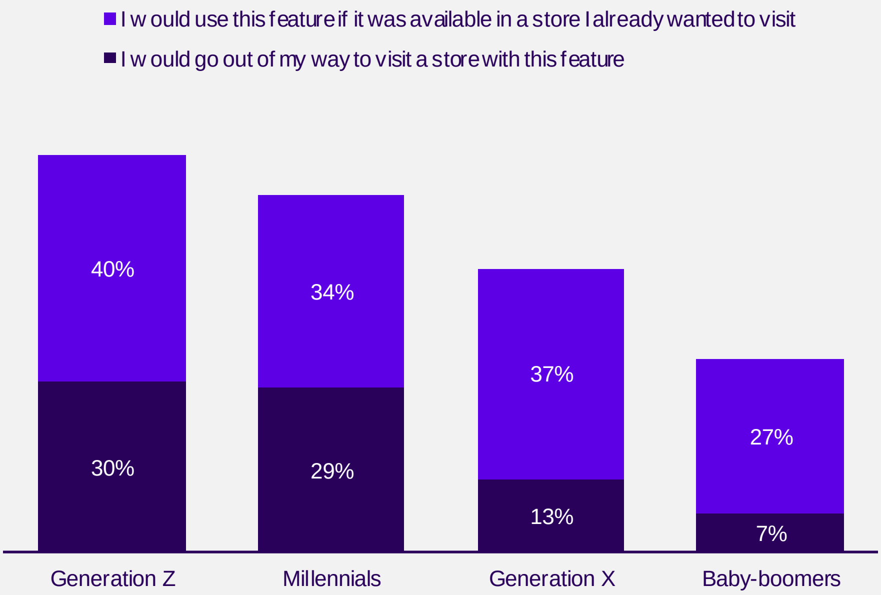


Gen Z and millennials drive **demand for in-store technology**

Almost 1 in 3 Gen Z and millennial shoppers in Canada say they would go out of their way to visit stores with virtual mirrors that allow them to try on clothes.

This falls to just 13% and 7% among Gen X and Baby Boomers respectively.

“”How likely would you be to choose to shop in a store because they offered the following features? **A smart mirror that allowed you to easily try on multiple different outfits in a short space of time**



Retailers must **invest in new technologies** to drive store visits

Augmented and virtual shopping solutions that provide hyper-personalization in-store, as well as new and novel experiences, demonstrate significant appeal to Canadian consumers, providing compelling reasons in their own right to encourage store visits. To capitalize on the post-pandemic opportunities for in-store shopping, retailers should prioritize investment in such solutions – deciphering the right mix and application of available technologies that is optimized to their customers' needs, shopping journeys and product ranges.

3 The Connected Shopper

Mobile will connect brands and consumers across the shopper journey

Mobile devices will increasingly become the core tool that connects and empowers consumers throughout all aspects of their shopping journeys – helping to optimize choice, aiding discovery and facilitating social interaction. Mobile is in fact the preferred channel in Canada for 33% of Gen Z consumers when shopping for products, narrowly second to shopping in-store at 39%, and stretching ahead of shopping on PCs at 28%. But phones are also a companion tool to stay connected when shopping in-store – used to compare prices, call friends, share photos, and find out more about what shoppers are looking at on physical shelves in real time. The opportunity for retailers is in harnessing the power of phones in-store, to keep connected shoppers informed and entertained within their brand ecosystem. 5G connectivity will only bolster expectations of how shoppers can use their devices out of home and on the go, enabling seamless movement from real life to mobile channels.

Phones are essential for both shopping online and in-store

Over a third of Canadian consumers say they have shopped on their cell phone **more** since the start of the pandemic – rising to almost half of Gen Z. Moreover, 27% now shop online on mobile devices **weekly**, and 45% of shoppers say they would **never** go shopping without using their cell phone, rising to more than 6 in 10 Gen Z and millennials.

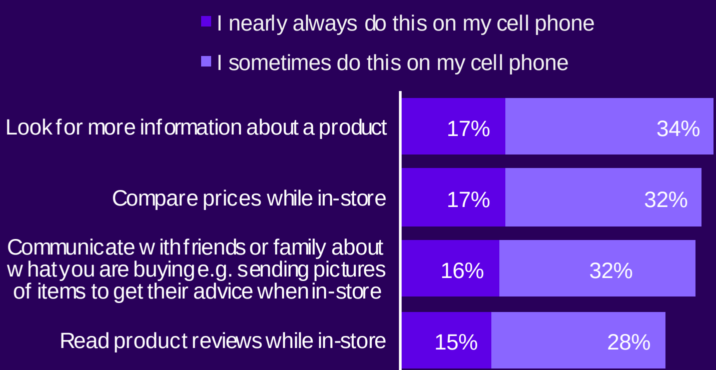
>60%

of Gen Z and millennials agree **"I never go shopping without using my cell phone"**

Phones are an **extension of the physical retail store**

1 in 2 Canadian shoppers say they use their cell phone in-store to compare prices, and 47% look for more information about products. More than 1 in 6 say they always do these things on their cell phone when in store, rising to 1 in 4 Gen Z and 3 in 10 millennials. With this level of mobile traffic in physical retail environments, it is clear there are opportunities for retailers to capitalize on this behavior and keep shoppers within their brand ecosystem when using their cell phones in store.

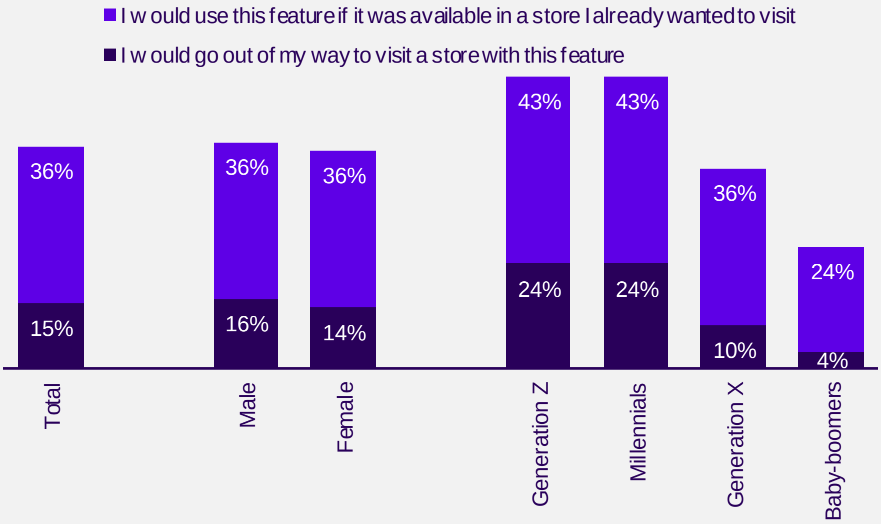
How often would you normally use your cell phone when shopping in-store to do each of the following?



