



BDC STUDY

MAPPING YOUR FUTURE GROWTH

FIVE GAME-CHANGING CONSUMER TRENDS

October 2013



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This research was prepared by the Research and Economic Analysis team from Marketing and Public Affairs. Reliance on and use of this information is the reader's responsibility.

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EXECUTIVE SUMMARY

Three major phenomena are profoundly altering Canada's commercial landscape – advances in technology, changing demographics, and the 2007-08 global recession – providing fertile ground for the emergence of new consumer behaviours. This report delves into this new reality, showcases select opportunities awaiting small and medium-sized enterprises (SMEs), and presents strategies to adapt to—and benefit from—the following five emerging Canadian consumer behaviours.

1.

The changed path of consumer purchasing

The Internet now shapes nearly every aspect of a consumer's purchasing decision. The first step for many Canadians begins on the web: they search for the product or service, are heavily influenced by online reviews, compare product characteristics across websites, locate businesses with proximity searches, and often purchase online. Price wars now take place across planet Web, not just among local retailers.

A simple Web presence is no longer enough. A structured, proactive and tailored multi-platform strategy has become critical in today's business environment, and the underdeveloped online Canadian retail presence offers substantial opportunities for SMEs. Those that move quickly to adapt their business models and embrace these changes can make the most of this new reality.

2.

The new “health mania”

Health concerns are rising and health awareness is growing among Canadian consumers and will continue to accelerate as the population ages, with 25% of the population over the age of 65 by 2031. Consumers now look for products and services to help them maintain and improve their health, changing the type of products they purchase for their family, the sports they play, and how they spend their leisure time. The demand for health and wellness-related products is increasing rapidly, and 31% of Canadian consumers are willing to pay a premium for health-enhancing products.

Companies that can adapt their products to these growing health concerns are likely to generate positive reactions from customers and position themselves favourably in the marketplace.

3.

The “Made in Canada” advantage

Social and environmental concerns have become increasingly influential in consumers’ purchasing decisions, and corporate social responsibility has become a prerequisite for the majority of Canadians who want to know that companies adopt high ethical and green standards throughout their value chain. A majority of Canadians now make an effort to buy local or Canadian-made products and some are willing to pay a premium.

SMEs should highlight the local characteristics of their products. Even if not made locally, SMEs should emphasize other local features of the value chain, such as R&D, product design or product assembly.

4.

Customization is king

Consumers are increasingly looking for custom-made solutions that fit their specific needs, becoming more engaged in product creation. Many companies are expanding their product lines to better address consumer preferences. Others have developed “mass customization” techniques, which deliver tailor-made solutions at prices and lead times that match traditional mass-produced products. For example, a German SME mixes and sells customized cereals online to reflect factors such as customers’ allergies, special diets, athletic needs and varied tastes.

Nimble SMEs can leverage both approaches—designing niche products and empowering their customer base—to compete with large producers, increase their margins and minimize product development risks.

5.

The lingering effects of the recession

Certain consumer habits that arose during the 2007–08 recession are becoming the new standard. Consumers expect quality at a low cost, and are interested in pricing models based on use rather than ownership.

The strategic use of group couponing can be a good way to introduce consumers to SME businesses and products. SMEs can capitalize on other driving forces behind the “sharing economy” phenomenon, including the desire to have access to items only when needed.

Emerging consumer trends create new opportunities for businesses

Not all trends can or should be pursued at the same time, but some are substantial enough to merit the attention of all companies as they are reshaping consumers' perception of value.

To benefit from these trends, SMEs should:

Engage customers in a closer dialogue. SMEs can effectively communicate their value proposition, create a better understanding of consumer needs and encourage customers to share their opinions in order to increase consumers' engagement in product development. The following approaches may be helpful:

- > **Encourage** and monitor online consumer reviews. They are trusted by 70% of Internet users, so monitoring and responding to this feedback is vital.
- > **Use** online platforms to engage customers and make it easy to share ideas. Engaging consumers in the creation of new products can help companies better understand market demands and reduce development risks.
- > **Allow** customers to modify or customize products. It may not require a huge investment in equipment and production processes, as long as consumers feel empowered and that they can enhance the product's functionality.

Clearly explain the value of their products. It is crucial for SMEs to understand what consumers perceive as value, and communicate how their product fits with that value through the communication channels (online and offline) that resonate most with a specific client segment. The following key aspects should be emphasized wherever possible.

- > The product is **made in Canada** or locally, or other value chain-related activities—such as design or R&D—are done locally. All of these can lead to premium product positioning.
- > **Ethical and environmental** features of the production process should be measured tangibly and clearly displayed on products. Consumers are willing to spend more for ethically produced and eco-friendly products.
- > **Health-related** benefits of products, such as low toxicity, or research-backed results that link the product's ingredients to health benefits, can be key differentiators.

The key is to address these trends proactively, not reactively. Tremendous opportunities await SMEs that leverage these changes to develop new ways of competing, while staying true to their core business strategy.

INTRODUCTION

This report aims to shed light on five major trends that have emerged, and which we believe will have a lasting impact on Canadian consumers' behaviours.

In a constantly evolving world, our environment seems to be changing more rapidly and profoundly than ever before. Three phenomena in particular have had a lasting impact on consumers: advances in technology, changing demographics, and the 2007-2008 global recession. They have altered Canadian consumers' attitudes and preferences, generating many business opportunities.

This report aims to shed light on five major trends that have emerged, and which we believe will have a lasting impact on Canadian consumers' behaviours. Behind each trend lie opportunities for Canadian entrepreneurs, and those that take advantage of at least some of the trends will be able to keep their products relevant or seize new business growth opportunities. As such, this paper identifies strategies to help Canadian small and medium-sized enterprises (SMEs) transform these opportunities into a real and long-lasting competitive advantage.

The five major trends are as follows.

1. The Internet has become much more than just an online purchasing tool; it is now embedded in most product purchase journeys.
2. Canadian health-related concerns and preoccupations have translated into new consumer behaviours and habits.
3. Social and environmental responsibility issues increasingly influence consumers' choices; 10 years ago, few consumers were preoccupied by this phenomenon.
4. Empowered consumers are playing a growing role in the design of consumer products and the range of available products.
5. The economic recession has deeply affected consumer behaviours, and its impact continues to this day.

Deloitte and the Research and Economic Analysis team at BDC did the research presented in this report. It was complemented by a new and exclusive BDC survey of 1,023 Canadians on consumer behaviour trends, conducted by Ipsos in August 2013 (the "BDC-Ipsos survey"). Some survey results may be overestimated by the social desirability bias. Therefore, these results should be interpreted as trends and not as absolute statistics.

THE CHANGED PATH OF CONSUMER PURCHASING

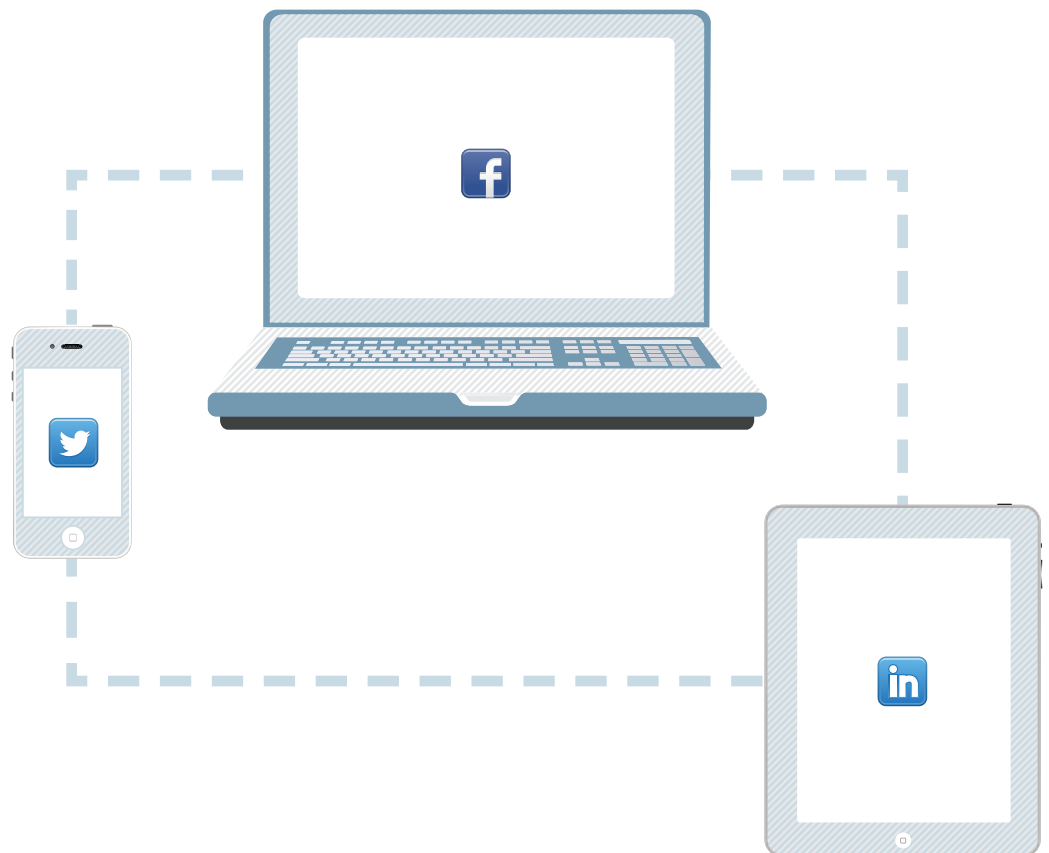
POPULATION
CONNECTED TO
THE INTERNET

84%

Massive, easy and affordable access to the Internet is reshaping consumer behaviours and habits, as well as traditional marketing tools and strategies. Most Canadian consumers are now connected 24/7 via multiple Internet-enabled devices.

In 2012, 84% of the population was connected to the Internet¹ and each user had, on average, 2.6 Internet-capable devices, including mobile phones, laptops, desktop computers or tablets.² This always-on Internet presence is further enhanced by growing smartphone ownership, with over half of Canadians now owning such a device, up from one-third in early 2012.^{3,4} Moreover, Canadians are avid social media users, with almost two-thirds of Canadian Internet users logging onto Facebook, Twitter or LinkedIn every day.⁵

This wide array of Internet-connected devices and online platform usage has reshaped communication channels between consumers and businesses. Consumers now expect a seamless flow between their online and offline activities, forcing companies to quickly adapt their strategy to reflect online-driven consumer behaviour or risk obsolescence.⁶

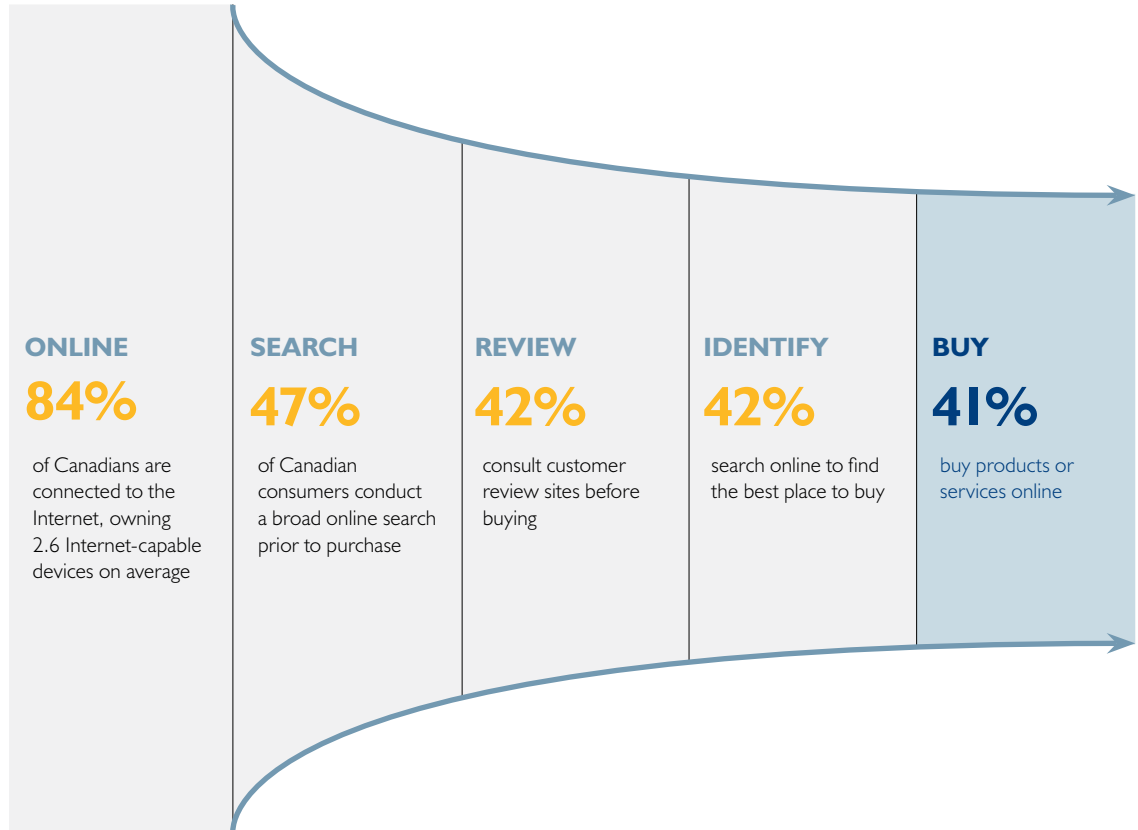


A simple Web presence is no longer sufficient for businesses; they need to adopt and develop a multi-channel approach.

