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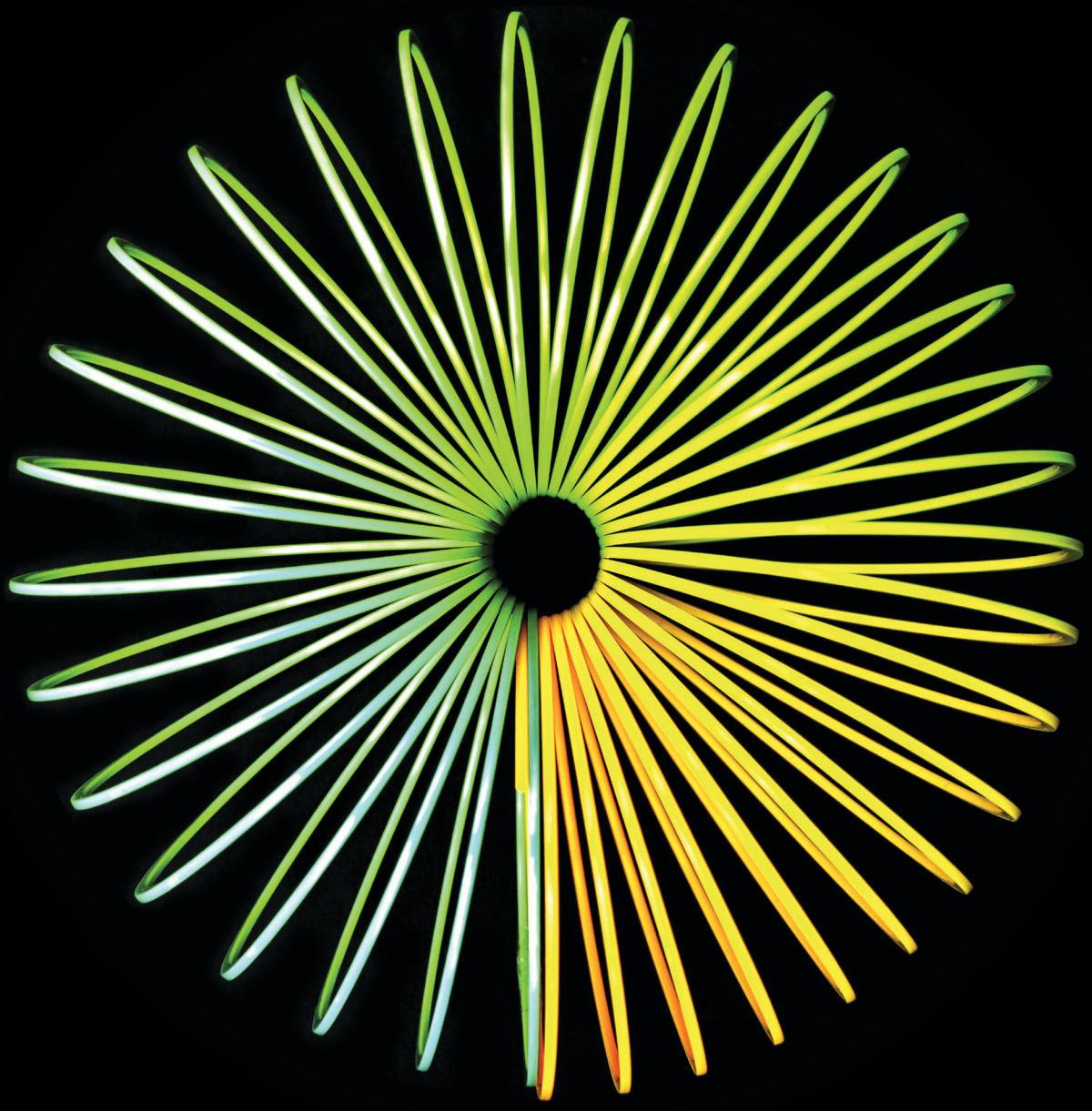

Global powers of retailing 2018

Canadian executive summary

Introduction

Global powers of retailing is an annual report published by Deloitte that identifies the 250 largest retailers around the world based on publicly available data. This report is for the fiscal year 2016, which ended at June 2017. It analyzes retail performance across geographies and product sectors and highlights the most relevant retail trends. This year, the report also provides an outlook on the future of retailing through the lens of young consumers.