Harnessing the **power of phones** in-store

A majority of Canadian consumers would like to use their cell phones to interact with products on the shelves in physical retail stores. 1 in 4 Gen Z and millennials even say they would go out of their way to visit a store that offered a service which enabled them to scan products with their cell phone to find out more about it. Demand for easy access to digestible, informative, entertaining and transparent information will continue to grow.

How likely would you be to **scan a product with your smartphone** when in-store to find out information about it e.g. its supply chain

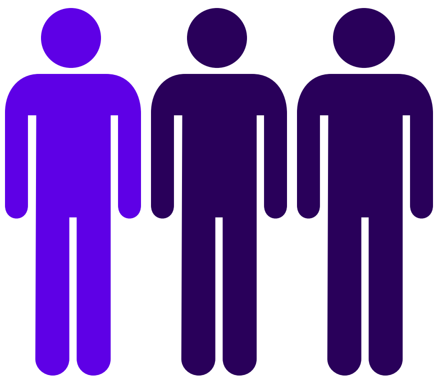


Mobiles and social shopping

Many aspects of shopping are inherently a social experience. But with curbs on socializing and restrictions on physical retail in the last year, consumers have built new habits around interacting with friends while shopping.

37% of shoppers share screenshots with their friends of products they're interested in, and 31% say they have been doing it more since the start of the pandemic. Among younger consumers in Canada this is even higher, with 50% of Gen Z claiming they have done this more post-pandemic.

While much of this behavior takes place in private social channels and direct messaging, branded social experiences can help consumers create easily sharable content beyond the simple screenshot.



>1 in 3

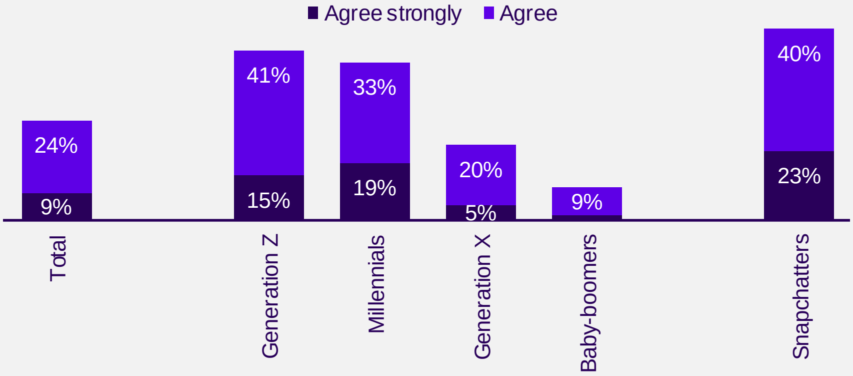
agree "I often share screenshots or links of products I am interested in with friends"

Social platforms facilitate **discovery**

Already, 34% of shoppers think that social platforms are a better place to find out about new products vs. searching online, rising to 56% among Gen Z and to 63% for Snapchat users.

Social platforms have an advantage in facilitating discovery over online marketplaces, as they provide more visual and serendipitous inspiration.

"I think **social platforms are a better place to find out about new products** than searching online"



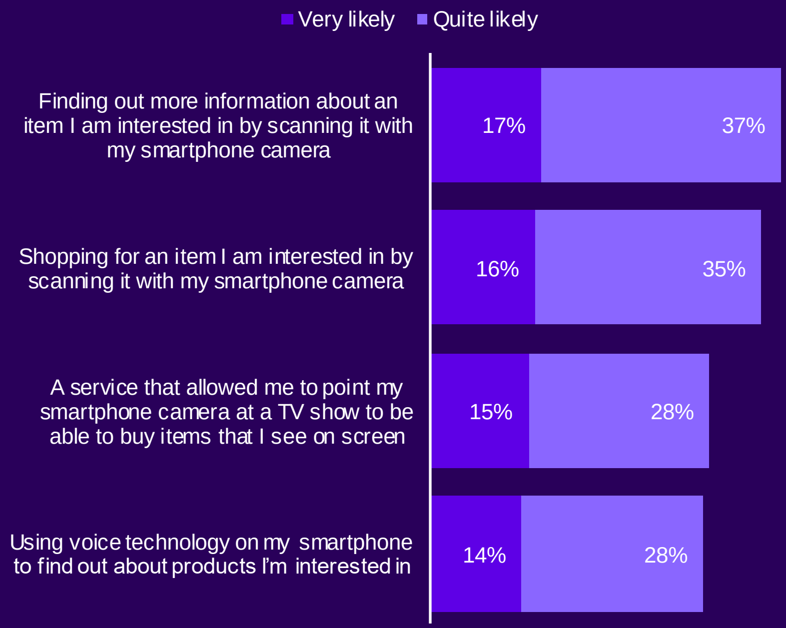
The **future of search** is on smartphones

A majority of shoppers are looking for simple ways to find and buy new products, and it is clear that the future of search and discovery is tied to smartphones.

Visual search is key: 54% of Canadian consumers would be interested in finding out about new products by scanning an item with their phone, more than the number of consumers who would use voice technology to do the same.

The question is whether branded tools, online marketplaces or social channels will be the first to gain serious traction in the visual search space.

How likely would you be to use each of the following to **search for products online?**



Mobile is key to bridging the gap between physical and digital channels

For retailers smartphones hold the key to omnichannel. By encouraging shoppers to use in-store mobile experiences, there is an opportunity to connect the dots between their physical and digital worlds, and to keep consumers within a branded ecosystem.

Canadian shoppers have become accustomed to the benefits of shopping online, and as they return to stores, staying connected via smartphones to maintain the practical benefits of e-commerce – price comparison, research and reviews – alongside the experience only a physical store can deliver, can combine to create a winning formula.

In the following chapters we will also explore how smartphones will connect shoppers to physical stores even when at home, through virtual product testing and try-on phones can bring retailers closer to shoppers wherever they are.

Mobile commerce has been in the ascendancy for some years, but the opportunity for retailers to capitalize on the power of phones both in-store and online has never been greater.

