

Canadian e-Commerce Trends & Click to Pay:

A New Way to Check Out Online



Deloitte.



Executive Summary

The shift to e-commerce from face-to-face commerce has evolved considerably over the course of the pandemic. Economies around the world are starting to reopen, but roughly 20–30% of the COVID-related shift to e-commerce is expected to be permanent. Relative to several comparable economies, Canada has seen a greater retention of that shift towards e-commerce. The Canadian e-commerce market grew to \$94 billion in 2020 and is expected to grow to \$158 billion by 2025.

To understand the Canadian consumer's perspective on e-commerce, Deloitte and Mastercard conducted a national survey of Canadian consumers in the third quarter of 2020. The survey questions were formulated to understand consumers' purchasing habits, payment preferences, credit card usage drivers and their current online checkout experiences. The survey was also used to introduce consumers to Click to Pay – the secure, easy way to check out online.

Regarding online purchasing habits, Canadian respondents preferred to use a PC device (48%) over smartphones and tablets, and they preferred to use web browsers (64%) over apps for majority of their online purchases.

Credit cards are the most popular payment method in the e-commerce channel, making up approximately 78% of e-commerce spend. 71% of respondents indicated rewards as the key driver of their credit card usage.

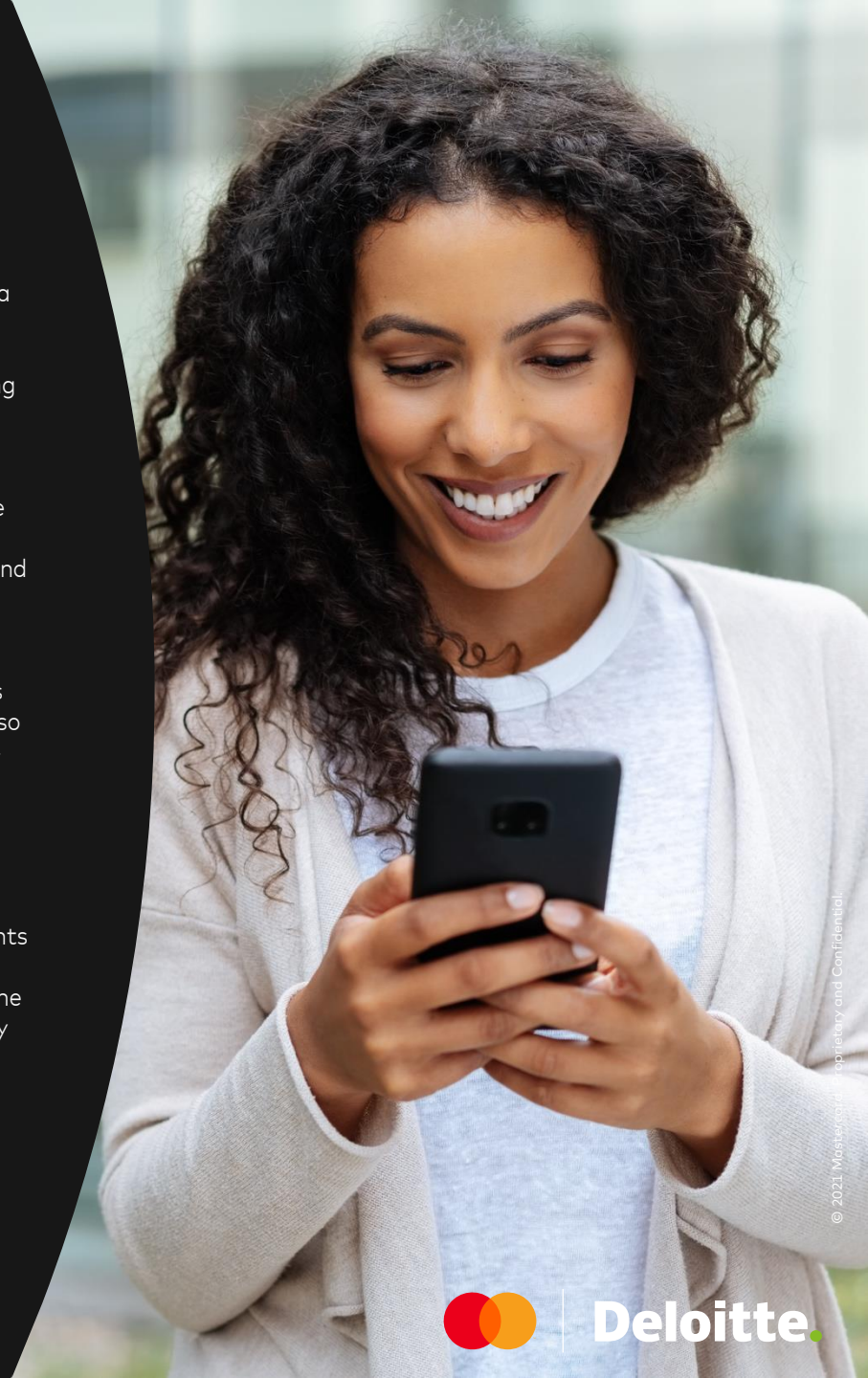
Cart abandonment continues to be a pain point for the e-commerce industry, driven by the cost of shipping, lack of payment options, number of clicks to purchase and perceived security and fraud risks. 51% of e-commerce spend is estimated to still occur through a manual entry process rather than a process of storing personal and card information to create a card on file (35%) or a digital wallet (14%).