1.1 Most purchasing decisions are now made online

New information channels have redefined consumers' path to purchase. Prior to purchase, consumers now tend to seek advice on, and be influenced by, online channels specific to the product category. Designing an appropriate and efficient online-awareness strategy is a key way to influence buying decisions.

The following survey results⁷ highlight how important a Web presence has become for Canadian companies.



Regardless of whether they buy a product over the Internet or in-store, more and more consumers are influenced by online channels, as the statistics above illustrate.⁸ What's more, a Web presence appears to have a direct and positive impact on sales. A study from the Boston Consulting Group shows that SMEs with a well-developed web strategy have experienced revenue growth that was up to 22% higher than other SMEs. A simple Web presence is no longer sufficient for businesses; companies need to adopt and develop a multi-channel approach.⁹

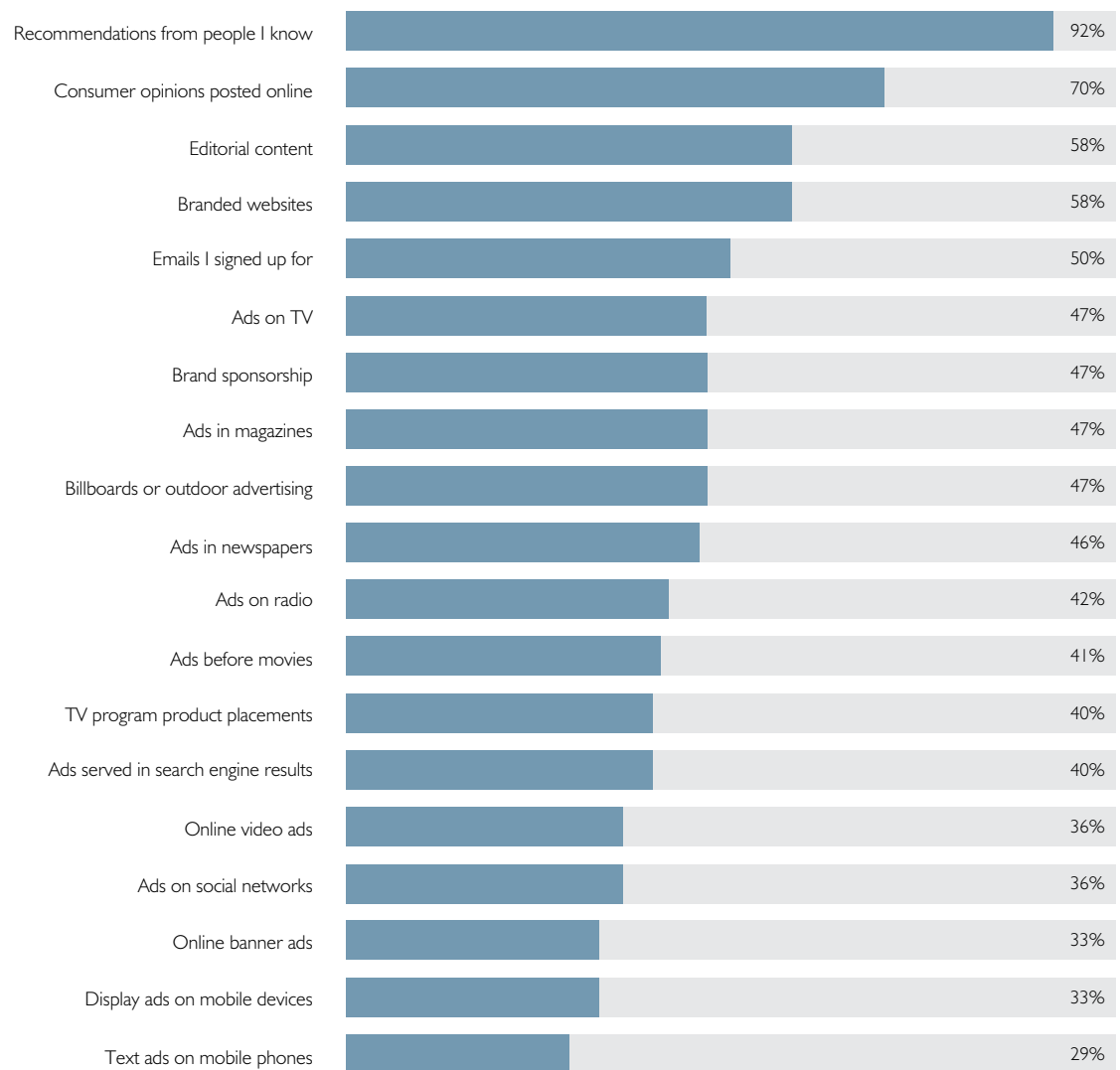
TRUST CONSUMER
OPINIONS POSTED
ONLINE

70%

I.2 Online reviews are among the most trusted sources of opinion for consumers

Approximately seven in 10 online users in the U.S., Canada and the U.K. claim that they trust online reviews, a proportion significantly higher than that for other consulted sources. Generally speaking, over three-quarters of Internet users say that online ratings and reviews influence their buying decisions,¹⁰ and over half state that positive online reviews make them more likely to use a local business. In 2012, about half of consumers had read reviews of restaurants or cafés, up from about one-third in 2010. Consumers also increasingly consulted reviews of hotels, B&Bs and guesthouses, as well as ratings of doctors and dentists, with the proportion rising from one in 10 consumers in 2010 to one in five in 2012.¹¹

Average trust levels of Internet users in sources of recommendations or advertising¹²



Note: Proportions presented in the above graph show consumers who trust the source "completely" or "somewhat."

Carefully managing online customer feedback is key for any business, whether or not it has an online business structure.

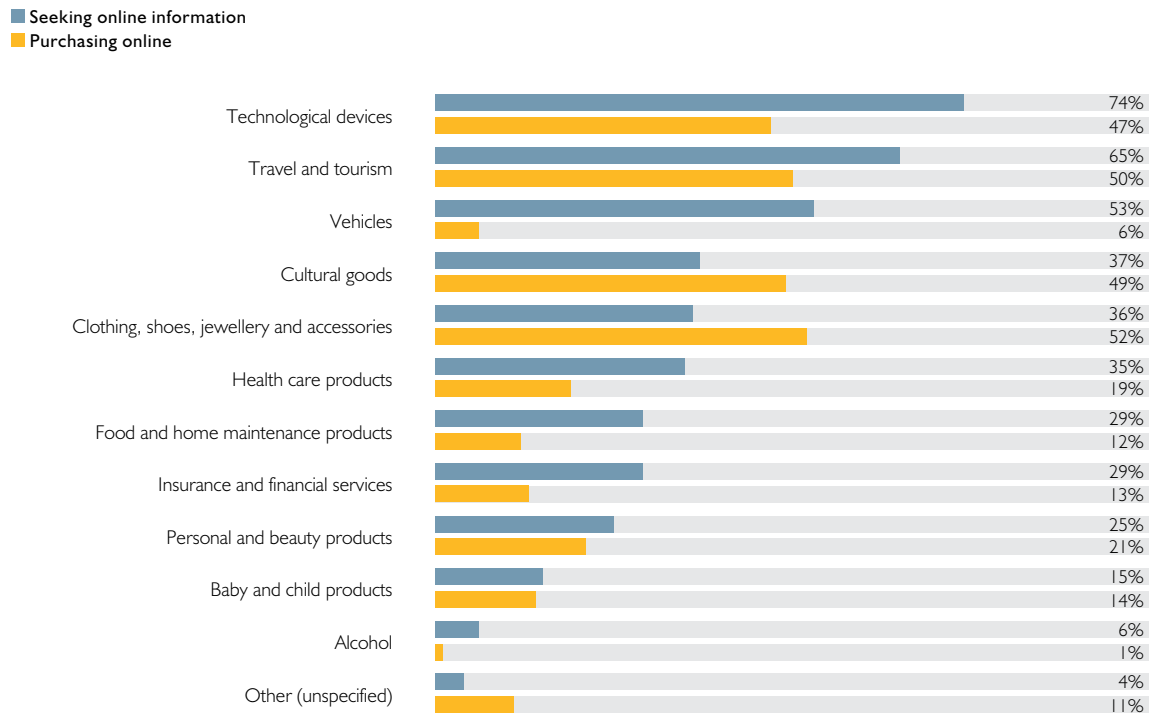
In addition, slightly less than one-third of in-store smartphone users now prefer to turn to their device for product information instead of asking store employees.¹³

Carefully managing online customer feedback is key for any business, whether or not it has an online business structure. For example, a small hotel that receives a poor review on a site like TripAdvisor may not realize the negative impact this could have on potential customers. That's why monitoring review sites and reacting quickly is essential to maintaining a positive image. Many review platforms allow companies to respond publicly to user reviews. This is a good way to show potential customers how a company reacts to both positive and negative feedback, and to build and preserve a company's reputation.

1.3 Consumers who look for product information online do not necessarily buy online

Results of the recent BDC-Ipsos survey show that Canadian consumers are most likely to seek online information about technological devices, travel and tourism, and vehicles¹⁴ before buying. Interestingly, it appears that men, Generation X consumers, and those with an annual household income over \$60,000 tend to seek online information more often than other categories of consumers.

Internet usage for seeking product information and purchasing



Note: Proportions presented in the above graph show consumers who perform the task.

Consumers are more likely to seek information about products online than to actually purchase them online.

When the time comes to purchase online, some categories of products stand out. Clothing, shoes, jewellery and accessories rank first, followed by travel and tourism, cultural goods and technological devices.¹⁵ Consumers aged 18 to 54 are more likely than others to purchase these goods and services online.

Overall, consumers are more likely to seek information about products online than to actually purchase them online. A number of factors may account for this, including the availability of online purchasing on the website; the perceived importance of the purchase (in terms of price and risk); the ease of doing business online; and how quickly the product can be delivered. When it comes to vehicles, there is a large gap between the proportions of consumers seeking information and buying online (53% research vs. 6% purchase). In this case, the difference can likely be explained by the value of the purchase and the fact that test driving a vehicle is an important step in the purchasing journey. Consumers are less likely to research more standardized, less expensive types of products (e.g., apparel and accessories) online but are increasingly likely to buy them online.

1.4 Price comparison tools are turning some categories of retail stores into showrooms

According to the recent BDC-Ipsos survey, close to two-thirds of Canadian consumers consider a low price one of the most important aspects of a product purchase.¹⁶ Not surprisingly, consumers are using their smartphones to compare retailers' product prices on- or offline. Over half of smartphone users claim they have compared product prices in-store using their smartphone. Among those who ultimately bought a product, more than two out of five purchased it in-store and slightly fewer than three out of five bought it later online.¹⁷ Consumers are significantly more likely to price check more expensive products in-store, such as appliances and electronics (74% and 70%, respectively), than cheaper goods, such as apparel and groceries (44% and 36%, respectively).¹⁸ Moreover, 83% of retailers recognize that shoppers can easily find a better deal elsewhere, making customer service more important than ever.¹⁹

The price discount required to make a consumer buy a product online instead of in-store is in the range of 10% to 20%. This is causing retailer concerns about an emerging behaviour called "showrooming," where brick-and-mortar stores are perceived as showrooms, while the Internet is seen as the place to make the purchase. In Canada, more than one in 10 consumers admit that they have visited a store to test a product before buying it online.²⁰

1.5 Smartphones have become the perfect shopping companion

Right now, over half of Canadians own a smartphone. This portable access to the Internet allows consumers to conduct proximity searches on businesses and to get information on the products that interest them. Nine out of 10 consumers claim to use their smartphone for pre-shopping activities, and three out of five say they use it to find the location and opening hours of a business that offers a particular product. More than two in five Canadian consumers use their smartphone to find promotional offers, one-third check product reviews and a similar proportion verify product availability in local stores.²¹ A majority (81%) of conversions (store visits, calls or purchases) triggered by mobile searches occur within five hours.²² These results suggest that consumers are now using their smartphones as shopping companions, making it vital for SMEs to have a smartphone-adapted business strategy.