4 Try Before You Buy

Virtual try-on set to be online retail's next big opportunity

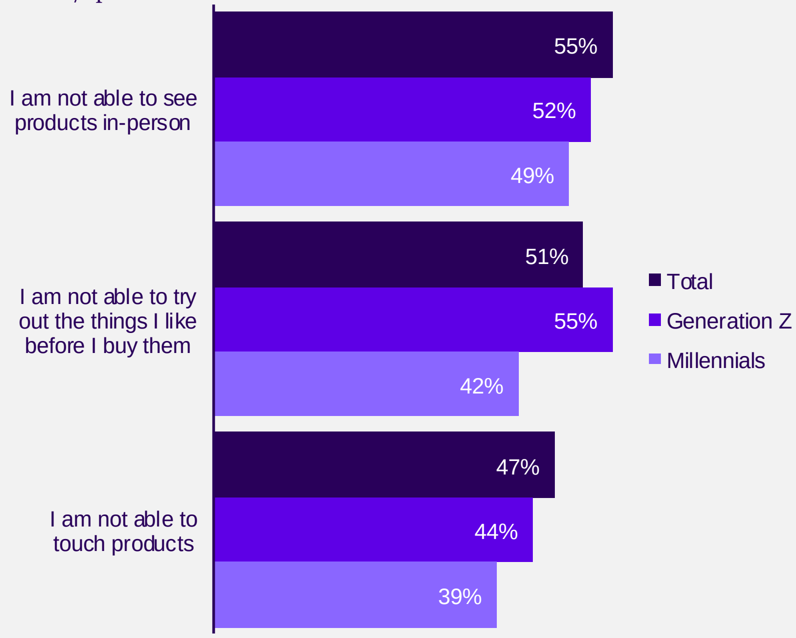
Life under lockdown during the COVID-19 pandemic has resulted in a significant increase in the use of online and e-commerce shopping channels. As more Canadian consumers have been shopping online more often, the perks and pain points of digital shopping have become more apparent. The findings presented here indicate that not being able to see, touch and try out products are the most significant factors that put Canadian consumers off online shopping today; over 4 in 10 state that these are factors they dislike about their current e-commerce experiences. Consequently, retailers who can provide new solutions to product previewing and testing via digital channels will support the removal of such pain points and accelerate the use of e-commerce channels within the Canadian market.

A second core facet of the emerging e-commerce landscape is the need for maximizing and values-led online shopping. With a backdrop of economic uncertainty post-COVID, as well as growing consumer concern over personal and brand ethics, maximizing plus values-led shopping will be the central paradigm for the future of e-commerce shopping behavior across the Canadian consumer landscape.

Customers want to be able to **see, touch and try-out** products when shopping

While these sentiments weaken slightly among younger shoppers, except for Gen Z's above-average dislike of not being able to try out products, they are still the universally top-cited pain points when shopping online, highlighting the need for virtual try-before-you-buy services.

The top 3 reasons why Canadian consumers do not like shopping online
What do you dislike about shopping online? % who selected the following reasons/options



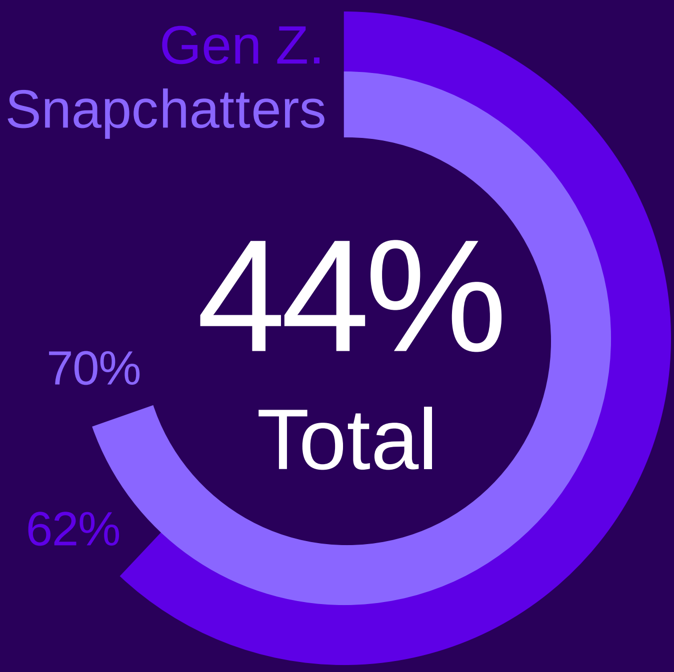
Maximising + Values: **New paradigm** for online shopping

In the early 2010s, although Canada escaped the worst of the 2008 financial crisis, the key feature of online shopping was maximizing behavior – where consumers would seek to use all available tools and services to optimize their spending and get the best deal possible. With 57% of Canadian consumers saying they almost always buy from brands that are on sale, this maximizing mindset remains well established.

However, when looking ahead to the coming decade, a second layer of consumer thinking is set to shape online shopping behavior – shopping by personal values that matter most to each individual customer. 7 in 10 Gen Z say they would like to filter products by their personal values when shopping online. This new maximizing + values equation will be the model for online shopping in the 2020s.

Values-Led Shopping

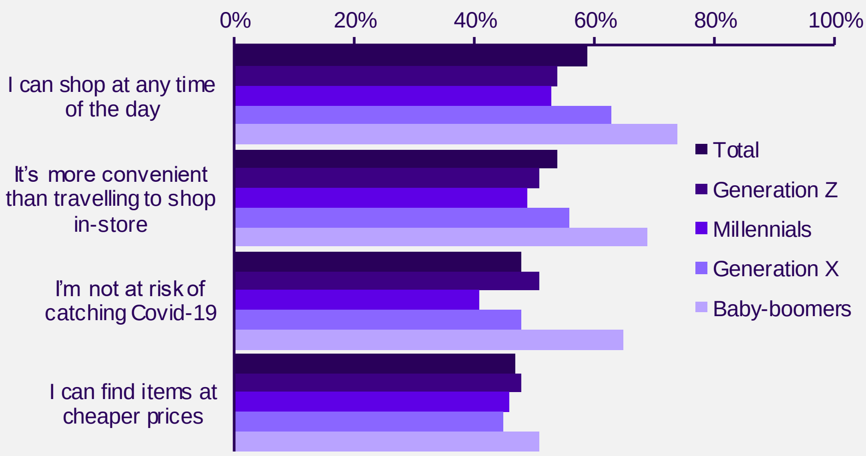
"How likely would you be to use each of the following to search for products online"
% selecting likely or very likely for filtering products by personal values when shopping online



…but **convenience will remain the foundation** of online shopping needs

Across all generations, convenience factors underpin online shopping, in particular the 24/7 nature of e-commerce. Avoiding risk of COVID-19 is a concern, particularly for Baby Boomers, but retailers must not lose sight of the widespread desire for convenience as they develop ever more engaging online experiences.