Mastercard and other major payment networks in Canada are participating in the global expansion of Click to Pay, which is based on EMVCo standards and designed to enhance the e-commerce checkout experience by delivering security, convenience and control for all stakeholders involved.

Click to Pay earned high scores across key elements of the value proposition, especially on simplicity (92%), minimal clicks (93%), security/fraud and trustworthiness (93%), and consistent experience between devices (89%).

Click to Pay provides a fast, simple and reliable user experience with intelligent security that allows consumers to check out with just a click of the button. Click to Pay also makes it possible to incorporate a variety of value-added-services within Click to Pay, elevating the online checkout experience across the board for consumers, issuers, payment service providers, as well as merchants.

As e-commerce continues to grow, the digital payment landscape will become more competitive, with new entrants and payment options on the horizon. Click to Pay aims to provide a better online checkout option and is already in the market today, balancing intelligent security with simplicity and control and reducing cart abandonment, which increases merchants' sales and purchase volumes and engagement with issuers.



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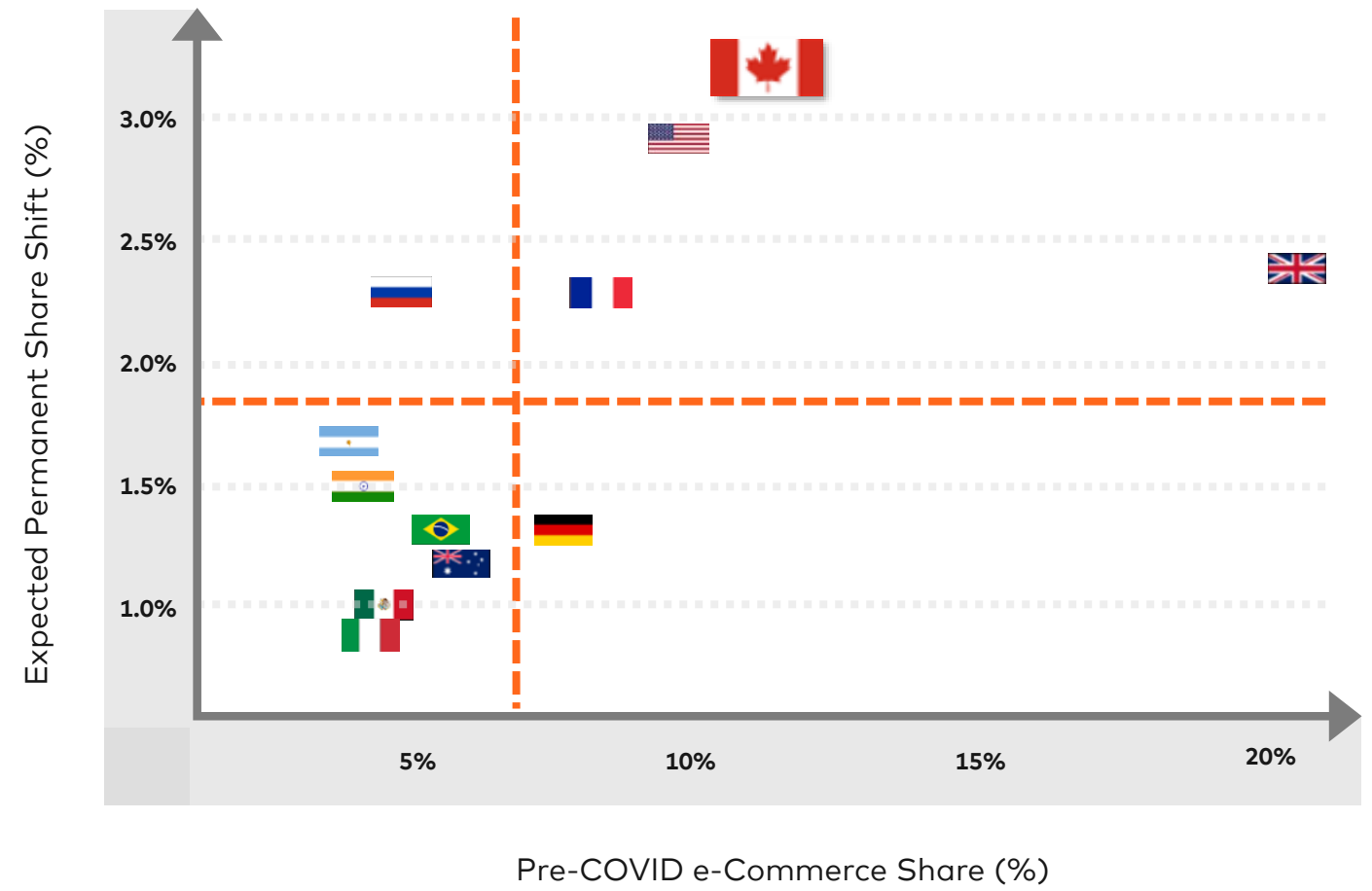