CANADIAN INTERNET
RETAIL SALES IN 2012

\$5.4B

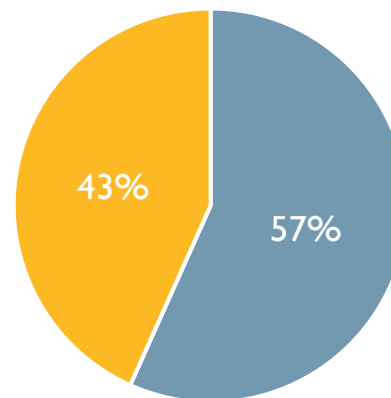
I.6 The changed path of consumer purchasing: Opportunities for SMEs

The underdeveloped online Canadian retail presence offers substantial opportunities for SMEs. Internet retail sales in Canada reached \$5.4 billion in 2012 (year-over-year growth of 14%),²³ and are expected to surpass \$10 billion by the end of this decade. Meanwhile, the global value of Internet retailing in 2012 reached US\$521 billion. Historically, Canadian e-commerce has lagged behind that of most other nations, with some of the lowest penetration levels in the developed world. Indeed, most Canadian brick-and-mortar stores remain reluctant to develop online retail channels. This situation has left the door wide open to foreign-owned retailers,²⁴ such as Amazon, Apple, Walmart and Dell, which together represent 57% of all online sales by U.S. retailers in Canada in 2013.²⁵ Meanwhile, Canadian retailers, such as Indigo, Grocery Gateway,²⁶ The Bay and Canadian Tire, represent less than 3% of total online sales by Canadian retailers, and have been losing market share in recent years.

Nevertheless, some Canadian SMEs seem to be capitalizing on this opportunity; with a strong online retail presence offering a positive consumer experience, these companies are quickly gaining market share.²⁷ This shows that Canadian consumers are interested in supporting local online retailers, if given the opportunity.

Internet purchases in Canada (2012)²⁸

■ From U.S. retailers
■ From Canadian retailers



Smartphone adoption and constant connectivity have become the norm for most consumers; they are no longer just for early adopters. SMEs that move quickly to adapt their business models and embrace these changes can make the most of this new reality.

Canadian businesses can turn this new reality to their advantage by implementing a number of growth-generating strategies.

1.7 Food for thought: Strategies for SMEs

The type of product information that consumers find online shapes their behaviour and influences their purchasing decisions. Traditional means of communicating with consumers are no longer enough to spur sales.

A few general rules apply to most businesses.

1. **Negative reviews** posted online by other users have become deal breakers for seven out of 10 consumers.²⁹ Online user-generated reviews have become one of the most trusted sources of opinion.
2. **Social media** allows consumers to stay connected with companies and voice their opinions. However, misuse of this channel with overly aggressive behaviour by companies is likely to alienate most users.
3. **Purchasing locations** are now being selected through technological tools or applications such as smartphone proximity searches, which help consumers locate and contact businesses.
4. **Price competition** is no longer local; users can easily compare prices with those of other retailers, leading some consumers to consider traditional, service-oriented brick-and-mortar stores as showrooms only.

Build and develop an online presence

SMEs can establish and develop an online presence with relatively little effort. Overall, Canadian consumers are interested in finding out more about products online, regardless of whether they end up buying the product online or in-store. Ideally, clear and easily accessible information should be available across multiple online platforms and seamlessly adapted to each platform's strengths. Most of these tactics do not cost much to implement, such as enhanced Google Maps integration (e.g., hours, business photos); an active presence on review sites to address any negative customer comments; and a social media approach that allows customers to connect with the business in a meaningful way, not just as a selling platform. A more expensive tactic is to set up a website that enables online orders, offers detailed information on products (e.g., large, high-quality photos) and provides options for in-store pickup or local delivery.

Be aware of online competition

The Internet makes it easy for consumers to compare prices. Competitive positioning based on price is no longer limited to local retailers but can also include remote online competitors. Since it is becoming virtually impossible to compete with online retailers based on price alone, companies should highlight the value-added aspects of their products and services to differentiate their value proposition.

Use client experience and product customization to counteract “showroom behaviour”

Smartphone users now have an effective shopping companion tool available at all times. These empowered consumers are likely to use local retailers as product showrooms and make their actual purchases online. Businesses that are more exposed to this phenomenon (e.g., those that sell high-ticket items with higher perceived risks) can address it by enhancing the customer service experience and product exclusivity. For instance, they can offer proprietary products, exclusive partnerships, customization or preferential services.

Understand your market and focus on the right channels

Understanding how the Internet has reshaped the customer's decision-making process (see chart, "The redefined path toward consumer purchasing") can help SMEs develop an effective online strategy. The right choice of multi-platform channels will enable the company to tailor its approach to the new purchasing reality. A good starting point is to leverage online channels (e.g., targeted ads, relevant social media efforts) to build awareness and complement traditional marketing tools. Businesses can also help the customer form an opinion about a product during the consideration phase by providing additional product information and monitoring opinion-shaping sources, such as user review sites. Ultimately, the goal is to offer the customer flexible acquisition options that make the purchase experience seamless, whether it occurs online or offline (e.g., giving detailed business information on multiple platforms such as Google Maps or dynamically displaying inventory levels).

The redefined path toward consumer purchasing

PATH OF A PURCHASE		TOOLS USED	DESCRIPTION
1	AWARENESS		
	Building awareness	<ul style="list-style-type: none"> <input type="radio"/> Traditional marketing (e.g., TV ads, product placements, sponsorship, flyers) <input type="radio"/> Other sources (e.g., friends, family) <input checked="" type="radio"/> Online banner ads (e.g., targeted ads) <input checked="" type="radio"/> Email promotions (e.g., new products, special promotions; cannot be spam, user must agree to receive it) <input checked="" type="radio"/> Social sharing (e.g., Facebook newsfeed, Twitter) 	The initial stage involves building awareness for a product using various traditional and online channels that are targeted at the desired consumer segment. The goal is only to create awareness of the product, not necessarily an instant sale.
2	INTENT		
	Consideration	<ul style="list-style-type: none"> <input type="radio"/> Retail store visits (e.g., showrooming, browsing) <input checked="" type="radio"/> Blogs, review sites (e.g., manufacturer's website, editorial review sites, articles) <input checked="" type="radio"/> Social sharing (e.g., manufacturer's Facebook page) <input checked="" type="radio"/> User-generated options, forums (e.g., Yelp, UrbanSpoon, TripAdvisor, Amazon product reviews, technical and video reviews by users on blogs and YouTube) <input checked="" type="radio"/> Product comparisons (e.g., FindTheBest.com) 	The crucial stage where consumers form an opinion of the product. Companies need to provide a rich amount of additional product information on multiple online platforms (e.g., large photos, video presentations of features and services). Additionally, user-generated online reviews need to be monitored, as they have become the most important source of information for consumers.
3	DECISION		
	Pre-purchase activities	<ul style="list-style-type: none"> <input type="radio"/> Weekend flyers or store visits <input checked="" type="radio"/> Online price comparisons (e.g., price comparison tools) <input checked="" type="radio"/> E-coupons (e.g., Retailmenot, Groupon) <input checked="" type="radio"/> Local store research (e.g., finding local businesses, making reservations, checking locations, business hours or checking inventory) 	At this point, consumers have mostly made up their mind about a product and are searching for a place to make the purchase. The final decision will depend on the location (online or offline) that will offer the best price or be the most convenient.
PURCHASE			

- Traditional approach
- Online-driven approach

Source: Chart developed by Deloitte for this BDC proprietary research project.

2. THE NEW “HEALTH MANIA”

The overwhelming majority of consumers are looking for products and services that complement and facilitate a healthier lifestyle.

For many consumers, health awareness is no longer limited to maintaining a healthy diet and physical activity, but extends to their interactions with all businesses. Consumers are now looking for products and services that are part of a holistic healthy lifestyle and comply with high safety standards. They expect companies to proactively meet their needs. As a result, the range of products affected by the new “health mania” now runs the full gamut, and several health movements that began as niche trends are becoming mainstream.

Health awareness is growing among all Canadians but is more predominant among seniors (65 years old and older), and prolonging their vitality has become a key priority. By 2031, 25% of Canadians (approximately 9 million people) will be over 65 years old, compared to 14% today, so this health awareness trend will only accelerate. Since the aging Canadian population also has significant purchasing power, this group represents an interesting target for SMEs.

An increasing number of Canadians are becoming more health conscious, leading many to pursue a healthier lifestyle and integrate preventive health measures into their daily lives. According to the recent BDC-Ipsos survey, while half of Canadians consider the health impact of a product when making purchasing decisions,³⁰ one-third claim they are willing to pay a premium for healthy products.

In sum, health awareness is changing the type of products Canadians purchase for their family, the sports they play, and how they spend their leisure time.

2.1 Canadians are more concerned with what they eat

Canadians' health awareness is completely transforming food demand. For instance, consumers are shifting their consumption of processed fruits and vegetables to fresh produce.³¹ The demand for specialty, natural and organic products remains strong and continues to generate high profits for food manufacturers.³² Moreover, many environmentally conscious consumers are looking for green and local products.³³

Soft drink sales are also expected to reflect consumers' increased health consciousness. Bottled water, ready-to-drink tea and sports drinks are benefitting the most from this trend, while sales of carbonated and concentrated drinks—the largest subsectors of Canada's soft drink market—are expected to stagnate or even decline.³⁴

Recognizing the benefits of eating breakfast, fewer people are skipping this meal, another trend that is expected to last. People are looking for protein-rich breakfast foods, including yogurt and nuts.³⁵

HEALTH AND WELLNESS SERVICES AND TOURISM MARKET SIZE

\$735M

2.2 Weight management is still gaining ground

The rise in chronic diseases as well as the incidence of cancer and various other health-related scares have drawn attention to the need for healthier lifestyle choices.

Obesity has become a major health concern in Canada. The number of clinically obese people has never been higher.³⁶ As a result, weight management³⁷ has been a steadily growing market in Canada, reaching a value of \$189 million in 2012. Meal replacement products have been the main driver of the sector, growing by 5% in the past year and representing 81% of revenues. Meal replacements tend to be easy to use, which explains their popularity. However, these products have recently become more than shortcuts to weight loss. Health-conscious consumers are now using them to supplement their daily nutritional intake.

Weight loss supplements represent a market of about \$35 million in Canada, which has remained stagnant in recent years due to negative media coverage.

2.3 Use of health monitoring tools is exploding

Growing concerns among Canadians about their health, together with the development of technology, have created a new consumer market for health monitoring equipment and applications, which has grown significantly in recent years. This is especially true for devices that intelligently track fitness activity via GPS or that track vital signs, such as body weight, sleep patterns, heart rate and glucose levels. SMEs have introduced many of the most innovative devices.

Four out of every 10 dollars in the global weight loss and diet management market are spent on devices and accessories



Devices and accessories represent almost four out of every 10 dollars spent³⁸ in the global weight loss and diet management products market.³⁹ Most of these accessories⁴⁰ have augmented features⁴¹ that help consumers maintain their motivation through smartphone applications or cloud services. Sales of health and wellness smartphone apps alone totalled an estimated \$1.3 billion in 2012.⁴² By 2017, these apps are expected to account for almost one-tenth of the revenues⁴³ in the smartphone-assisted health care sector, with device and accessory sales driving most of the rest of the revenues.⁴⁴

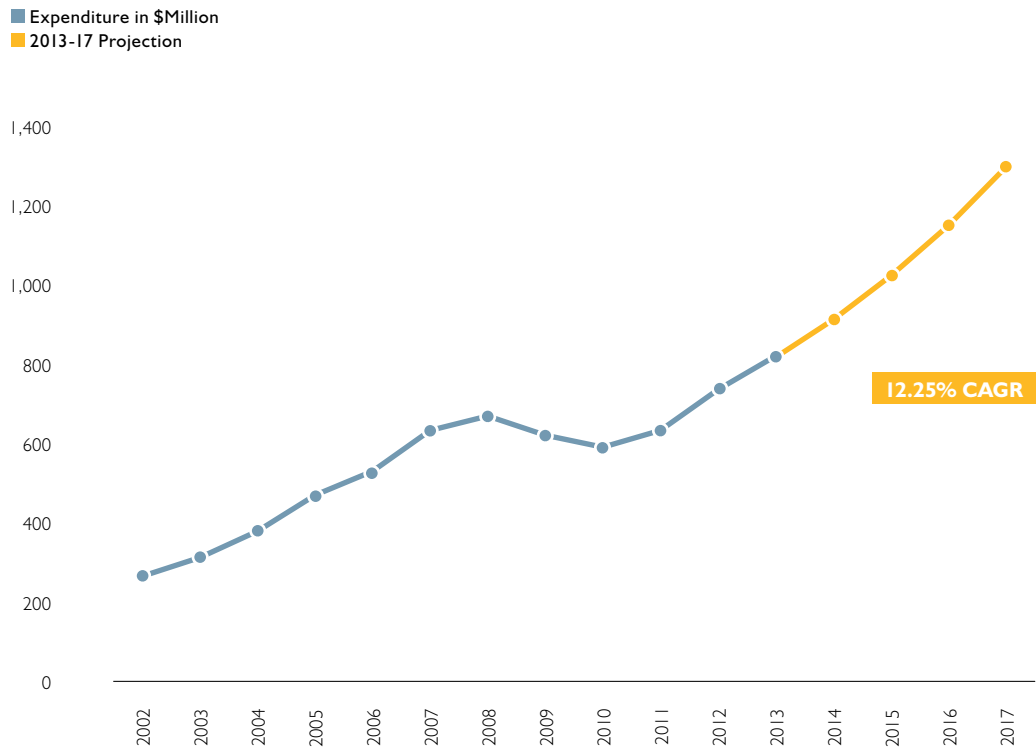
2.4 Health and wellness services and tourism are in growing demand

The health awareness trend also translates into increasing demand for health and wellness services and tourism.⁴⁵ Consumers have flocked to an industry that allows them to be health conscious with minimal effort. In 2012, this sector reached an estimated market size of \$735 million in Canada.⁴⁶ It includes spa services, medical tourism, and customized food and beverages, such as gluten-free and vegan menus.