Top reasons why Canadian consumers choose to shop online
"Why do you choose to shop online?" % who agreed with the following reasons/options



Retailers need to **invest in try-before-you-buy technology** to increase customer interaction with products online

While embedding convenience propositions will be fundamental for all online retailers, and building values-led shopping solutions a quickly emerging area to address, the most significant commercial opportunity for Canadian retail will be investing in services and technologies that enable enhanced product interaction via e-commerce channels, such as augmented reality. Such solutions will overcome the most significant barriers to e-commerce today and provide the clearest route to gaining shopping journey differentiation, competitive edge and increased revenue.

5
The AR Opportunity

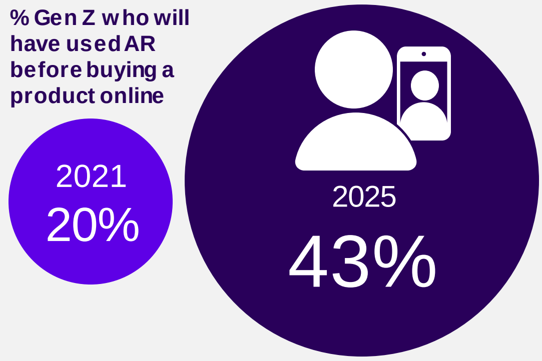
Shopping with AR will surge by 2025, directly bolstering sales

Attitudes towards Augmented Reality (AR) as a shopping tool are shifting. Previously seen primarily as an engaging novelty experience, AR is now demonstrating its commercial clout, and proving that it can move consumers closer to the checkout. Already 20% of Gen Z shoppers in Canada have used AR in the shopping process. By 2025 this is predicted to grow significantly, with 43% of Gen Z in Canada using AR when buying products online. Moreover, while necessity might have fueled AR try-on for many in the last year, more consumers are now actively seeking out AR as a viable alternative to real-life retail, with 23% of shoppers expecting AR to be available when shopping in the next year, and the same percentage preferring to try items using AR rather than having to go in-store. The findings presented here showcase the vital role that AR can provide in supporting product interaction across the shopping journey and the direct impact on retail sales, with 46% of Canadian consumers who have used AR saying that it encouraged them to make a purchase.

More than 2 in 5 Gen Z will be **shopping with AR** by 2025

From analysis of 2021 data, we predict that in less than five years we will see a 115% increase in the proportion of Canadian Gen Z shoppers using AR before buying a product.

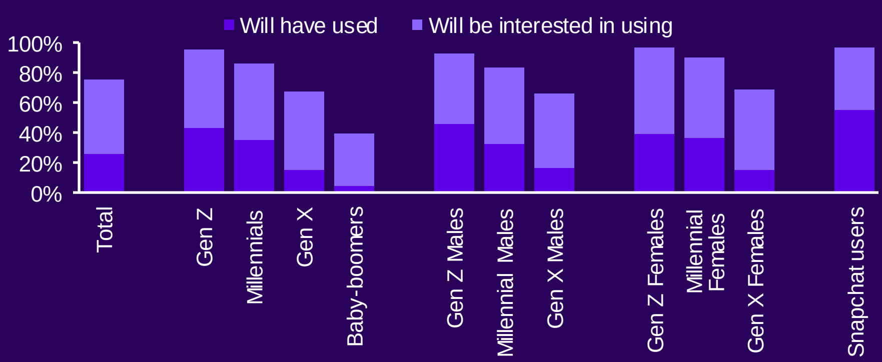
Increased investment from Canadian retailers in AR shopping and the concomitant expansion in consumer awareness of such technology could see uptake accelerate ever more rapidly.



Growth potential for AR **high across generations**

46% of Gen Z males are set to have used AR before buying a product by 2025, higher than any other consumer group, but growth potential is also high across millennials and Gen X, with predicted interest levels set to be over 50%.

% who will have used AR before buying a product online by 2025



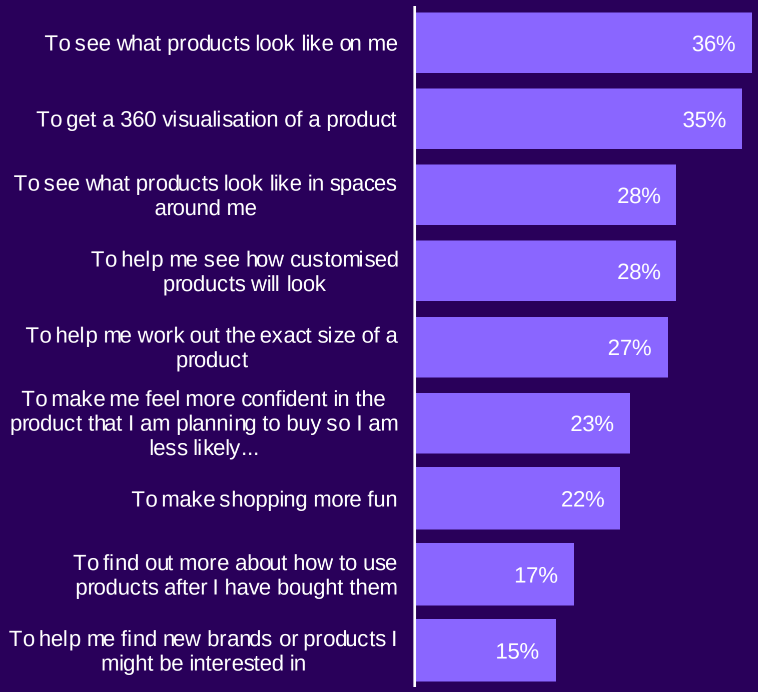
AR is a utility when shopping

Already 15% of Canadian consumers have used AR when shopping, and a further 38% are interested in doing this in the future.