Canadian retailers in the top 250 global retailers list

There was limited change in the global rank of Canada's largest retailers in 2017. The exception was Hudson's Bay, which grew its retail revenue by 30 percent and jumped 27 spots in the global rank to #87.

Hudson's Bay's growth was propelled by its recent acquisitions of GALERIA Kaufhof and Gilt Groupe, and its organic growth, through expansion into the Netherlands and extension of Saks Fifth Avenue and Saks OFF 5TH into Canada. Its rapid growth qualified the company for the Fastest 50 list, which is based on compound annual revenue growth over the five-year period of 2010 to 2015.

Within the grocery sector, three of the four Canadian retailers on the list declined slightly in rank (Loblaw Companies Limited, Metro Inc., and Overwaitea Food Group), while Empire Company Limited stayed steady at #53.

Retailer	Loblaw Companies Limited	Empire Companies Limited	Hudson's Bay Company	Metro Inc.	Canadian Tire Corporation	Overwaitea Food Group
Dominant operational format	Hypermarket/ supercentre/ superstore	Supermarket	Department store	Supermarket	Other specialty	Supermarket
Canadian rank	1	2	3	4	5	6
Global rank	30	53	87	101	111	249
Global rank change from 2017 report	-1		+27	+3	+1	-6
FY16 retail revenue ($US M)	34,235	18,065	10,970	9,646	8,635	3,621
FY16 parent company net income ($US M)	747	131	-392	442	564	n/a
FY2011-16 retail revenue CAGR*	8.1%	8.2%	30.3%	2.3%	4.1%	7.9%

*compound annual growth rate

Key themes for Canada

1. "Everywhere Commerce" is disrupting the traditional retail model:
The traditional retail model continues to be disrupted as consumers can shop however, wherever, and whenever they want. To meet growing customer expectations, retailers have had to innovate and transform at a faster pace and greater magnitude than ever before. Leading e-commerce retailers such as Amazon and JD.com have actively foregone short-term profitability for customer acquisition, revenue growth, and market share dominance. This shifting paradigm has put traditional retailers at risk of losing customers and market share to these more nimble players.

In Canada, we have seen evidence of this trend as Amazon continues to disrupt the market by expanding its Prime offering—a service that has seen 80 percent year-over-year growth since its introduction in Canada in 2013.[1]

We also see retailers closing unprofitable stores as consumers spend increasingly more online, and more on services than goods. Some retailers simply lose favour with consumers. Sears, once one of the largest retailers in Canada, closed its final stores in January 2018. South of the border, the US saw a record number of store closings in 2017, with 6,885 stores shutting their doors by December 1.

2. Building world-class digital capabilities:
Digital continues to have an important influence on purchasing habits. In the 2016 report *The new digital divide*, Deloitte found that digital interactions influence 56 cents of every dollar spent in bricks-and-mortar stores, up from 36 cents just three years prior. Furthermore, according to Deloitte's The *omnichannel opportunity* study, those who shop online, on mobile, and in-store spend more than double those who only shop at bricks-and-mortar stores. The change in consumer habits has made it increasingly important for retailers to plan, strategize, and execute across all channels.

In response to this, retailers are developing their digital capabilities to provide a seamless omnichannel experience. The retail industry is rife with examples of companies building, buying, or partnering to attain much-needed e-commerce and last-mile capabilities. Most notably, Amazon's recent acquisition of Whole Foods Market provided Amazon with a bricks-and-mortar presence. Within the US, the acquisition provided Amazon with access to more than 450 physical pickup points and fresh food distribution centres. Within Canada, Whole Foods has cut prices on select products since the acquisition and become a distribution channel for Amazon's Echo and Echo Dot products.[2]

3. Combining bricks and clicks makes up for lost time:
Many players that had initially been on the sidelines, failing to keep up with digital trends, are now making up for lost time in a big way, often through partnerships.