**AVERAGE ANNUAL
PER CAPITA
PERSONAL
EXPENDITURE ON
HEALTH AND
WELLNESS IN CANADA**

\$935

Health and wellness tourism expenditures in Canada



CAGR = compound annual growth rate

2.5 Niche sports activities go mainstream

Sportswear sales continue to rise as some traditionally niche sports activities go mainstream and as more people wear sports-inspired clothing for non-sports activities. Sportswear sales in Canada reached \$5.4 billion in 2012, a 5% increase over 2011.⁴⁷

Performance footwear and clothing has experienced the highest growth in the sportswear category in recent years. Running is a main driver of this growth, together with cycling, football and soccer. Statistics from the U.S. also show a significant increase in participation in high-endurance activities, such as marathons. For example, between 2001 and 2011, the number of half-marathon finishers tripled. Participation is highest among the 35-to-44 age group (31%), with these activities becoming increasingly mainstream.⁴⁸ Participation has also increased significantly in other high-intensity activities,⁴⁹ including Ironman triathlons, obstacle course races,⁵⁰ and themed or charity 5K races.

2.6 The new “health mania”: Opportunities for SMEs

Many SMEs can take advantage of the healthy lifestyle trend, as consumers attempt to modify their consumption habits and governments increase their support for products and services that help reduce rising health care costs.

Nearly 33% of Canadian consumers are willing to pay a premium for health-enhancing products.

The average Canadian spent an estimated \$935 on health and wellness-related products in 2012, up from \$818 in 2007.⁵¹ The opportunities are not limited to health food retailers and companies that produce vitamins or nutritional supplements. According to the recent BDC-Ipsos survey, nearly one-third of Canadian consumers claim they would pay a premium for health-enhancing products, and about half believe the health impact of a product is an important factor in their purchasing decision.⁵²

Some SMEs can address the needs of health-conscious consumers by adapting their product lines. This does not always require a complete shift in strategy and products, especially in the manufacturing and B2B sectors.

Two trends provide perfect examples.

- > **The emergence of adult playgrounds.** SMEs such as Alberta's Playground Guys, traditionally focused on playgrounds for kids, have expanded their product lines to attract adults looking for outdoor workouts. So far, nine adult playgrounds have been built around Calgary and, last year, New York City commissioned over two dozen to be built within the next two years.⁵³
- > **The increased focus on office furniture ergonomics.** Ergonomics is not a new trend, yet close to nine in 10 office workers continue to report discomfort from their furniture.⁵⁴ Improving the ergonomics of chairs and office equipment increases worker productivity by an average of 17%.⁵⁵ SMEs that manufacture office furniture can distinguish themselves by, for instance, offering height-adjustable tables⁵⁶ that let people work standing up and offer more posture variety during office hours.⁵⁷

This approach can be expanded to many products not currently linked to health. The paint industry's shift toward non-VOC⁵⁸ products is a good example.

2.7 Food for thought: Strategies for SMEs

More and more, businesses that provide new solutions or adapt their products and services to meet the public's desire for a healthier lifestyle are poised to reap significant benefits. On the flip side, this trend could hurt businesses whose services and products are seen as unhealthy (e.g., fast food) or toxic.

Minimize consumer effort

Companies looking to adapt their products and services to health-conscious consumers' needs should make them as effortless as possible to use. This can help overcome consumer resistance. For example, a health-conscious cleaning product should be as easy to use as its traditional alternative.

Increase motivation for tasks considered difficult

The growth of the health and wellness market is good news for SMEs that design, manufacture or sell innovative devices or services to monitor vital signs or fitness. By addressing factors that could affect users' motivation, companies can encourage adoption.

Communicate the health benefits of your products.

Tailor products, services and marketing

SMEs that modify their offerings to reflect the health and wellness trend can differentiate themselves from their competitors. They are also more likely to increase their margins. The key to success lies in product messaging, especially if the product already has health benefits that have not been actively promoted. Communications highlighting the health properties will help potential buyers understand the product's benefits. This approach can help propel a business from a stagnant sector into a new one with significant growth prospects.

Seize growth opportunities in the spa and resort sector

SMEs in the spa and resort sector are likely to see continued growth. Spa services in Canada currently account for over three-quarters of the revenues in the health and wellness tourism sector, with hotel/resort spa facilities generating 61% of the revenues. The repositioning of gyms and spas as destinations for hotel visitors is expected to fuel continued expansion in the sector. With many people seeking ways to relieve stress and 80% of Canadian baby boomers planning to travel in retirement, this trend is likely to gain further traction.⁵⁹

Leverage all potential uses for products

SMEs looking to make the most of the weight management trend can capitalize on all of the potential uses for their products. Health-conscious consumers who want to boost their daily nutritional intake are one example. Consumers often find alternative uses for a product (e.g., eating baby food to lose weight). By keeping a close eye on emerging developments, companies can capitalize on them early. For example, a company could encourage consumers to share their "unusual" use of a product on social media.

Focus on innovation or minimalism in the sportswear industry

To remain profitable, sportswear SMEs should develop highly innovative or very minimalist products. Companies that offer mid-range products are likely to see limited growth. This trend may also apply to other industries trying to satisfy the health-conscious consumer. A targeted approach to this distinct group could help to differentiate a company.

3. THE “MADE IN CANADA” ADVANTAGE

Over half of global consumers take “green” factors into account when making purchasing decisions.

Social and environmental consciousness among consumers has reached a tipping point. Canadian companies now know they have to comply with high ethical standards and communicate concrete results—ones that go beyond what is often referred to as “greenwashing.”

Consumer concern for the environment has been increasing steadily over the past decade. Currently, over half of global consumers take “green” factors into account when making purchasing decisions.⁶⁰ Companies know that they have to show how their products and services fit into an integrated, green and sustainable approach.

“Ethical consumption” is increasingly important to Canadian consumers; information on unethical business and sourcing practices is more easily accessible, and consumers use their wallet to influence companies to adopt more responsible practices. In fact, close to six in 10 Canadians consider themselves ethical consumers.⁶¹ In a 2011 study, approximately three-quarters of consumers claimed they would pay more for products or services from a socially responsible company with ethical production practices, such as child-free labour. Moreover, three in 10 said they would pay a premium of 15% and more on products guaranteed to be ethically fabricated, and three out of five claimed they would be willing to pay a 5% premium or more.⁶²

Nearly **one out of three** consumers are willing to **pay a 15% premium** on ethically made products



This environmental and social awareness is having a growing impact on sub-trends, such as buying locally sourced products. According to the recent BDC-Ipsos study, close to two-thirds of Canadians claim they have “made an effort” to buy local or Canadian-made products in the past year.⁶³

Two-thirds of Canadians have **made an effort** to buy local or Canadian-made products recently



Economic considerations are driving the “buy local” trend.

3.1 Eco-friendly actions are now part of consumers’ daily routine

Consumers want to know more about the environmental impact of their purchases. Most have already integrated some environmentally conscious decisions into their routines. For example, one in four Americans say they systematically take steps to make their home or lifestyle greener, such as recycling, weatherproofing their home, using eco-friendly products or driving energy-efficient vehicles. Six out of 10 claim they “sometimes” take such actions, and only a small minority say they never do so.⁶⁴ In Canada, thanks to widespread municipal policies, citizens have become the biggest advocates of recycling in the world. According to a survey conducted in 2011, nearly nine out of 10 Canadians claim they recycle at home.⁶⁵

3.2 Environmental considerations drive purchasing decisions

In the U.S. and Canada, nearly half of all consumers state that they are inclined to buy environmentally friendly products. Only a small minority (one in five) say they are not likely to buy a green product or to buy green products at all. In addition, four in 10 claim they would be willing to pay a little more for a product or service they knew was environmentally friendly.⁶⁶

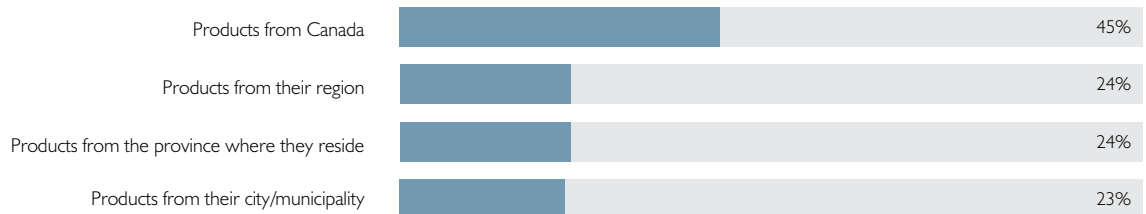
In a recent independent survey, Ipsos asked consumers which features in food and beverage packaging they would be most willing to pay more for. In Canada, the top choices, in order, were features that are environmentally friendly, keep food fresh longer, permit packaging reuse, make the product easier to use, and prevent messes and spills. People around the world like ecological packaging, with consumers consistently selecting this option as one of the top two features they would be most likely to pay extra for.⁶⁷

3.3 Consumers want to buy locally and Canadian

Canadians are concerned about the environment and increasingly aware of their social responsibility. The recent BDC-Ipsos survey shows that buying locally and Canadian lets them translate these concerns into action.

Most consumers decide to buy local produce for economic reasons: 97% of Canadians do it to support the local economy, 96% do it to support local farmers and 93% do it to create local jobs, while 87% think it is better for the environment.

Proportion of Canadian consumers who have made an effort to buy local products in the past year⁶⁸



Food safety concerns increase consumer support for local production.

Not surprisingly, consumers tend to support their local food products. For instance, Albertans more frequently purchase local beef, Ontarians support local wine, residents in British Columbia and Ontario tend to buy locally grown fruits more often, Atlantic Canadians are most likely to buy local fish, and Quebec residents are most likely to purchase locally made cheese.⁶⁹

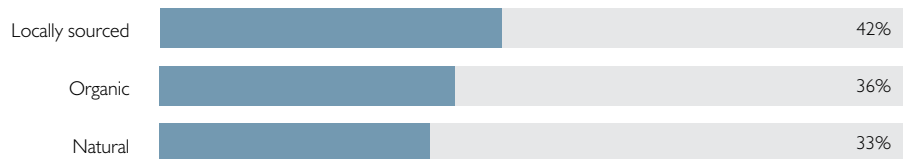
Consumers also buy non-food products from local businesses, and that has economic benefits. A recent Canadian study showed that a locally owned business can directly recirculate up to one-third of its revenues in the community; a comparable multinational directly recirculated less than 20%, on average.⁷⁰ Similarly, the indirect redistribution of revenues can be as much as 2.6 times higher for local businesses than chain establishments,⁷¹ because local companies are more likely to use local suppliers, such as accountants, information technology companies and banks.

A majority of Canadians have made an effort to buy local or made-in-Canada products recently, led by Quebecers⁷² and Atlantic Canadians (close to three-quarters in both cases). Consumers in Saskatchewan and Manitoba (about half) are the least likely to do so.⁷³

After recent international food safety incidents,⁷⁴ consumer concerns about food safety in Canada edged higher. A great majority of Canadians consider food from Canada safer than food from abroad, and say they try to buy locally produced food.

Nearly three-quarters of consumers say they will pay more for locally produced food. Furthermore, close to two out of three believe that importing food from all over the world is bad for the environment.^{75,76} Labelling also appears to affect consumers' perceptions of a product. As the following chart shows, consumers are most likely to trust "locally sourced" food labels, followed by "organic" and "natural" food labels.⁷⁷ Likewise, two in five Canadians consider local production an important factor in their purchasing decision.⁷⁸ Most Canadians also believe that locally produced food is fresher and tastier.

Proportions of Canadian consumers who trust various product labels⁷⁷



Consumers are willing to pay a premium for locally sourced products.

The desire to support local businesses translates into a willingness to pay a premium for local products. Nearly three-quarters of Canadians say they would pay more for their groceries if the food was locally produced.⁷⁹ Similarly, as shown in the next chart,⁸⁰ most Canadians say they would pay more for a restaurant meal if all the ingredients were produced locally.⁸¹

Seven in 10 Canadians would be willing to pay more at a restaurant for a meal in which all the ingredients are locally grown.