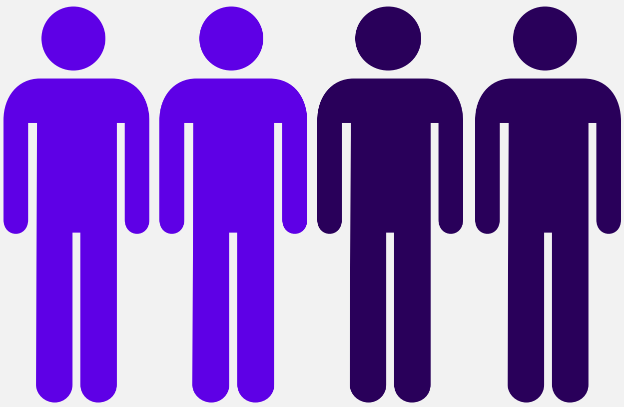
The most common reasons cited for wanting to use AR are to see what items look like on the consumer, and to get a 360-degree visualisation of a product, demonstrating how much AR is seen as a utility, even more so than a tool to make the online shopping experience fun.

Being able to virtually test products is serving real commercial purpose, and directing shoppers towards the virtual checkout.

For which of the following reasons would you be interested in using AR (Augmented Reality) while shopping online?



Of those Canadian shoppers who have used AR when shopping, **46% say it encouraged them to buy something**



Adopting AR takes time and retailers need to build internal understanding and capacity to take advantage of the benefits to their business. ***AR requires collaboration between business units and vendors*** *to move technical product documents from design and manufacturing to ecommerce and marketing. Inherent in the workflow is the management of 3D assets and their optimization for AR applications.* ***The impact on the lines of business can be significant*** *and require strategic integration across business units with the benefits accrued across each.*

James Basnett, CEO of Shape Immersive

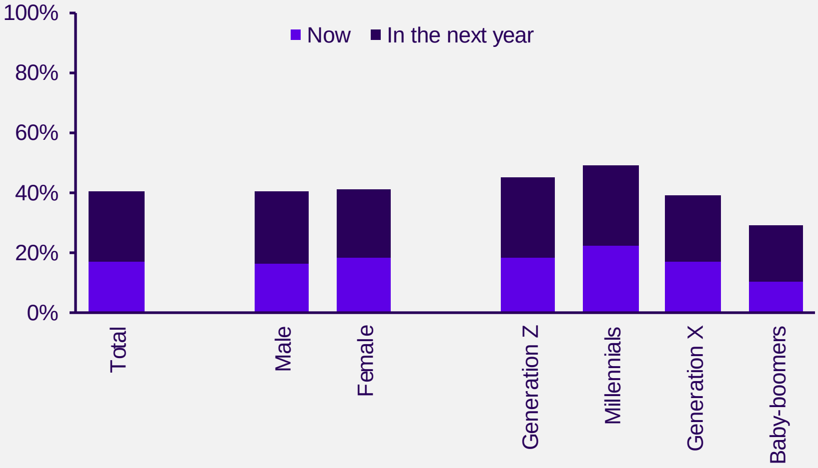
Shoppers expect AR to be commonly available in the next year

More than 1 in 3 Canadian shoppers already expect AR to be available **now** when they're shopping for at least one of the following categories - clothes, beauty, furniture, luxury and cars.

Retailers not utilizing AR technology run the risk of not meeting consumer expectations, and missing an opportunity to nudge shoppers closer to the checkout with an enhanced shopping experience offering the benefits of in-store retail at home.

When do you expect AR (Augmented Reality) to be commonly available in each of the following situations?

When buying fashion products e.g. to try on items of clothing virtually



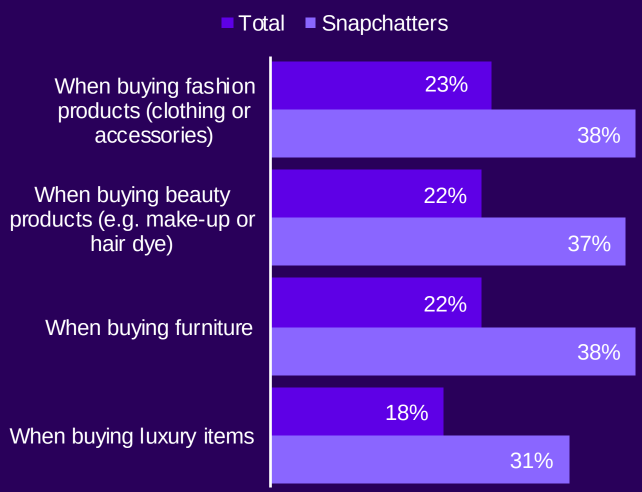
Consumers show a preference for using AR try-on over in-store

Highlighting just how important AR is to the future of retail, almost 1 in 4 shoppers say they would actually prefer to use AR to try on clothes virtually, rather than visit a store to do so in real life. This rises to 38% among Snapchat users in Canada. What's more, 1 in 5 shoppers would prefer to buy luxury items with AR rather than visit a store.

While stated interest does not always translate to action (see predicted levels of AR use when shopping on page 16), these numbers are significant and represent a step change in how Canadian consumers perceive AR, particularly when being able to see and touch a product IRL are cited as two of the top three reasons people choose to shop in stores.

Would you prefer to test products virtually using AR (Augmented Reality) or visit a store to see them in real life?

% selecting I would prefer to shop online using AR

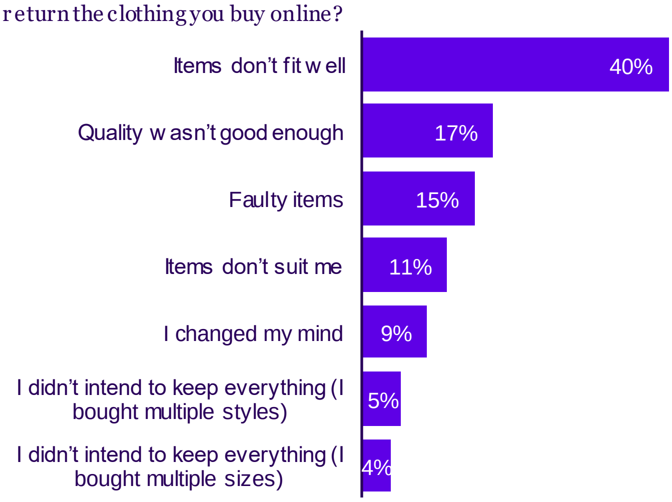


Why consumers return the clothes they buy online

Canadian consumers return 26% of the clothes they buy online, causing significant logistical costs for retailers, not to mention an inconvenience for shoppers.

On average, 40% of returns are due to items not fitting well, something AR technology aspires to help shoppers overcome in the future. Other return reasons, such as items not suiting them and buying multiple items with the intention of returning some, could also potentially be avoided if AR was used in the shopping journey, and consumers could virtually try on items before buying.

For which of the following reasons do you return the clothing you buy online?