Global & Canadian e-Commerce Landscape

A new era of Canadian e-commerce is here, driven by new consumer and merchant needs along with emerging technologies. Globally, e-commerce sales grew to \$4.2 trillion in 2020 and made up approximately \$1 out of every \$5 spent on retail, up from about \$1 out of every \$7 spent in 2019.¹

Prior to the pandemic, Canada's e-commerce retail sales were estimated to be 12.2%. This figure peaked to 25% during the pandemic and levelled off to 15% in January 2021, as shopping in face-to-face environments resumed.² As economies around the world reopen, roughly 20–30% of the COVID-related shift to e-commerce is expected to be permanent. Relative to several comparable economies, Canada has seen a greater retention of share shift towards e-commerce.²

Digitally Advanced Economies e-Commerce Share Shift¹



Sources:
 1. *E-Commerce a Covid lifeline for retailers with additional 900 billion spent online globally.* Mastercard recovery insights, April 6, 2021

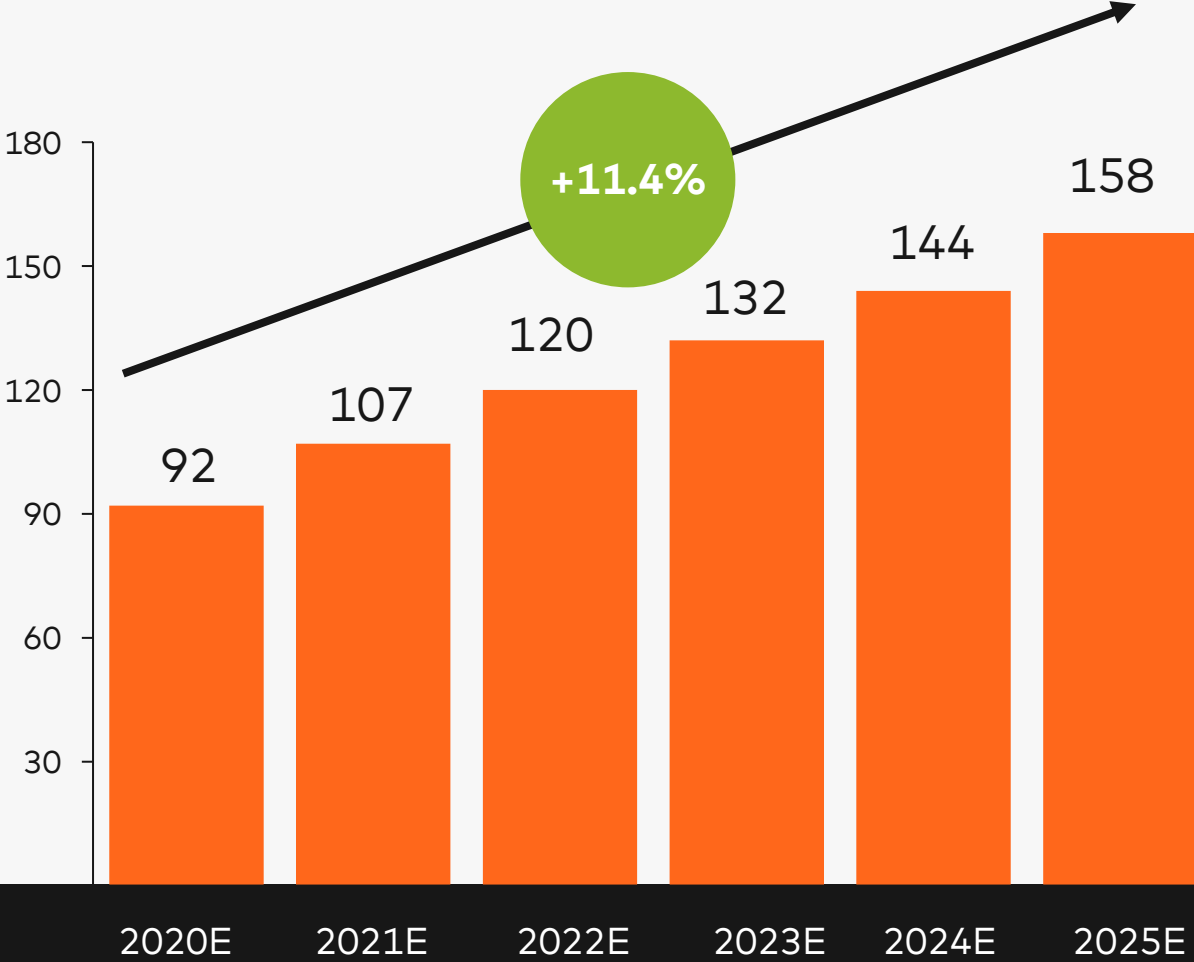
2. *Canadian Consumer eCommerce Sales (\$).* Deloitte Analysis, eMarketer, Capital IQ, Thompson One, Statista, Bank of Canada, Juniper Research, Corporate Annual Reports, July 2021