3.4 Public scrutiny of ethical and unethical practices is increasing

The proliferation of information sources and social media⁸² has allowed consumers to be much more aware of companies' actions. One-third of consumers say they have researched a company's business, social or environmental practices in the past 12 months, and half of them have told friends or family about a company's corporate responsibility efforts.⁸³

This increased consumer awareness may quickly destroy the reputation of any business perceived to be behaving unethically. Such was the case recently in Bangladesh,⁸⁴ where an accident killed 1,129 apparel factory workers and injured more than 2,500. This tragic event exposed the deficiencies in the ethical practices of many clothing companies and created a consumer backlash against brands that dealt with Bangladeshi suppliers.⁸⁵ In consumers' eyes, many of these brands have already lost their value.⁸⁶ After the accident, nine out of 10 Canadians said they would pay more for products guaranteed to be ethically made without child labour, up by 21 points since 2012.⁸⁷ Moreover, Canadians surveyed "said they would pay on average 23% more to guarantee a purchase is child-labour free; this is double the amount they said a year ago."⁸⁸

3.5 False and misleading environmental marketing claims fuel consumer scepticism

At the same time, and maybe because they are willing to pay more for ethical products, consumers have become increasingly sceptical of products' environmentally friendly claims. Trust in labels has declined in recent years, as companies have begun to hijack terms such as "green," "natural," "eco-friendly" or "organic" to profit from the rise in environmentally friendly product consumption. Currently, only one-third or less of consumers believe the labels "natural," "fair trade" or "free range."⁸⁹ Other labels—such as "biodegradable," "non-toxic" or "low-VOC"—are also now on consumers' radar.⁹⁰ Recent lawsuits against multinational food and beverage companies that have made misleading product claims have further dampened consumer confidence in such labels.⁹¹ Media attention and websites such as Greenwashing Index have increased consumer awareness of this problem.

WOULD STOP BUYING PRODUCTS FROM A COMPANY WITH IRRESPONSIBLE BUSINESS PRACTICES

90%

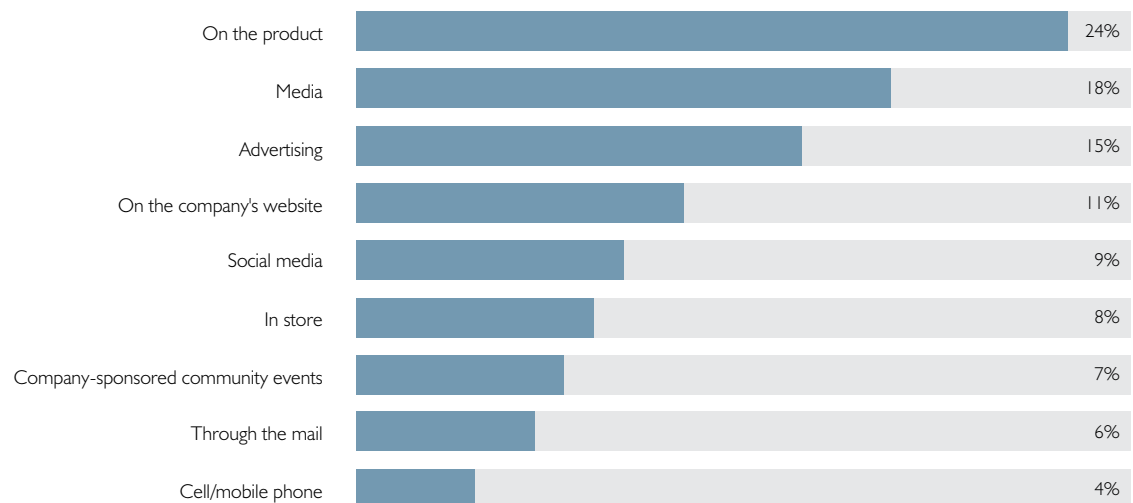
The impact of misleading consumers should not be underestimated. In a 2013 survey, 90% of consumers stated they would stop buying products from a company if they learned it was using deceptive or irresponsible business practices, and over half claimed they had in fact stopped buying a product or service in the past 12 months because of such behaviour.⁹²

3.6 Consumers want result-driven CSR policies, not mission statements

Consumers are no longer satisfied with vague promises about environmental or ethical responsibility. They demand tangible results. This means that companies must integrate socially and environmentally conscious behaviour into all of their functions.

More than four out of five consumers say they would be more likely to purchase a product from a company that reports results of its CSR policy than one that simply has a mission statement. Similarly, over nine in 10 Canadian consumers want to hear about tangible CSR efforts and results. Interestingly, one-quarter of Canadians want to see this information displayed on products' packaging or labels. To be truly effective, however, communication should be integrated across multiple channels.

Most effective communication channels for information about social and environmental programs and products⁹³



Although they want to hear about social responsibility, nearly three-quarters of Canadians feel confused when researching a company's CSR activities.⁹⁴ It seems that most companies are not adequately explaining, displaying or communicating their CSR actions. An effective CSR strategy should help consumers easily recognize the concrete actions a company has taken.

SMEs should communicate the local characteristics of their products.

3.7 The “Made in Canada” advantage: Opportunities for SMEs

Canadian consumers are increasingly aware of the power their spending exerts on the economy. They are urging companies to drive social and environmental change. At the same time, they want to support local business growth and are willing to pay a premium for local products that reflect their concerns.

Many Canadian consumers support local businesses as a way to foster economic development. They want companies to invest in their community by creating jobs and improving infrastructure in an eco-friendly way. Although consumers realize that companies alone cannot solve these issues, they are willing to support those that make an effort. Additionally, increased concerns about the safety of imported products are stimulating consumer demand for local products. This creates an opportunity for SMEs to differentiate themselves from multinational corporations among socially conscious consumers, as long as their services and products are of comparable or better quality.

Consumers now expect all businesses to consider CSR. The same moral concerns that led coffee and chocolate companies to adopt fair trade practices in recent years are now affecting other industries. SMEs that espouse ethical and sustainable production practices—and highlight concrete results—will gain a competitive advantage and tap into an increasingly valuable market segment.

3.8 Food for thought: Strategies for SMEs

More than ever, consumers' social and environmental consciousness is pushing companies to adopt and promote CSR strategies. SMEs need to discuss their supply chain transparently, honestly and precisely, as well as showcase the local characteristics of their products. For the majority of Canadians, CSR is no longer a differentiator. It has become a prerequisite for all companies, whatever their size or scope.

Highlight the local characteristics of products

Even if their products are not made locally, SMEs can impress customers by emphasizing other local features of the value chain, such as R&D, or product design or assembly. SMEs should creatively highlight their local economic impact, such as jobs created, local partners involved in their processes (e.g., farmers, designers) or the local impacts of a specific product purchase.

Incorporate the CSR strategy in the value chain and marketing efforts

To be truly effective, a company should integrate its CSR strategy throughout its value chain, not just into support activities, such as recycling. For example, it could use an ethical supply chain, make products sustainably, reduce the environmental impact of production processes and plan for end-of-life product management. These tactics would allow a business to make a credible statement based on measurable results rather than general CSR messages.

Communication with clients is crucial. Successful marketing efforts will focus on concrete results of CSR actions and target the broadest spectrum of consumers. Although a multi-channel approach is vital, some studies have shown that placing these messages directly on the product packaging is the most effective way to gain a customer's attention.

CSR has become a prerequisite for the majority of Canadians.

Clearly demonstrate the ethical aspects of your supply chain

A fully integrated, socially and environmentally conscious supply chain has become a differentiating factor for SMEs. It is especially important in B2B relationships, as companies can gain a marketing advantage if they use ethical suppliers. It is equally important for SMEs to minimize the full environmental impact of each product's lifecycle.

Reassess the relevance of labels and certifications

SMEs should carefully consider the use of certain labels and certifications. These labels can be prohibitively costly for SMEs and may not even generate the desired financial return, given consumers' widespread mistrust of some of them.

SMEs that pursue this strategy should ensure their target clientele truly values the selected labels. In certain cases, the benefits of products can be communicated much more effectively (and affordably) by simply giving examples of the results of the company's CSR actions. This transparent, fact-driven approach can create a similar or higher level of trust among consumers than traditional labels.

4. CUSTOMIZATION IS KING

Personalization can raise a product's value proposition, promote higher brand loyalty and increase profit margins.

Consumers are progressively moving away from the traditional consumption of standardized, mass-produced products that defined the 20th-century industrial revolution. They are increasingly looking for custom-made solutions that fit their specific needs and becoming more engaged in product creation.

In 2013, nearly three-quarters of consumers claimed to want personalized products and services, with personalization deemed to be the most influential factor in determining value for money.⁹⁵ Personalization can raise a product's value proposition and promote higher brand loyalty, which in turn increases profit margins.

Two different strategies have emerged to respond to these new consumer expectations. Many companies are expanding their product lines to better address consumer preferences. On the other hand, some companies have developed "mass customization" techniques. This production process allows companies to effectively combine two contradictory techniques: mass production and customization. In theory, this approach can deliver tailor-made solutions to customers at prices and lead times that match those of traditional mass-production products. It also has the potential to unlock new business models for SMEs.

4.1 Product lines are expanding to respond to diversified consumer preferences

Satisfying the desire for personalized products has led many companies to diversify their product lines to respond to almost every consumer taste. For example, Tropicana has increased its juice selection from six in 2004 to more than 20 today, with plans to increase the range to 30 by the end of the decade.⁹⁶ This trend has led the average American supermarket to carry nearly 40,000 stock-keeping units (SKUs), a five-fold increase since 1975.⁹⁷ Similarly, in the car industry, BMW and Audi have increased the number of models in their line-ups by 83% and 113%, respectively, in the past decade.⁹⁸ This niche-like strategy often allows businesses to charge higher prices than generic products command.

The trend to offer consumers an excessive variety of products or services can be observed across all industries, from coffee to metal siding.⁹⁹ A "shotgun approach" to product diversification can backfire, unfortunately, resulting in high levels of SKUs, failed product launches and significant upfront costs, while diluting the value proposition message and alienating clients.

When faced with a greater variety of options, people are more easily dissatisfied. A wider range of choices raises expectations and makes people seek perfection, which is rarely attainable.¹⁰⁰ Some studies have shown that by reducing complexity and narrowing choices for consumers, companies can "often dramatically improve their performance, with cost reductions of as much as 35%, along with up to 40% increases in sales."¹⁰¹ Procter & Gamble, for example, saw sales of its Head & Shoulders shampoo increase by 10% when it reduced the product's variations from 26 to 15. Tropicana, on the other hand, which tripled its juice assortment, saw its sales rise by 23%.¹⁰² This mix of contradictory messages is leaving many companies perplexed about how to best execute a strategy that offers consumers a high level of personalization, yet does not overwhelm them with unnecessary variety or raise inventory costs unduly.

Customization raises margins, because it increases customers' sense of ownership.

4.2 Mass customization as a new business model

Mass customization gives manufacturers an unprecedented edge. Since products are made to order, there is no need to stock finished goods. It creates a better alignment between the needs of the client and the supply, since the customer defines the features and product configuration. Theoretically, a stronger alignment leads to a willingness to pay more for a product. Additionally, personalized orders allow a manufacturer to better understand its market.

A recent review of companies employing online configuration tools confirmed that allowing consumers to customize products in real time leads to higher conversion rates, with sales increasing more than 80% in some cases, and average order sizes increasing by up to 20%. In addition, the ability to view customized products before ordering can reduce returns by up to 33%.¹⁰³ Meanwhile, the use of dynamically generated digital previews¹⁰⁴ that allow customers to evaluate a product before it is manufactured can reduce costs by up to 50%.¹⁰⁵

Ideally, customized production should be kept in sync with actual demand, which eliminates most of the liability associated with stocking inventory (e.g., warehouse costs, cash flow front-loading, product obsolescence or discount sales of surplus inventory). Firms also regularly discover new market opportunities by constantly monitoring customer preferences, reducing capital commitment and overproduction in the process.

The creative aspect of customizing a product can leave customers with a positive impression of the actual sale and affect loyalty. The so-called "I designed it myself" effect increases a customer's sense of ownership, as the user is not merely buying a product but also doing something creative.¹⁰⁶ "Fully engaged customers deliver a 23% premium over average customers in share of wallet, profitability, revenue, and relationship growth."¹⁰⁷ Building a superficial engagement with emotionally-driven brands and marketing no longer seems to be as effective with customers as it once was.¹⁰⁸ The recent BDC-Ipsos survey showed that in Canada, on average, only about one in three consumers considers the brand a decisional factor for most of their purchases.¹⁰⁹ This makes it even more crucial for companies to foster truly engaging interactions with their products to keep their customers loyal.

According to the Configurator Database Report 2013, 900 company websites in 29 countries offer online configuration tools that allow customers to customize their products. Germany (388 sites) and the United States (346) represent 82% of the market, while only six Canadian companies offer online customization tools. This database is not exhaustive but includes the most advanced mass-customization companies. The remaining sites are spread across other countries. Most of them sell apparel and footwear products,¹¹⁰ with most major multinational brands now offering dedicated customization platforms.¹¹¹ Mass customization can be adapted to practically every product category imaginable. Examples include nutritional bars, beverages, cereals, chocolate, coffee, handbags, garage doors, cutting boards, electrical and signal cables, conveyor belts, facade cladding, industrial gases, worm gears and even lucky horseshoes.¹¹²

Mass customization has created new business models that enable SMEs to better compete with multinational companies. One of the major advantages of mass customization is that it allows companies to move away from a purely price-led competition that destroys margins and favours volume-driven multinational competitors that outsource production. A perfect example would be Mymuesli, a German-based SME that specializes in customized cereal products. The company successfully managed to enter a highly crowded and consolidated industry sector dominated by established corporations thanks to an innovative, differentiated product based on mass customization. Mymuesli can adjust for allergies, special diets, athletic needs and a wide variety of taste differences¹¹³ much more effectively than pre-made cereal makers can.