We really try to find people that have similar information, similar body dimensions, and then which size they were happy with, and which size they kept, and this is basically what we recommend. Return rates are still extremely high specifically in the fashion space because the expectation that you have when you buy the product based on product image and based on product text differs so much from reality, but with augmented reality and what we do here at fit analytics, we really hope that there's a gap between the online shopping experience and reality that will be bridged, and this will drive conversion and this will also improve return rates because people are less disappointed about the item they ordered.

Sebastian Schulze
CEO & Co-Founder at Fit Analytics

The value of returns

44% of online clothing returns in Canada potentially could be avoided by using AR in the shopping process. This equates to consumers in Canada spending $234 million on clothes online in the last year they have returned which could potentially be avoided by using AR.

$234m

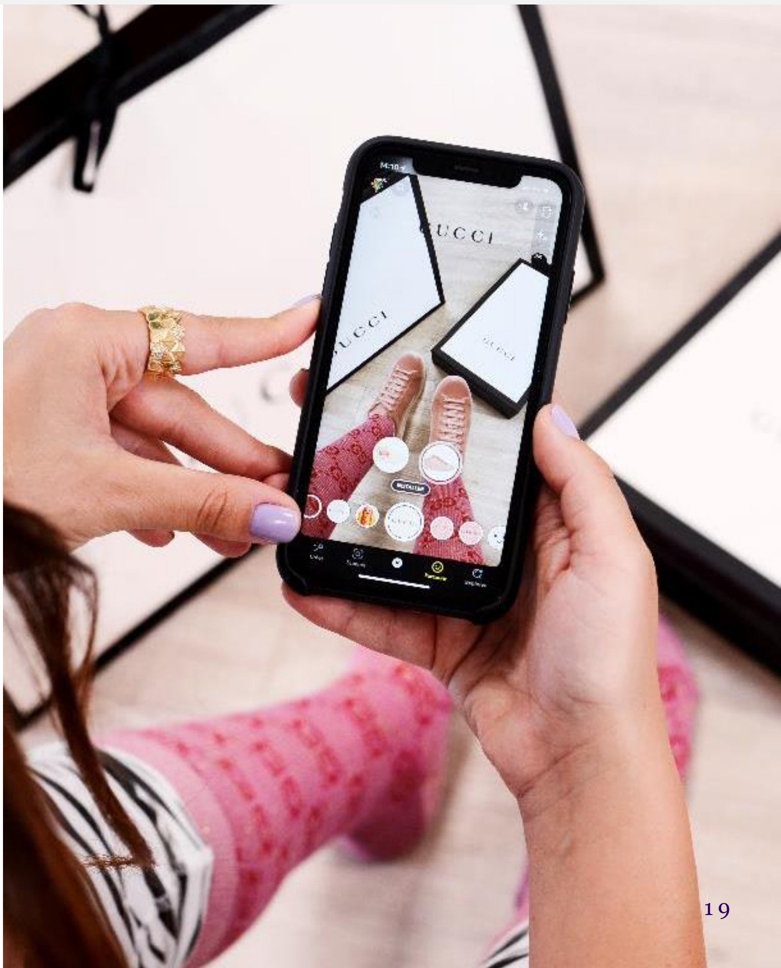
The value of clothes bought online and returned in Canada in the last year which could potentially be avoided by using AR try-on

Retailers must embrace AR as a vital shopper service and sales tool, not a novelty

Use of AR is already widespread and is increasingly becoming commonplace for shoppers, with 1 in 4 among Gen Z in Canada planning to use AR more in the year ahead when shopping, and expectations high that it should be available across sectors in the next year.

With clear evidence that AR pushes users towards the checkout, brands are at risk of falling behind consumer expectations and losing sales revenue if they do not proactively and effectively engage with this technology.

What's more, the features that shoppers most want to use AR for are centered around product visualization, the same factors that consumers state are the main barriers to online shopping. Introducing such AR services should be a priority for Canadian retailers who are seeking to optimize e-commerce customer satisfaction and reduce pain points across the online shopping journey.



6
Virtual economy

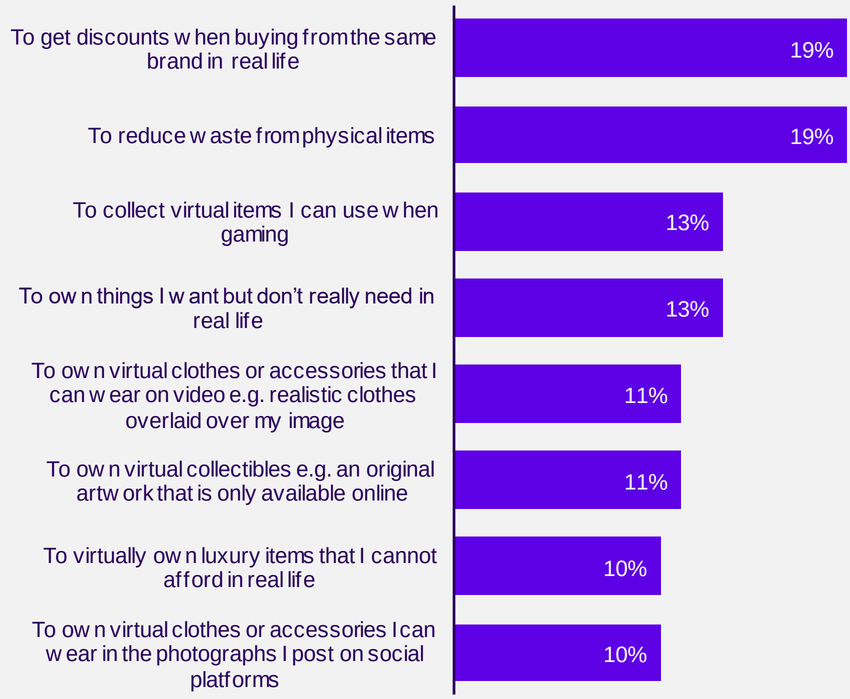
Retailers must prepare for a virtual economy boom in the 2020s

The virtual economy is growing. Canadian consumers are being enticed by virtual products as a way to access things they cannot or do not want to own in real life. The findings presented here showcase that the current market for the virtual economy encompasses almost half the population of Canada as sampled in this research, with 46% stating they would consider buying a virtual product. In fact, 24% of Canadian consumers have already bought a virtual item within a computer game. Interestingly, one of the top reasons why a Canadian consumer would consider buying a virtual product is to be able to get discounts on real-life products from the same brand. This points to the significant role that virtual products could have in the future shopping journey – showcasing products and priming customers for more substantial purchases at a later stage. Finally, in 2021, NFTs – non-fungible tokens – have taken global media by storm. NFTs are digital collector items that have a certificate of ownership that can be bought and sold. For example, recording artist Grimes reportedly sold $6 million worth of digital art as NFTs in 2021, while an NFT artwork sold for $69 million at a Christie's auction. Despite the clear revenue opportunities, at present just 13% of Canadian consumers state they have a good understanding of what an NFT is.