Global & Canadian eCommerce Landscape

The Canadian e-commerce market was estimated to be \$94 billion in 2020 and is expected to grow to \$158 billion by 2025 at an 11% CAGR.¹ Within e-commerce, Marketplaces drove a significant portion of growth, in addition to Online Grocery, Food Delivery and Digital Media.

Going forward, Marketplaces and Online Grocery are expected to retain a significant portion of the payment shift towards e-commerce, while the other industries normalize. Travel and tourism has historically represented over \$18 billion worth of e-commerce spending and is expected to continue its recovery back to pre-COVID levels well before 2025.¹ Looking ahead, several notable sectors are projected to achieve outsized growth: Social Commerce, the Internet of Things (IOT), Online Food Delivery, and Grocery.

Canadian Consumer e-Commerce Sales (\$)¹

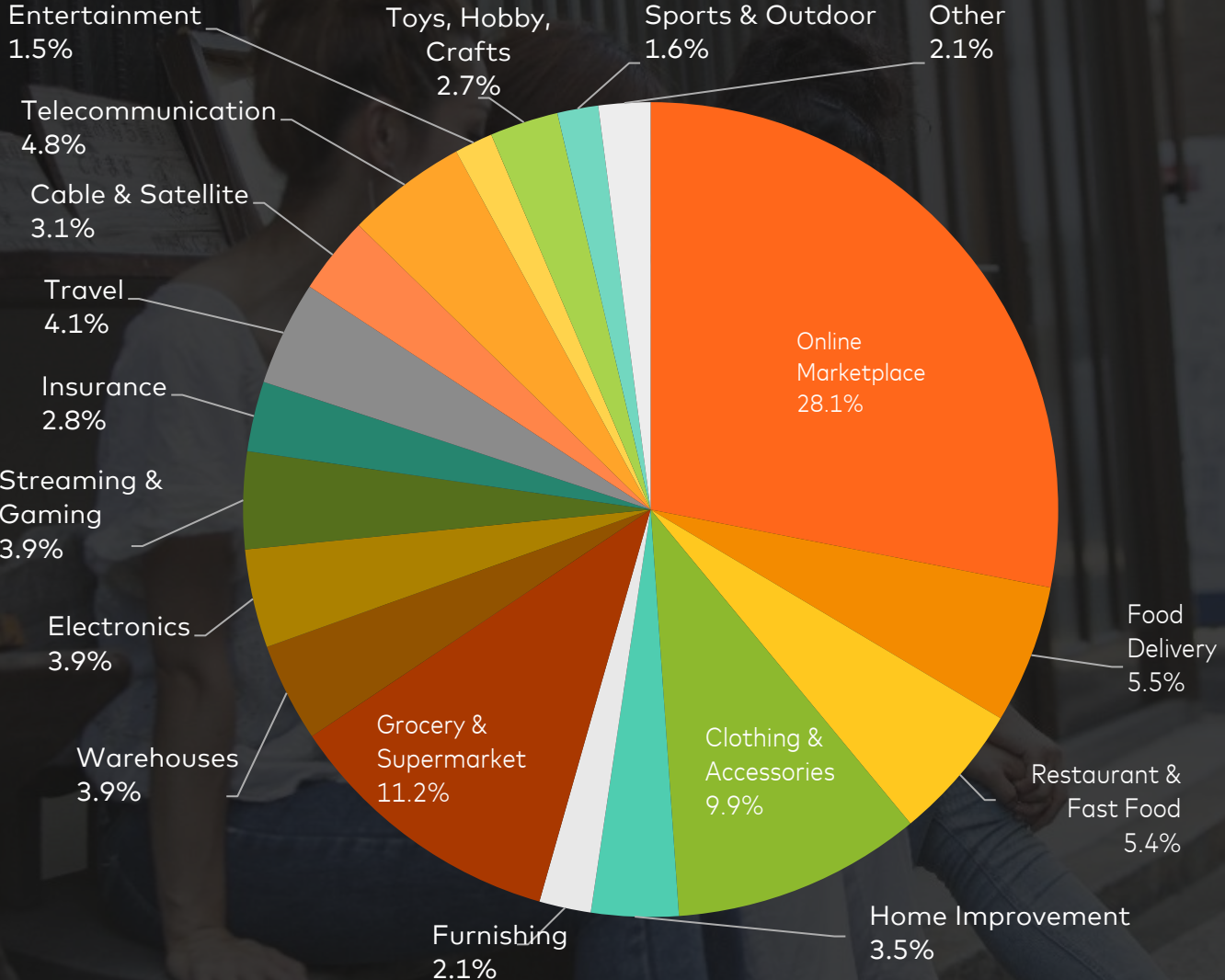


Source:
1. Canadian Consumer eCommerce Sales (\$), Deloitte Analysis, eMarketer, Capital IQ, Thompson One, Statista, Bank of Canada, Juniper Research, Corporate Annual Reports. July 2021

What Canadians Are Buying Online

During the pandemic, Canadians are not only spending more online but their spend categories are also evolving. In our survey, respondents indicated that 28.1% of their online spend was with Online Marketplaces, followed by Grocery & Supermarket at 11.2% and Clothing & Accessories at 9.9%.¹ Food delivery has also become a significant spend category, on par with Restaurant & Fast Food, as well as Home Improvement, and Furnishing.