New disruptive business models are emerging; mass customization is enabling SMEs to better compete with multinational companies.

Moreover, some SMEs have turned emerging consumer behaviours like “showrooming”¹¹⁴ to their advantage. While some traditional retailers are struggling to counter this practice by slashing prices and charging consumers a fitting fee or browsing fee,¹¹⁵ others are embracing the trend. Companies like Bonobos, Warby Parker and Shoes of Prey¹¹⁶ are creating small showrooms¹¹⁷ in high-traffic locations where customers can touch and feel their products, inspect customization options, and take precise measurements in order to properly customize the final product, which will be delivered to them directly. The small showrooms of Warby Parker, an SME that sells \$95 glasses, generated over \$4,100 per square foot of retail space in 2012, while the six Bonobos showrooms, which sell customized \$88 dress pants for men, generate more than \$1,000 in retail sales per square foot per year, on average.¹¹⁸ These figures can only be matched by a few other retail companies, such as Apple, Tiffany and Lululemon.¹¹⁹

Some companies are pushing the boundaries of customization by simultaneously using crowdsourcing and advanced manufacturing techniques to create consumer-generated products. Threadless from SkinnyCorp was one of the first SMEs to successfully implement this concept. Its business model revolves around user-submitted T-shirt designs that the company produces after the community votes on them.

Other SMEs have recently taken this concept to a whole new level. Quirky¹²⁰ allows its users to submit new consumer product ideas that other users then collectively refine and price. Then the company makes and commercializes the products that gathered the most support. In essence, Quirky manufactures consumers’ desires. This approach clearly shows the power of consumer-driven production and shatters the traditional product value-chain hierarchy.

4.3 Customization is king: Opportunities for SMEs

The desire for personalization and increased consumer engagement can have significant repercussions on the way SMEs operate and differentiate their product. To a certain extent, they can also level the playing field between SMEs and multinational companies that rely heavily on outsourcing and economies of scale to gain a price-based competitive advantage.

It has become financially feasible for SMEs to use consumer participation-based business models. With new manufacturing technologies, such as affordable automation and 3D printing, and greater opportunities to interact with consumers through co-creation, SMEs can respond more effectively to consumer demands and better differentiate their value propositions. This can generate long-lasting consumer loyalty.¹²¹

SMEs’ flexibility gives them a certain advantage over larger corporations in using mass customization. SMEs don’t necessarily have to cope with traditional distribution partnerships, which can heavily influence larger corporations’ operations. The perfect example is Levi’s, which let customers buy custom-fitted, mass customized jeans in the mid-1990s. However, it was forced to abandon the project because retailers felt threatened by the new trading model, which they feared would exclude them in the future.¹²²

These issues may continue to stifle the expansion of mass customization for many large corporations that have strong relationships with traditional distribution networks. This, in turn, may allow SMEs to take advantage of the situation by adopting more profitable proprietary-product business models.

4.4 Food for thought: Strategies for SMEs

Striking a balance between increased product personalization and counterproductive variety has been a very costly guessing game for most companies until now. These experiments have often led to value-destroying undertakings. Selecting the features that will truly add value in customers' minds, while limiting unnecessary supply, requires a smart customization approach. This means developing products that deliver on consumers' expectations and do not simply overload them with choices. Such a strategy is critical to avoid cannibalizing current product lines, holding excessive inventory, complicating production and disengaging consumers. That said, smart customization is now attainable, thanks to higher consumer involvement in product creation.

Involve consumers in product creation

By increasing consumer involvement in product design, companies can mitigate some of the traditional risks of new product launches. This does not require a mass-customization strategy. Companies can get customers more involved in developing traditional products through open-innovation tactics, such as crowdsourcing. Providing a platform for users to suggest modifications or simply encouraging customers to provide product feedback can result in tangible and affordable innovation.

Target real consumer needs

SMEs can benefit by offering customers personalization options that enhance the product's functionality (e.g., customized fit), as opposed to purely cosmetic or superficial features (e.g., engraving). Options that do not target real needs will only overload and disengage customers due to the "paradox of choice" phenomenon.¹²³

Optimize SKU levels by focusing on top products

Unfocused customization can create an unsustainable logistical burden that increases production complexity and decreases profitability. SMEs can avoid this by keeping high-volume variants of a product in stock, while offering structured customization to meet other needs and capture full client share.¹²⁴

Reorganize the business model around mass customization

With a premium based on the added emotional attachment that personalization brings, companies can simultaneously maximize margins and increase loyalty. From an operational standpoint, mass customization can help SMEs decrease inventory liabilities, quickly adapt to changing consumer tastes and relocate production to local facilities. This approach allows SMEs to manufacture customized products effectively, quickly and in small batches.

Broaden product line-up with simple personalization options

SMEs can extend their line-up with an approach that satisfies a wider range of customers while keeping costs in line. For a typical company, this could mean offering simple extensions of their basic products. For example, a restaurant could offer a traditional menu but charge a premium to allow customers to modify their meal according to their preferences (e.g., charge 5% more for a gluten-free or allergen-free version of a meal).

5. THE LINGERING EFFECTS OF THE RECESSION

CANADIAN
HOUSEHOLD DEBT-
TO-INCOME RATIO

153%

5.1 A profound and lasting effect on consumption habits

Since the recession, consumers have become more aggressive bargain seekers. According to the recent BDC-Ipsos survey, seven out of 10 Canadian consumers have reduced their spending in some fashion since the recession. Over two in five Canadian consumers now shop around more than they did before the recession. Nearly one-third of Canadian consumers claim they now buy fewer products or services and, when they do, they tend to select more affordable products and services.¹²⁵ The 35-to-54 generation appears to have changed its habits the most since the recession, a reality in line with the fact that wages in this age group have remained relatively stable since 2008. For example, the 35-to-39 age group saw its average annual income increase by less than 1% in real terms between 2008 and 2011.¹²⁶

5.2 Consumer confidence remains weak

In 2013, Canadian consumers remain somewhat sceptical about their economic prospects, with two in five believing that the next five years will bring high unemployment rates and, potentially, a new recession. Meanwhile, only one in 10 Canadians believe that next year will bring positive changes to the Canadian economy. Although these results are widely based on subjective responses, they lead us to believe that Canadian consumers will remain somewhat cautious about their purchasing habits in the near future.

5.3 Low interest rates have spurred high debt levels

Consumers have good reason to remain worried about their economic situation. In 2012, the Canadian household debt-to-income ratio reached an all-time high of around 153%.¹²⁷ Persistent low interest rates, combined with record-high property values¹²⁸ and stagnating personal incomes, have led consumers to keep borrowing beyond their means.¹²⁹ Low interest rates have also affected consumers' perception of long-term debt. For example, nearly three in five new vehicle loans in 2012 had a 72-month term or longer. In 2010, this figure stood at less than two in five, while in 2007, fewer than one in six new car loans had such a term.

In short, consumers have become accustomed to low interest rates and are using debt to supplement stagnating wages. This debt burden and fragile consumer confidence in the economy are spurring consumers' modified consumption habits and their quest for bargains.

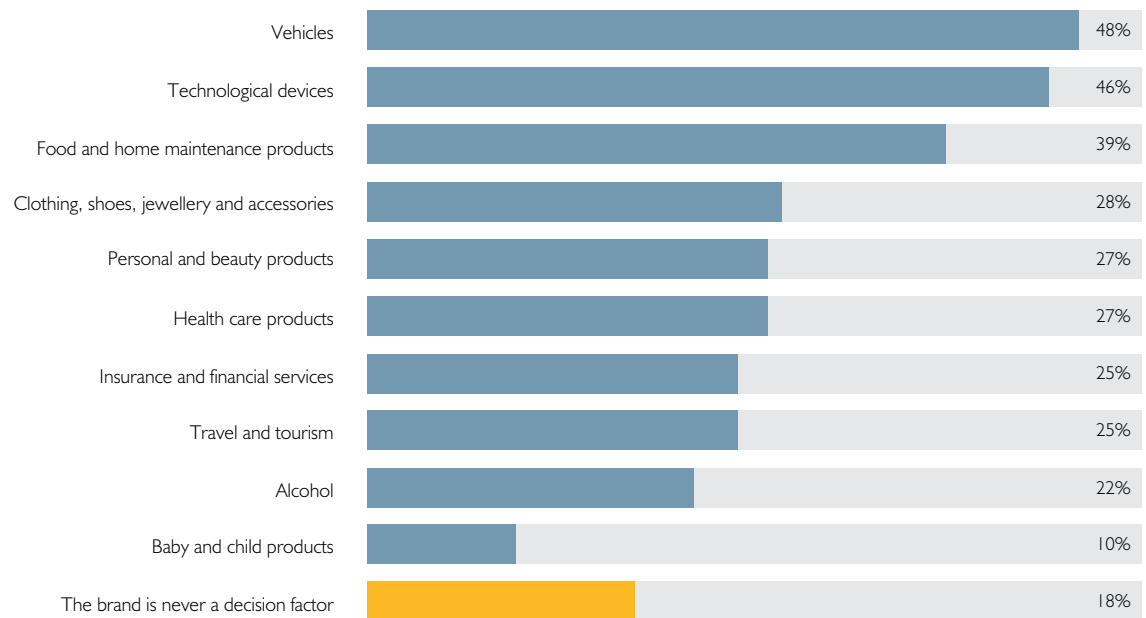
PROPORTION OF CONSUMERS WHO CONSIDER LOWEST POSSIBLE COST THE MOST INFLUENTIAL FACTOR

2/3

5.4 Bargain hunting will remain a popular hobby, both in outlets and online

When making a purchase, nearly two-thirds of consumers consider the lowest possible cost the most influential factor.¹³⁰ This desire to get better value for every dollar has led consumers to become less loyal to brands. The recent BDC-Ipsos survey (see following chart) found that 18% of consumers believe the brand never is an important factor when buying a product or service. Generally speaking, however, the higher the household revenue, the more importance consumers attach to the brand. Nevertheless, this creates an opportunity for SMEs to capitalize on the value and quality of their products, as brand loyalty appears to have a limited effect on most purchasing decisions.

Proportion of Canadian consumers who consider brand an important factor when buying a product or service¹³¹



Value-oriented Canadian consumers use many penny-pinching strategies, led by shopping for sales, using coupons, stocking up during promotions and store hopping for best prices, with buying private label products relatively low on the list.¹³² In 2011, 17% of consumers traded down from a national brand to a less expensive alternative,¹³³ often because they felt they received similar value at a lower price.

5.5 Group couponing has emerged as the thrifty way to make impulse purchases

The Internet allowed consumers to extend the value of each dollar during the recession and has created new purchasing behaviours that are not likely to change in the foreseeable future. Consumers are now used to saving money by purchasing products and services online at discount prices, using price comparison websites, and receiving daily deals and downloadable coupons via email. A clear example of this trend is the success of online group couponing, which allows consumers to save money by using volume-purchasing tactics. Group couponing also benefits companies, as it can be used as a marketing tool to raise awareness and introduce targeted clients to new products and services they might never have tried otherwise.

NUMBER OF
ACTIVE CUSTOMERS
FOR Groupon
(GROUP COUPONS)

40 M

The most popular platform for group coupons is Groupon, which saw its revenues jump from \$312 million in 2010 to \$2.3 billion in 2012. At the end of 2012, the firm had about 40 million active customers.¹³⁴ Currently, seven out of 10 Canadians say they are aware of the online group-couponing phenomenon. About 70% of online daily group deal purchasers claim that buying such deals helps them save a lot of money.^{135,136} It appears that the popularity of this trend will continue to grow. SMEs looking to increase consumer awareness may benefit by using these platforms to market themselves to potential clients.

5.6 The attraction of the sharing economy

A “sharing economy” enables consumers to share or trade goods with other consumers, or to rent what they own to others to lessen a monetary burden. Its advantages are numerous and tangible, explaining why it is becoming increasingly popular. The sharing economy is disrupting traditional notions of consumption and ownership. The idea is simple, but its consequences for businesses could be huge. It has created markets for things that would not have been considered monetizable assets before the recession; individuals can now become mini-entrepreneurs by leveraging some of their hard assets into micro-income streams. This, in turn, allows other users to benefit from hard assets at a fraction of the price of buying them. For example, some people now rent out a part of their house, offer the use of their car or ride-sharing services, or sell their time and expertise on specialized platforms such as TaskRabbit and others. A multitude of sharing platforms now allows users to monetize or acquire practically any asset or service.¹³⁷

The practice is no longer limited to early adopters and has gained momentum in the mainstream. Two in three Americans now perceive the sharing economy as a new trend, nearly half believe it is a great way to generate extra income, and over half think that borrowing or renting someone’s property online is a great way to save money. Many consumers are already part of the new trend, motivated by the money they can make or save, which helps them pay bills or splurge on items or services they could not otherwise afford.