Why would consumers want to own virtual goods?

In the nascent virtual economy, we already see a variety of reasons why consumers might want to own virtual goods, ranging from owning items to wear on video calls and in photos, to virtual products being perceived as better for the environment.

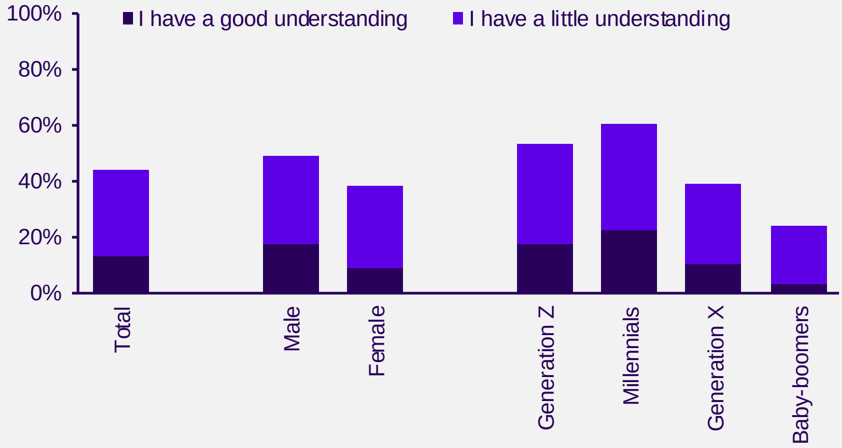
Would you buy a virtual product for any of the following reasons?



More than half of consumers have **no idea what an NFT is**

Despite media prominence, awareness of NFTs are still relatively low. Just 13% of Canadians say they have a good understanding of what an NFT is, with a further 31% having a little understanding of the digital assets. However, awareness is notably higher among younger age groups, with 60% of millennials in Canada stating they have at least a little understanding of what an NFT is.

How well do you understand what an NFT (Non-Fungible Token) is?

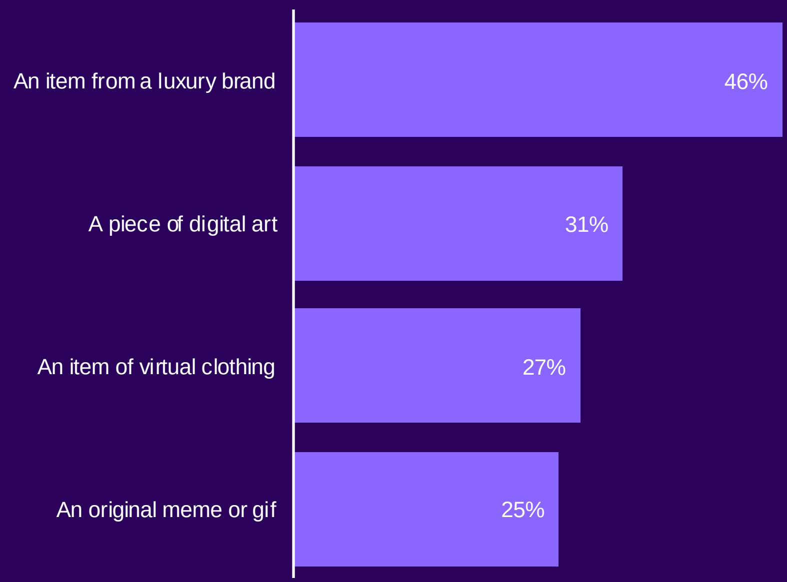


Almost 3 in 10 would **spend more than $200 on a luxury brand NFT**

NFTs are potentially lucrative investments, able to be freely traded, with many rapidly multiplying in value after auction, and those in the know are willing to spend on them. Among those who have some understanding of NFTs, 36% are interested in owning one.

From these four types of NFTs, shoppers are most willing to spend on an item from a luxury brand, with 46% of those interested in owning one willing to spend $100, and 28% willing to spend more than $200.

% of those interested in owning an NFT willing to spend more than $100 on it



Virtual products offer a digital gateway to brand exclusivity

To be first to market with virtual selling opportunities, Canadian retailers will need to evaluate the possibilities of developing digital product propositions. Increasingly, the exclusivity offered by NFTs will be a key USP for virtual products, offering Canadian shoppers the chance to own one-of-a-kind pieces, regardless of their physical existence.

The shift to homeworking and increased virtual communication during and post-COVID-19 will create new opportunities for the sale of virtual fashion items, cosmetics and accessories that can be worn on video calls and conferencing.

What's more, virtual products will form an increasingly important part of the shopping journey, allowing customers to personally own items digitally before deciding whether to upgrade and purchase the real thing.

Virtual products also offer clear opportunities for brand engagement and loyalty. For example, luxury brands and retailers selling high-cost items will be able to offer virtual products to consumers who cannot currently afford specific items in real life – building brand awareness and affection to be converted to physical sales at a later point in time.

7
Circular Retail

Environmental and entrepreneurial mindsets are fueling the rise of resale platforms

While there is continued appeal of fast fashion and on-demand convenience in retail, the findings presented here also highlight high levels of concern over the social and environmental impact of today's retail industry, and demands for a more sustainable, circular retail economy are growing. Indeed, almost half of Gen Z and 57% of millennials in Canada are worried about the environmental impact of shopping online. Entering stage left are resale platforms. Established platforms like eBay have been joined by fashion-focused apps such as Depop and Vinted that enable sellers to create their own virtual stores and showcase unique collections, while also encouraging a more social-led shopping experience with direct messaging and bartering between buyer and seller. Almost half of Canadian consumers have already purchased items through a resale platform. Moreover, 44% have also sold a product via such a platform, with a further 25% interested in doing this in the future. The growing use of such platforms provides opportunities for established retailers to drive new revenues through brand recommended resale platforms, as well as for SMBs and individual consumers across Canada to generate additional and supplemental revenue.

Secondhand is **first choice**

In recent years, consumers have flocked to resale platforms. Already 36% of Canadians say they regularly look for secondhand options when making a purchase, and 47% have bought something through a resale platform, rising to 55% of millennials. Secondhand goods and resale platforms come without stigma, and can deliver users serious social capital as savvy shoppers contributing to a circular economy.