Online Spend by Category¹

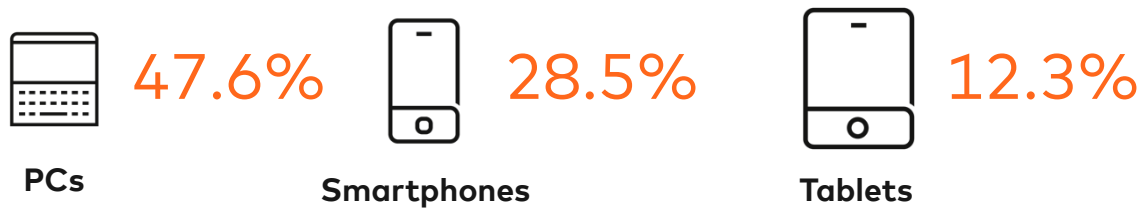


Source:
 1. "Online Spend by Category", Based on Deloitte's 2020 National Canadian eCommerce survey responses to the question: (A9) Please enter approximately what percentage of your total monthly online spending is for each of the following categories, August/September 2020

How Canadians Make Purchases Online

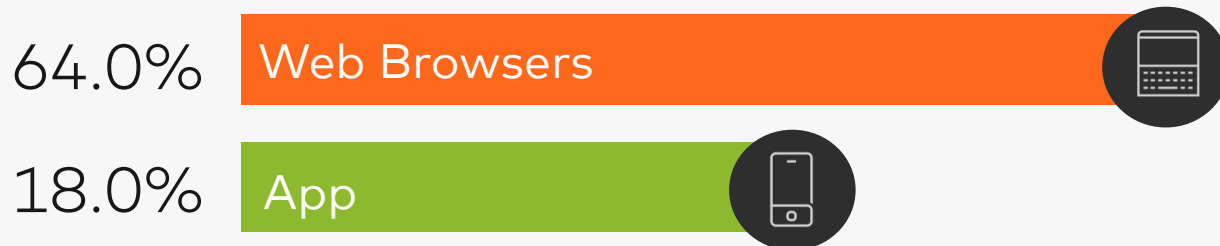
To uncover insights into the evolution of Canadian online purchasing habits, Mastercard and Deloitte conducted a survey of consumers in Canada in the third quarter of 2020. This survey covered a range of topics, beginning with how Canadians make purchases online. In our survey, 47.6% of respondents indicated they preferred using a PC device for online shopping, 28.5% preferred using their smartphones and 12.3% preferred their tablets.¹

Online Shopping Device Use Frequency¹



Online shopping via smartphone is mainly driven by Generation Z (18-24), millennials (25-44) and Generation X (44-54); PC device usage is evenly split between major age group segments. Driven by consumer preference for PCs, most purchases are being completed using web browsers as opposed to mobile applications.