Americans under the age of 35 are more likely to share products and services online; close to one-third of them have already done so. For now, others more likely to use the sharing economy include young men, single people, and those with two or more children. Generally speaking, those who have tried the sharing economy have found the experience positive. Among those who have shared, over half would recommend it to others. This positive feedback may help expand the user base of the sharing economy.¹³⁸ However, the growth of the system could threaten the standard model of doing business.

Over four in five group coupon users claim they have used a business for the first time because of an online group coupon.

5.7 Reverberations of the last recession: Strategies for SMEs

Use group couponing as a marketing tool

The strategic use of group couponing can be a good way for SMEs to introduce consumers to their business and products. Over four in five group coupon users claim they have used a business for the first time because of an online group coupon. A similar proportion say they have tried a product or service that they would not have used otherwise without the coupon. Moreover, over half of these consumers say they are likely to revisit a retailer they discovered via a coupon without using another one.¹³⁹ The development of online daily group deal sites may help retailers and manufacturers reduce advertising budgets while reinforcing brand and product awareness. For SMEs, however, the cost of group couponing could outweigh the benefits, if they do not make a profit on initial transactions due to service fees or high rebates.

Create opportunity through a sharing economy model

According to Forbes magazine, the revenue flowing from the sharing economy will reach US\$3.5 billion in 2013. This trend allows SMEs to offer flexible acquisition options for their products or create new types of business models. The most successful sharing economy companies (such as Airbnb, a travel rentals leader, and Zipcar, a car-sharing service) are good examples. The trend is likely to gain momentum; if consumers see the sharing model as a source of additional income, the availability of products on these platforms will continue to grow. SMEs can capitalize on some of the other driving forces behind this phenomenon, including the desire to acquire luxury items at low prices and to have access to items only when they are needed (known as usage micro-segmentation).

CONCLUSION

Emerging consumer trends create new opportunities for businesses

Innovative market positioning generally emerges in response to new customer groups, changing consumption needs, societal shifts, new technologies, emerging distribution channels or innovative production capabilities. Businesses can take advantage of new trends and develop unique value propositions by identifying and targeting groups of consumers whom their competitors may overlook. The objective of this report was to highlight some emerging consumer trends to help SMEs seize these opportunities.

Keep in mind that not all trends can or should be pursued at the same time. In some cases, the decision to adopt them may require a so-called “straddling strategy,” where a company simultaneously competes on dual fronts. This could erode a company’s unique value proposition and affect profitability. It’s a situation that often occurs when established companies try to adapt emerging business models to incompatible core activities.

Deciding which trends to follow largely depends on whether they dovetail with a company’s current activities. Obviously, the goal is to enhance value, not destroy it. With this in mind, some trends are substantial enough to merit the attention of all companies.

Below are the key takeaways from this research.

- I. **Engage customers in a closer dialogue.** Understanding one’s customer remains the key to success. By building a dialogue, SMEs can effectively communicate their value proposition, create a better understanding of consumer needs and encourage customers to share their opinions. The goal is to increase consumers’ engagement in product development. Any type of organization in any industry can adopt a customer-centric approach. Without a closer constructive relationship with their clients, SMEs could find themselves at a competitive disadvantage. Here are some suggested approaches that can help to engage clients.
 - > **Encourage** and monitor online consumer reviews. Since the positive or negative experiences of other users often shape purchasing decisions, monitoring and responding to this feedback is vital.
 - > **Use** online platforms to engage customers and make it easy to share ideas. Engaging consumers in the creation of new products can help companies better understand market demands and reduce development risks.
 - > **Allow** customers to modify or customize products. These measures do not necessarily require a massive investment in equipment and production processes, as long as consumers feel empowered by the choices and they enhance the product’s functionality.
 - > **Investigate** the potential of analytics. Analytics are not just “big data.” SMEs can use free and accessible tools on platforms such as Facebook, Google’s Search Trends or Twitter to gauge general consumer metrics¹⁴⁰ before investing in more sophisticated, yet still affordable, custom solutions that will deliver a better understanding of their clients’ needs and behaviour.

The key to success is to be proactive. SMEs should try to conceive new ways to compete by leveraging these changes and aligning them with their core business strategy.

Exploring potential trade-offs that will make it difficult for other firms to imitate value-creating activities remains the goal of every successful strategy. SMEs can achieve this goal by avoiding imitation and trying to discover unique market positions that established competitors may have overlooked or under-served.

2. **Understand the factors that are reshaping the way consumers perceive value.**

The evolving needs of societies—due to cultural, demographic and economic shifts—often bring the most profound changes in consumer behaviour. For SMEs, it's important to figure out how to embrace these changes. The new post-recessionary frugality, an aging population that is more health conscious and the proliferation of accessible technology are some of the new forces reshaping consumption decisions. The following three trends are likely to have an important impact going forward.

 - > **Economic** concerns continue to linger in consumers' minds. The age of frugality is creating opportunities for new business models that offset the risks of acquisition and ownership. As consumers get on board with models such as the sharing economy and aggressively seek bargains, businesses can consider flexible models that maximize the perceived value of products, and minimize acquisition and ownership costs.
 - > **Social and environmental** policy statements alone are not enough. To gain consumer trust, companies must clearly communicate tangible, measurable actions they have taken, and the results. Offering transparent information about sourcing, and emphasizing the "local" or ethical aspects of products, can often influence consumers' purchasing decisions.
 - > **Health** concerns are on the rise across the board. For consumers, health awareness is no longer limited to recognizing that a healthy diet and physical activity are important. It now affects all consumer businesses. Companies that can adapt their products to these concerns are likely to generate positive reactions from customers and position themselves favourably in the marketplace.
3. **Emphasize the value of their products.** The full value of a product may not always be apparent to consumers. The strategies outlined in this report offer insights that can inspire companies. To generate meaningful returns, they must be accompanied by effective communication with customers. Some of these strategies may already be part of a firm's operations, but unless they are clearly highlighted and communicated, they are not creating value for the company.

To achieve a meaningful connection with clients, it's essential to get the fundamentals right. The importance of a proper online presence cannot be overestimated. Customers' first point of contact with a business will likely be through an online channel. They will also likely conduct any further research about a product this way. As a result, companies need a multi-platform online and offline presence that provides accurate information and convenient ways to buy the product, and engages consumers with more than static boilerplate information. The goal is to get the message out about the value a product offers through the communication channels that resonate most with a specific client segment. The following key aspects should be emphasized wherever possible.

- > The fact that the product is **made in Canada** or locally, or that other value chain-related activities—such as design or R&D—are done locally. All of these can lead to premium product positioning.
- > **Ethical and environmental** features of the production process need to be measured in tangible ways and clearly displayed on products. Consumers are becoming more conscious of these aspects and are willing to spend more for ethically produced and eco-friendly products.
- > **Health-related** benefits of products, such as low toxicity, or research-backed results that link the product's ingredients to health benefits, should be clearly communicated, as they can be key differentiators.

NOTES

1. Euromonitor International. GMID proprietary database (August 2013).
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5. Media Technology Monitor. Data Analysis Tool available at www.mtm-otm.ca. 2013. 63% of Internet users use Facebook and 20% use Twitter.
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7. Euromonitor database (2013) / BDC-Ipsos proprietary survey (August 2013).
8. BDC-Ipsos survey (2013). Individuals making between \$60,000 and \$100,000 (52%), and Ontario residents (50%), are the biggest users of online product reviews.
9. Boston Consulting Group. *The Internet Economy in the G20* (March 2012). Page 15. This statement is based on historical three-year sales growth for 4,700 SMEs. A "strong Web presence" means companies use a wide range of Internet tools to market, sell, support customers, interact with suppliers and empower employees. A "weak Web presence" means companies have only a website.
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11. Bright Local. *Local Consumer Review Survey 2013* (June 2013). Page 6. This survey includes U.S., Canadian and U.K. consumers.
12. Nielsen (2012).
13. Google Shopper Marketing Agency Council. *Mobile In-Store Research* (April 2013). Page 9.
14. BDC-Ipsos survey (2013). Other searches include health care products (35%), food and home maintenance products (29%), personal and beauty products (25%), baby and child products (15%), and alcohol (6%).
15. BDC-Ipsos survey (2013) for the % of consumers and Euromonitor GMID proprietary database (2013) for the financial figures. Other categories that consumers purchase online include personal and beauty products (21%; \$114 million), health care products (19%; \$40 million), baby and child products (14%; \$67 million), insurance and financial services (13%; financial figures not available), food and home maintenance products (12%; \$281 million), vehicles (6%; financial figures not available) and alcohol (1%; financial figures not available). Other categories (not measured in the BDC-Ipsos survey) that consumers buy online include consumer appliances (\$284 million), furniture and housewares (\$128 million), home improvement and gardening products (\$2.6 million), and other products sold online (\$980 million).
16. BDC-Ipsos survey (2013).
17. Google-Ipsos OTX Media CT. (July 2013). Page 29.
18. Deloitte proprietary analysis (2013). Other notable items on which consumers compare prices include baby care (62%), household care (58%), pet care (51%), and health and beauty items (46%).
19. Motorola Solutions. *What's driving tomorrow's retail experience?* (2012). Page 4.
20. BDC-Ipsos survey (2013). Early adopters are consumers aged 18 to 34 who visit social media websites at least once a week. Consumers earning \$100,000 or more per year are more likely to participate in showrooming (16%) than those who earn less than \$40,000 (13%), \$40,000 to \$60,000 (9%), or \$60,000 to \$100,000 (10%).
21. Deloitte proprietary analysis of Google's *Our Mobile Planet* dataset (2013). 19% use smartphones to make purchases.
22. Google-Nielsen. *Mobile Search Moments* (March 2013). Page 23. Conversions take place in the following proportions: within less than an hour (55%), one to five hours (26%), five to 12 hours (7%), 12 to 24 hours (8%), and over 24 hours (4%).
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26. Euromonitor GMID Database (2013) / Canadian Grocer. *The man from Grocery Gateway, Canadian Grocer Magazine* (July 30, 2013). Grocery Gateway is the only successful online grocery delivery service in Canada, with 30,000 active users. Data from Euromonitor indicate that globally, 8% of the population buys groceries online at least once per week. Chinese Internet users have the highest rate (16%). According to Canadian Grocer (2012), 43% of Canadian grocery retailers did not consider e-commerce a part of their future strategy in 2012, while 57% were doing research to assess whether it was worthy of investment.
27. Deloitte proprietary analysis of Euromonitor database (2013). Examples include well.ca (0.7% of Canadian market share), shop.ca, SSENSE, Frank and Oak, eLUXE, Beyond the Rack, and Canadian Icons.
28. Euromonitor database (2013).
29. Nielsen. (2012). Page 3.
30. BDC-Ipsos survey (2013). 31% of all respondents were willing to pay a premium. The demographics most willing to pay a premium were people with an active lifestyle (43%), aged 18 to 35 (34%), or with a university education (36%).
31. Ibid. Page 5.
32. Ibid. Page 2.
33. Grant Thornton. *Managing Through Uncertainty: Food and Beverage Industry in Transition*. Toronto (2011). Page 10.
34. Business Monitor International. *Canada Food and Drink Report Q4 2012*. London, U.K. (2012). Page 35.
35. Lempert, Phil. *Top Ten Food Trends 2013*. www.factsfiguresfuture.com/issues/december-2012/top-ten-food-trends-2013.html.
36. Public Health Agency of Canada. *Diabetes in Canada: Facts and figures from a public health perspective*. 2011. Page 5. In 2007-09, 23.9% of adults aged 18 years or older were obese according to measured weight and height.
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38. Markets and Markets. *Global Weight Loss and Diet Management Products and Services Market (2010-15)* (February 2011). Page 11. The device and accessory market, estimated at \$143 billion in 2010, is expected to reach \$247 billion by 2015.
39. Ibid. The global weight loss and diet management products and services market was worth \$390.3 billion in 2010 and is estimated to reach \$671.8 billion by 2015 (for a 2010-15 compound annual growth rate of 11.5%).
40. Deloitte proprietary analysis (2013). Examples of products include Fitbit One, Jawbone UP, Wahoo Fitness, Weight Watchers ActiveLink, Nike+ FuelBand, Scanadu and uChek.
41. Ibid. Examples of features include online services that offer leaderboards, sharing and other motivational tools.
42. Research 2 Guidance. *Mobile Health Market Report 2011-2016 (volume 2)* (2012). Page 6. Global revenues for mobile health care applications were \$104 million in 2010, \$718 million in 2011, and \$1.3 billion in 2012.
43. Ibid. Page 19. Currently, there are 97,000 smartphone applications in the major app stores, with 42% of them adhering to the paid business model.
44. Ibid. Page 8. Worldwide revenues in the smartphone-assisted health care sector are expected to reach \$26 billion by 2017.
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51. Deloitte analysis of Euromonitor database (2013). These figures are based on per capita expenditure on health and wellness-related food and beverage products, health and welfare consumer products, wellness services, and sports apparel and footwear.