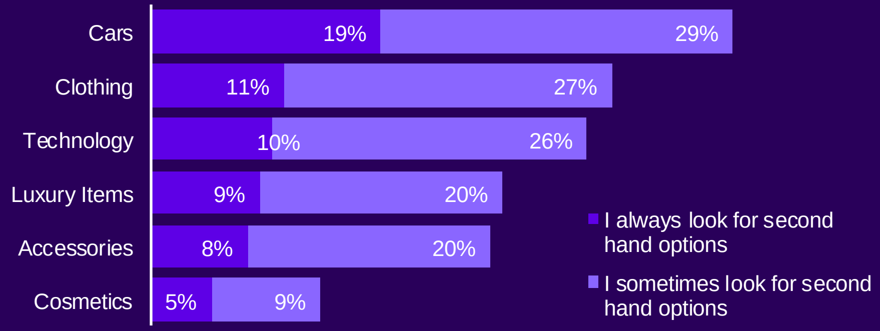
46%

of Canadians have **bought** something through a resale platform

Which sectors need to pay attention?

The sector in which consumers in Canada most regularly look for secondhand options, aside from cars, is clothing, closely followed by technology.

For which of the following types of products have you looked for secondhand options?

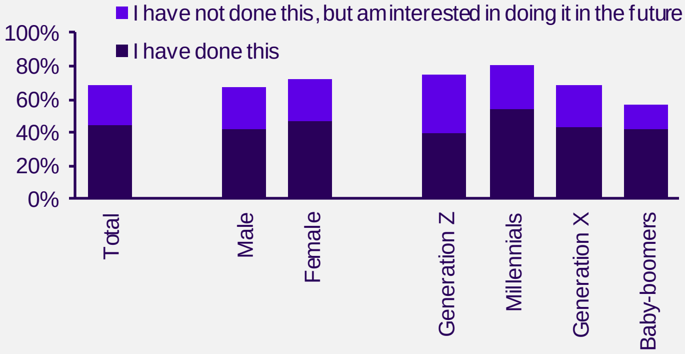


Selling things that **don't spark joy**

44% of Canadians have also sold a product on a resale platform, with 25% interested in doing this in the future. While activity is highest among millennials, interest among Gen Z is also high. Widespread consumer behaviors such as decluttering, as well as motivations towards waste reduction, have motivated consumers to sell unwanted items. For others, resale has become an almost professionalized pursuit, with sellers creating their own individual stores within resale platforms, showcasing in one place the unique items they have to offer.

"Which of these things have you done already, and which are you interested in doing in the future?"

I have sold a product through a resale platform



One of the main things that we have seen is more conscious shopping and purposeful shopping, so where people are wanting to spend their money. The insight that we are seeing is that customers think about the communities that they're supporting when they shop. It's clear that people are motivated by knowing that they will support small businesses, which is definitely one of the key things that we're supporting at the moment. We've got 300,000 small businesses on site and are actually reminding people that they can still shop small businesses and local businesses when they shop through eBay and the platform.

Eve Williams, Chief Marketing Office at eBay UK

Supporting **small and local** business a key USP

As the quote above highlights, a key proposition of resale platforms is their ability to support and empower SMBs and individual sellers. As we enter more uncertain economic times in the immediate post COVID-19 landscape, combined with the growing interest in supporting local business shown by Canadian consumers (as outlined in chapter 1), such propositions will be key to driving the popularity of resale platforms and provide a further USP compared to online marketplaces.

Why secondhand goods are **the first choice**

When asked what motivates shoppers to buy from resale platforms, 57% of consumers cite cheaper prices as a motivating factor, but 2 in 5 are also looking for unique products. In a year when Canadian consumers have been traveling less, going to markets less, even visiting stores less, unique products have been harder to find, and many shoppers have turned to resale platforms to find inspiration.

Would you buy from reselling platforms for any of the following reasons?

Resale to **reduce waste**

While the social and environmental impact of fast fashion, e-waste and other consumer goods grow in awareness, resale platforms offer the added benefit of reducing waste and contributing to a circular economy. Over 40% of consumers in Canada are already worried about the environmental impact of shopping online, rising among younger consumers, and 1 in 4 say environmental reasons are a motivation for shopping with resale platforms.

57%

of millennials and **47% of Gen Z** are worried about the environmental impact of shopping online

Resale platforms offer **significant opportunities**, with propositions **supporting local and small businesses** providing a strong USP

While already supported by a range of consumer needs – decluttering, the war on waste – resale platforms have found particular purpose in a year with limited stimulation, inspiration or social interaction, and offer an alternative, peer-to-peer shopping channel to explore.

Retailers are also moving directly into the resale space with their own branded resale offerings. Levi's, Nordstrom, H&M group and IKEA are some of the major global retailers that have offered buy-back-and-sell-on programs, often as a way to contribute to their sustainability goals rather than directly for profit. These programs see brands taking responsibility for the full lifecycle of a product rather than just how it gets into shoppers' homes in the first place.

For those looking to compete with resale platforms on uniqueness, supporting smaller, local, independent brands could be a viable route to success. Indeed, 59% of Canadian consumers like when retailers support independent brands, and 55% say they have been supporting local businesses more since the start of the pandemic.

Conclusion

The post COVID-19 retail landscape will be defined by the blurring of consumer needs and expectations across physical and digital shopping channels. Meeting the primary needs and demands of shoppers identified in this report – convenience, social interaction, and product testing – will be the benchmark for retailers regardless of channel.

At the heart of this, a more connected shopper has emerged, empowered by their phone to define their own shopping experience whether at home or in-store. Mobiles are vital shopping companions in-store for more than 6 in 10 Canadian Gen Z and millennials, as well as creating opportunities for retailers to bridge the gap between customers' real life and online brand interactions through mobile-enabled in-store experiences.

Outside of the store environment, phones are bringing retailers and brands closer to consumers wherever they are, with powerful product previewing tools such as augmented reality facilitating virtual try-on and product testing from the comfort of the shopper's home.

Retail technology such as smart mirrors and virtual product customization also provides opportunities to meet shopper needs, and as evidenced in this report the connected shopper is seeking better, more personalized, product testing options combined with features that make shopping a more social experience.

As consumers seek to build renewed connections with the physical world, but also retain the convenience of online, Canadian retailers will need to test and evaluate the technological solutions - from virtual try-on to smart mirrors - which will achieve this and further accelerate connected shopping today.