Channel Use Frequency for Shopping Online¹



Sources:

6 1. "Online Shopping Device Use Frequency", Based on Deloitte's 2020 National Canadian eCommerce survey responses to the question: (A10) Which of the following devices do you typically use when shopping online? (A11) Which of the following methods do you typically use when shopping online? August/September 2020

Consumer shopping habits continue to evolve, driven largely by the advancements of emerging technologies. Social platforms, the Internet of Things (IoT) and Voice Assistants have influenced the way consumers interact and engage with purchasing devices. These advancements make the purchasing and payment process more seamless than before. In the years to come, we expect the way that Canadians make purchases online to continue to evolve.

Emerging Areas of Growth



Social Commerce

In Canada, 60% of time spent online is used to engage on social media, and 86% of Canadians interact with businesses through different social channels.¹ The Canadian social commerce market is expected to grow more than 30% each year until 2025.²



Voice Commerce

Voice Assistant provides another channel to activate, trigger and execute a purchase. As consumer engagement deepens with Google Assistant, Amazon Alexa and Apple's Siri, initiating and executing e-commerce payments using Voice Assistants will naturally increase as well.



Internet of Things

The growth of the IoT industry has contributed to the development of the Internet of Payments (IoP), which refers to the initialization and processing of payments over IoT devices. Consumer electronics and Automobile Original Equipment Manufacturers (OEMs) continue to innovate in this space with connected home devices and cars as growth levers moving forward.

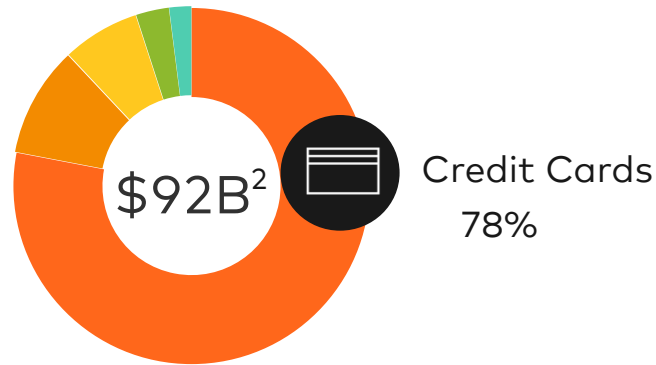
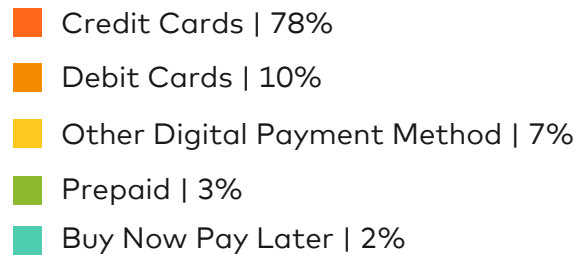
2. Canadian Internet Registration Authority, Research And Markets Global Social Commerce size, Social Commerce - Global Market Trajectory & Analytics (researchandmarkets.com), August 2021, Global Market Trajectory & Analytics



How Canadians Are Paying Online

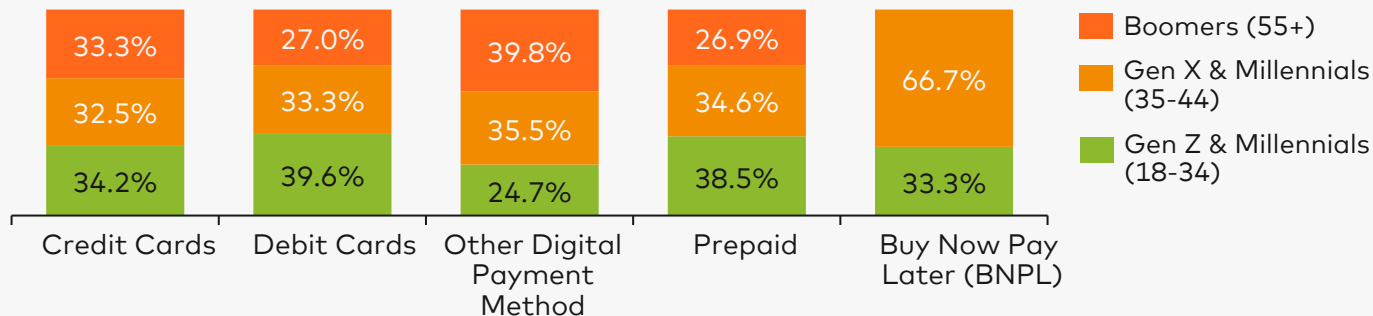
In Canada, credit cards are the most popular payment method when it comes to online purchases. The following figure shows that over 75% of transactions were made with Credit Cards, according to Deloitte's national e-Commerce survey results, followed by Debit at 10% and other digital payment methods (funded by credit or debit) at 7%.¹ The distribution of age groups by payment method revealed that Debit and Prepaid skewed towards younger age groups, in contrast older demographics skewed toward finding other methods to pay online. Credit Cards were evenly distributed between all age groups.