To offer home delivery, many retailers have partnered with third-party providers. Loblaws, for example, recently partnered with Instacart to provide Canadians with grocery home delivery in as little as one hour.[3] In the US, Instacart already partners with Kroger, Price Chopper, Publix, Stop & Shop, Wegmans, and even hard discounter Aldi.

Don't expect the growth of grocery online to stop anytime soon; a recent study found that global grocery sales through e-commerce channels jumped 30 percent in the past year. The five countries leading the growth charge were China (+52%), South Korea (+41%), the UK (+8%), France (+7%), and Japan and the US (both +5%).

4. Creating unique and compelling in-store experiences:
Ninety percent of worldwide retail sales is still done in physical stores, but to compete, retailers will need to provide meaningful customer experiences and build brand engagement. Other bricks-and-mortar retailers are realizing the importance of creating unique and curated merchandise offers, an exciting and entertaining atmosphere, and concierge-like service levels beyond what consumers can find online.

> Grocers are transitioning from providers of goods to purveyors of services and solutions, with food, health, and wellness converging in a retail setting.

What is starting to happen inside grocery stores across the globe is a good example of this trend. Grocers are transitioning from providers of goods to purveyors of services and solutions, with food, health, and wellness converging in a retail setting. A host of retailers already have added in-store health clinics and on-site nutritionists and dieticians. US supermarket chain Hy-Vee is now teaming with OrangeTheory fitness centres to open locations in some stores and integrate training and nutrition services.[4] Expect to see retailers in Canada continuing to push the envelope on the in-store experience.

5. Reinventing retail with the latest technologies:
Technologies such as the Internet of Things, artificial intelligence, augmented and virtual reality (AR/VR), and robots will continue to drive innovation in the retail experience, enabling retailers to further elevate their businesses and advance customer relationships.

Voice-controlled electronic devices powered by artificial intelligence technology, like Amazon Echo, Echo Dot, and Google Home, are disrupting the path to purchase. Amazon holds 68 percent of the smart speaker market share. Alexa moved into Canada in November 2017, buoyed by a robust marketing campaign. Canada appears to be a natural place for Amazon to extend its Alexa offering; the local site of Amazon.ca is the "seventh-most visited website in Canada and the most trafficked e-commerce platform."[5] Unfortunately, Alexa is not available in French yet, which may limit penetration in the French-speaking areas of the country.[6]

Perhaps one of the most progressive uses of technology and automation is in the emergence of unmanned stores. "Grab and go" shopping, in every sense of the word, is now reality thanks to mobile pay technology. Although execution is still in the early stages, consumers can now visit a store, self-scan items with a smartphone app, then merely tap the phone to pay and walk out the door, as in the case of Amazon Go.

6. Next big play: setting up shop in foreign markets:
Overall, the Top 250 North American retailers have a fairly low level of globalization. Although retail operations spanned nine countries on average, only 13.6 percent of the region's FY2016 combined retail revenue came from foreign operations. More than 42 percent of top North American retailers remain single-country operators.

In contrast, European retailers remain the most globally active as they search for growth outside their mature home markets. Nearly 41 percent of their combined revenue was generated from foreign operations in FY2016—almost twice as much as the Top 250 group as a whole. Almost 85 percent of the region's companies operated internationally, with a presence in 16 countries on average.

As Canadian retailers look for growth, there may be opportunities for them to expand beyond their borders.

In summary, it is a transformative time in retail. With the shopper in the driver's seat, it is more and more important to truly understand what consumers want and be able to quickly deliver on their desired experience however, wherever, and whenever they want.

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Endnotes

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4. Hy-Vee announces innovative partnerships with Wahlburgers Restaurants and Orangetheory Fitness. 30 August 2017. Press release retrieved from https://www.hy-vee.com/company/pressroom/press-releases/hy-vee-announces-innovative-partnershipswith-wahlburgers-restaurants-and-orangetheory-fitness.aspx
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