52. BDC-Ipsos survey (2013). 31% of all respondents are willing to pay a premium. The people most willing to pay a premium are those with an active lifestyle (43%), aged 18 to 35 (34%) or with a university education (36%).
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56. Deloitte proprietary analysis (2013). Examples include products from Focal Upright Furniture and the Variér Active chair.
57. Bennett, Drake. *Kill Your Desk Chair and Start Standing*, [Bloomberg Business Week](#) (June 28, 2012).
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60. Euromonitor, Global Survey Database (2012). This survey included 16,000 online consumers ranging in age from 15 to over 65, living in eight major markets: Brazil, China, France, Germany, India, Japan, the U.K. and the U.S.
61. Abacus Data. [Ethical Consumerism and Canadians](#) (Corporate and Community Social Responsibility Research Series – Part II) (2011). Page 5. An ethical consumer is defined as "someone who shops for products and services that they consider to be made ethically (i.e., with minimal harm to, or exploitation of, humans, animals and/or the environment)." 42% of respondents do not consider themselves ethical consumers. Women (64%), Canadians aged 45 to 59 (60%), and Canadians aged 60 and up (70%) were the most likely to consider themselves ethical shoppers.
62. Ibid. Page 8. The question was based on a hypothetical \$100 item (e.g., three in ten would be willing to pay \$115 for a \$100 item).
63. BDC-Ipsos survey (2013). 35% of respondents made no specific efforts to buy such products. 30% said they were willing to pay more to buy a locally-made product.
64. Ipsos. Survey conducted in the U.S. for RetailMeNot.com among 1,016 panellists (April 4-6, 2012). Of those surveyed, 34% said it makes no difference whether a product is environmentally friendly or not.
65. Synovate. Global Trends Survey conducted among approximately 22,000 people across 28 countries (April 2011).
66. Ipsos' survey for RetailMeNot (2012). 59% would be unwilling to pay a higher price.
67. Deloitte proprietary analysis of Ipsos' InnoQuest survey (February 2013). Globally, consumers were willing to pay more for the following: packaging that keeps food fresh longer (55%), environmentally friendly packaging (55%), reusable packaging (42%), easy-to-use packaging (39%), packaging that prevents mess or spills (34%), packaging that keeps food and beverages at the right temperature (33%), and packaging that makes it easier to eat and drink on the go (31%). South Africans, Malaysians and Indians were the most likely to say they would pay more for packaging that keeps food fresh longer; Mexicans, South Africans and Indonesians were the most likely to say they would pay more for environmentally friendly packaging.
68. BDC-Ipsos survey (August 2013).
69. BMO Financial Group-Pollara. [BMO Food Survey](#) (third annual edition) (June 14-17, 2013).
70. Pringle, Anthony. [The Power of Purchasing: The Economic Impacts of Local Procurement](#). Columbia Institute, LOCO BC, and ISIS Research Centre (May 2013). Page 5. The results of this study show that the locally owned B.C. office supply company, Mills Basics, recirculates 33.1% of its revenue directly to residents and businesses in B.C., compared to between 16.6% and 18.7% for their multinational counterparts (OfficeMax and Staples).
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73. Ibid. The complete figures are as follows: B.C. (63%), Alberta (65%), Saskatchewan and Manitoba (51%), Ontario (62%), Quebec (73%), and Atlantic (72%). Consumers 55 and older (74%) are more likely to buy local or Canadian-sourced products than are consumers aged 35 to 54 (65%) or 18 to 34 (55%).
74. Deloitte proprietary analysis (2013). These incidents include the e. coli outbreak at XL Foods (2012); listeriosis at a Maple Leaf facility (2009); traces of horse meat in European beef products (2012); the "pink slime" debate in the U.S. (2012); organic egg fraud in Germany (2013); radioactive beef in Japan (2011); and a series of scandals in China involving, for example, rat meat, tainted baby food, artificial honey and chlorine-tainted Coca-Cola.
75. Abacus Data (2011). Page 7.
76. Ipsos Canada. [Food Safety Survey for Postmedia News and Global Television](#) (October 2012).
77. Deloitte analysis of Euromonitor's 2011 Global Consumer Survey database (2013).
78. BDC-Ipsos survey (2013). Consumers 55 and older (52%) are the most likely to consider a product's local source as an important factor when deciding what to buy.
79. Abacus Data (2011). Page 7. 31% say they would pay at least a 15% premium, while 64% say they would pay at least 5% more.
80. Ibid. Page 6.
81. Ibid. Page 4. 69% of Canadians said they would be willing to pay more money for a meal at a restaurant if all the ingredients were grown locally. Page 6. One in four said they would pay less than \$5 more while 31% said they would pay between \$5 and \$10 more. Overall mean was \$6.98.
82. Cone Communications-Echo Research. [2013 Global CSR Study](#) (2013). Page 35. 62% of global consumers use social media to engage with companies, 34% of them have shared positive information about company issues with the people in their network, 26% have shared negative information about companies and issues they care about in their network, and 16% have directly communicated with companies using social media.
83. Ibid. Pages 24-25.
84. Theuws, Martje et al. [Fatal Fashion. Analysis of recent factory fires in Pakistan and Bangladesh: a call to protect and respect garment workers' lives](#). Clean Clothes Campaign-SOMO (March 2013). Page 11. Bangladesh is the world's second-largest apparel producer after China, with \$17 billion in exports per year and 5,000 factories. Of the country's 3 million apparel workers, 80% are young women making, on average, \$37 per month, working 12 to 16 hours a day, six days a week.
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87. PR Newswire. [More Canadians would pay extra for products free of child labour, shows poll](#) (June 10, 2013). Based on a World Vision Canada-Ipsos survey conducted between May 10 and 17, 2013.
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91. Stephenson, Correy. *Washington Plaintiffs suing over 'all natural' claims on the rise*, [The Daily Record Newswire](#). LegalNews.com (April 9, 2012).
92. Cone Communications-Echo Research study (2013). Pages 24-25.
93. Ibid. Page 32.
94. Ibid. Page 31. 63% say they don't know where to find information about a company's CSR efforts and results.
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98. Manyika, James et al. [Manufacturing the future: The next era of global growth and innovation](#). McKinsey Global Institute (November 2012). Page 73.
99. Gladwell, Malcolm. [What The Dog Saw](#). Little, Brown and Company (2009). Page 432. This diversified product approach originally gained popularity in the 1980s, thanks to research done by Howard Maskowitz, whom Campbell Soup hired to help turn around sluggish sales of its Prego pasta sauce. His research revealed there is no such thing as a perfect product that can satisfy all consumers. He suggested that companies should instead try to cluster their customers in order to understand what features will satisfy each group and develop a product variation that matches those preferences. This research led companies to progressively extend their product lines to satisfy various customer clusters.
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114. "Showrooming" refers to an emerging behaviour that leads consumers to use local retail stores as showrooms where they can touch and view products that they later buy online.
115. Campbell, Alex. *The peril of 'showrooming'*. *BBC News* (April 20, 2013). The fee is taken off the bill when someone buys something.
116. Fox, Michael. *Net Promoter Score*, 22 Michaels online blog (June 11, 2013). 83% of customers who make a purchase with Shoes of Prey give the company a rating of 9 or 10 out of 10.
117. Lapowsky, Issie. *How Warby Parker Reinvented Retail*, *www.inc.com* (December 2012). Most of the showrooms are between 600 and 1,500 square feet.
118. Lacy, Sarah. *Nice pants: Bonobos raises \$30m off of strong growth and Nordstrom deal*, *www.pandodaily.com* (March 13, 2013). Warby Parker in New York, with 600 square feet of showroom space, grossed \$2.5 million in 2012.
119. *US Retailers Benchmark Report 2012*, *www.retailsails.com* (November 2012). Top chain retailers, in terms of sales per square foot per year, are as follows: Apple (\$6,050), Tiffany (\$3,017) and Lululemon (\$1,936).
120. Users pay \$99 to submit their idea. Quirky then uses a community-based product development approach to evaluate demand for the product. If the product appears to generate sufficient demand, a prototype is produced and then turned into a mass-produced product.
121. *Manufacturing: The third industrial revolution*, *The Economist* (online edition) (April 21, 2012).
122. McKenna, Regis. *Real time marketing*, *Harvard Business Review* (July 1995), and Graeml, A.R. *Customization in the manufacturing industry*, *Journal of Information Systems and Technology Management* (vol. 6, no. 3) (2009).
123. Wilson and Schooler (1991). More shoppers stopped at the display when there were 24 jams. But when it came time to buy, 30% of those who stopped at the table with six jams bought a pot, while merely 3% of those who faced a selection of 24 jams did so. Similar observations were made in subsequent studies involving other consumer products.
124. Booz & Company. *Smart Customization Profitable Growth through Tailored Business Streams* (2003). On average, Smart Customizers are twice as likely to have growth rates and profit margins above the industry average. Conversely, Simple Customizers are five times as likely to have growth and profit margins below the industry average, since the forces of both customer disengagement and excessive product complexity are working against their success. Note: Smart Customizers offer options that increase the functional aspects of the products and do not overburden users with senseless options. Average and Simple Customizers offer basic options that do not offer much functional value.
125. BDC-Ipsos survey (2013). The 35-to-54 age group appears to have transformed its consumption habits the most since the last recession and now takes a more cautious approach toward spending. Over half of the people in this group claim to shop around more to find the best deals, and two in five buy fewer products or services, or choose ones that cost less. Conversely, the 18-to-34 age group was the least affected by the recession, with only 23% stating it had no impact on their spending habits.
126. Deloitte analysis of Euromonitor GMID database (2013). Income has been adjusted for inflation.
127. Statistics Canada. *National balance sheet and financial flow accounts* (first quarter 2013).
128. Sauvé, Roger. *The Current State of Canadian Family Finances 2011-2012 Report*. The Vanier Institute of the Family (March 2012). Page 24. The ratio of the average house price to disposable income was 3.2 to 1 in 2000. In 2011, the ratio of the average house price to disposable income was 5.1 to 1. For example, it now can take up to 15 years for the average person aged 25 to 34 to save the necessary 20% deposit required to qualify for a mortgage on the average home in British Columbia, whereas it took just five years in 1976.
129. Deloitte analysis of Euromonitor GMID database (2013). Home equity extraction has become one of the main drivers of household debt for many families. It now accounts for over 10% of all new consumer debt and 13% of Canada's domestic bank loans. Even with mortgage debt removed from the equation, consumer debt in Canada rose by nearly 25% per capita between 2007 and 2012, reaching C\$14,024 per Canadian in 2012, up from C\$11,286 in 2007. Meanwhile, the opposite has occurred among U.S. consumers, with outstanding non-mortgage consumer debt declining 2.6% between 2007 and 2012, falling from US\$12,165 per capita in 2007 to US\$11,840 per capita in 2012. These figures are calculated in terms of consumer credit, which is defined as non-mortgage consumer debt extended to individuals for personal or household use, including instalment loans and credit cards. Examples of consumer credit include auto loans, card loans, durables loans, education loans, home equity loans and other personal loans.
130. BDC-Ipsos survey (2013).
131. Ibid.
132. Allison, Carman. *Canadian Private Label. The Value Alternative*. Nielsen (2011). Page 2. Even with \$11.6 billion in sales and nearly 100% market penetration, Canadian private label products had market growth that lagged behind total market growth as of August 2011.
133. Cloos, Putney et al. *Healthy, wealthy and (maybe) wise: The emerging trillion-dollar market for health and wellness. Consumer and Shopper Insights*. McKinsey & Company (May 2012). Page 2. 93% opted for private label/store brands, 75% reported they no longer preferred the more expensive brand and 55% said the less expensive brand was better than they expected.
134. Groupon Investor Relations. *Groupon Announces Fourth Quarter and Fiscal Year 2012 Results* (February 2013).
135. Synovate Canada. *eNation survey report* (September 2011). Awareness was highest in Ontario and lowest in Quebec. Note 2: Food and beverage is the most popular category, bought by 44% of consumers who have ever purchased from a daily group deal site. Beauty and spa was the second most popular category (21%), followed by sports and recreation (16%), and arts and entertainment (15%). Men were more likely to purchase food and beverage, and sports and recreation, deals. Women showed a higher preference for beauty and spa deals.
136. Ipsos. *Canadian Inter@ctive Reid Report* (September 2011).
137. Deloitte proprietary analysis (2013). Examples include RelayRides, Sidecar, Parking Panda, iamExec, DogVacay, Rentoid, SnapGoods, ScootNetworks, Timerepublik, WeWork, ParkatmyHouse, spinlister, getaround, peers.org and collaborativeconsumption.com.
138. Ipsos. *Public Affairs Survey US* (May 2013).
139. Synovate. *eNation survey* (2011).
140. Deloitte analysis (2013). Data analytics can help small and medium-sized companies better understand which factors drive consumers toward a purchase. Understanding how clients find a business, why some return and others don't, and which products are bought by whom and when can allow companies to develop optimized business strategies that minimize costs and help the company acquire and retain clients. Although most analytical tools are aimed at large companies, new solutions for smaller companies are increasingly available. Examples include Canopy Labs, Rinku.co and Google Analytics (for online sales).

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