e-Commerce Spending by Payment Type¹



Note: Payments Canada + Deloitte analysis: Deloitte has estimated based on Base Case scenario for "consumer oriented eCommerce Market overview", September 2020

Preferred Payment Type by Age Group³



Buy Now Pay Later (BNPL) usage are estimated to have doubled during the course of the pandemic and are expected to double again in the upcoming 2-3 years. This growth has further fueled interest from payment networks, additional fintechs, issuers and digital platforms that have introduced or are in the process of introducing new BNPL solutions into the marketplace.

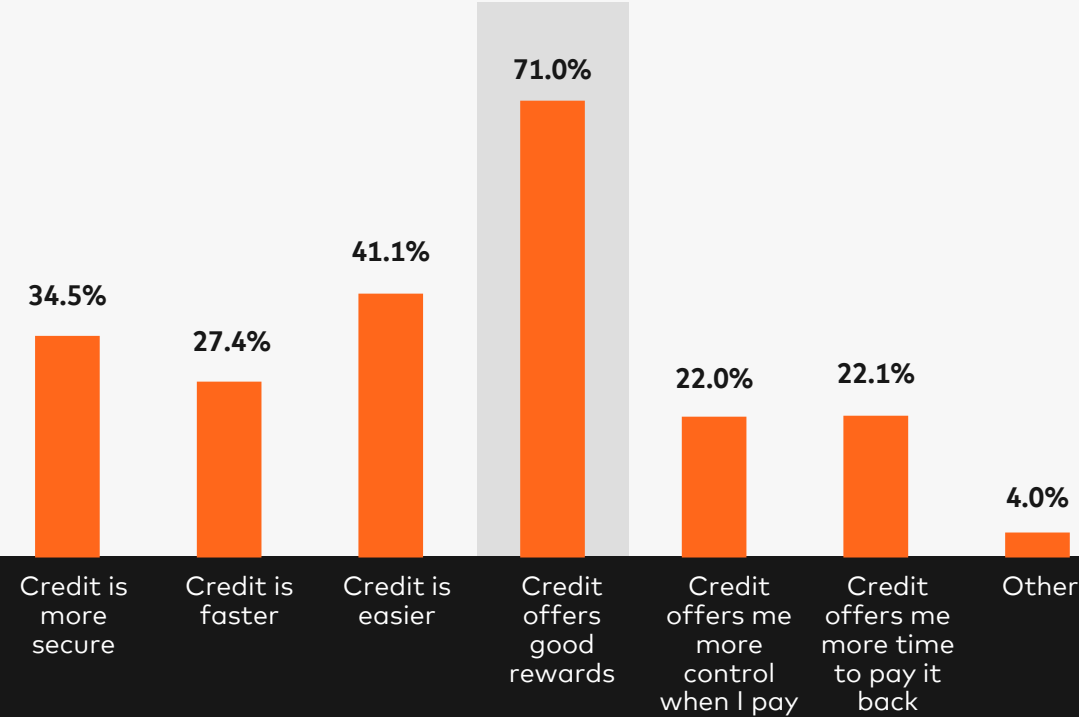
Sources:

1. "eCommerce Spending by Payment Type", based on Deloitte's 2020 National Canadian eCommerce survey responses to the question: (B1) For each of the payment methods below, please estimate your usage as a percentage of your overall online purchase. August/September 2020
2. Payments Canada + Deloitte analysis: Deloitte has estimated based on Base Case scenario for "consumer oriented eCommerce Market overview", Date: 2020, Source: Deloitte internal Analysis
3. " Preferred Payment Type by Age Group", based on Deloitte's 2020 National Canadian eCommerce survey responses to the question: (A20) Please select how your usage of the following payment methods will be impacted by COVID-19 and the current economic situation. August/September 2020

Credit Card Usage Drivers

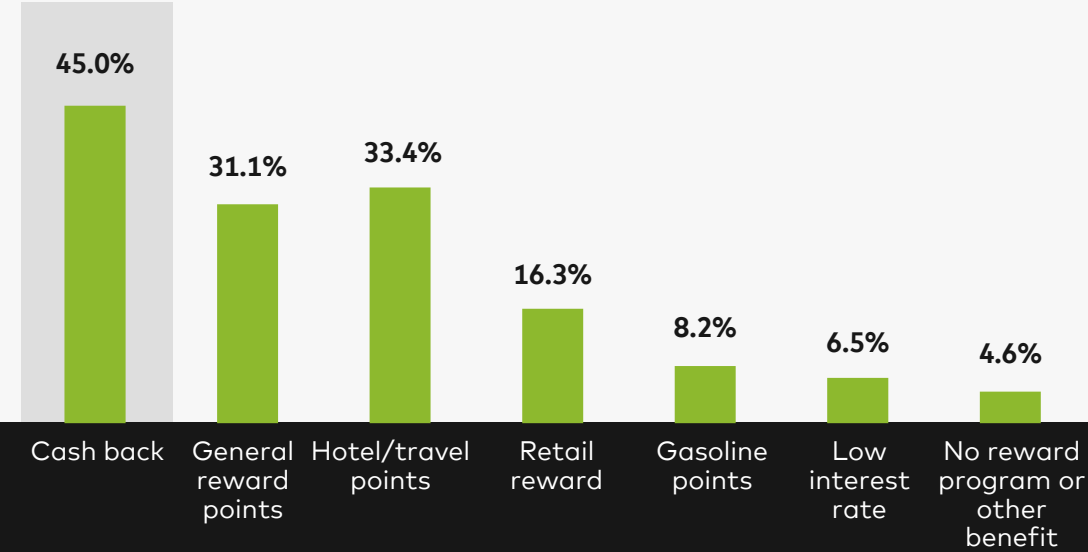
It comes as no surprise that the primary reason for credit card use is rewards. In Canada, 71% of respondents cited earning rewards as a key driver of credit card usage.¹ Secondary reasons included ease of use at 41%, perceived security at 34% and speed of payment at 27%.¹

Reason for Using Credit Card Online¹



When asked about the types of rewards respondents enjoyed best in their card portfolio, the most popular reward was cash back at 45% of responses.¹ Cash back is experiencing a surge of popularity during the pandemic, whereas hotel and travel points have seen the opposite effect.¹

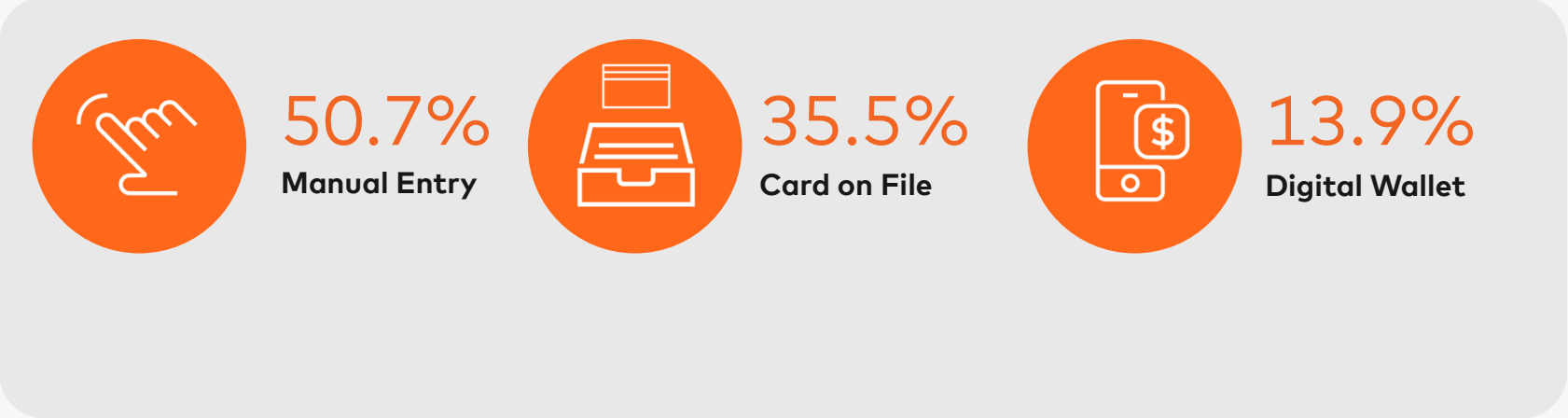
Popular Rewards Offered by Credit Cards¹



Source:
 1. "Reason for Using Credit Card Online" and "Popular Rewards Offered by Credit Cards", based on Deloitte's 2020 National Canadian eCommerce survey responses to the question: (B7) Why do you use credit for online purchases? and (B8) Which, if any, of the following reward programs and benefits are offered by the credit card you use most often? August/September 2020

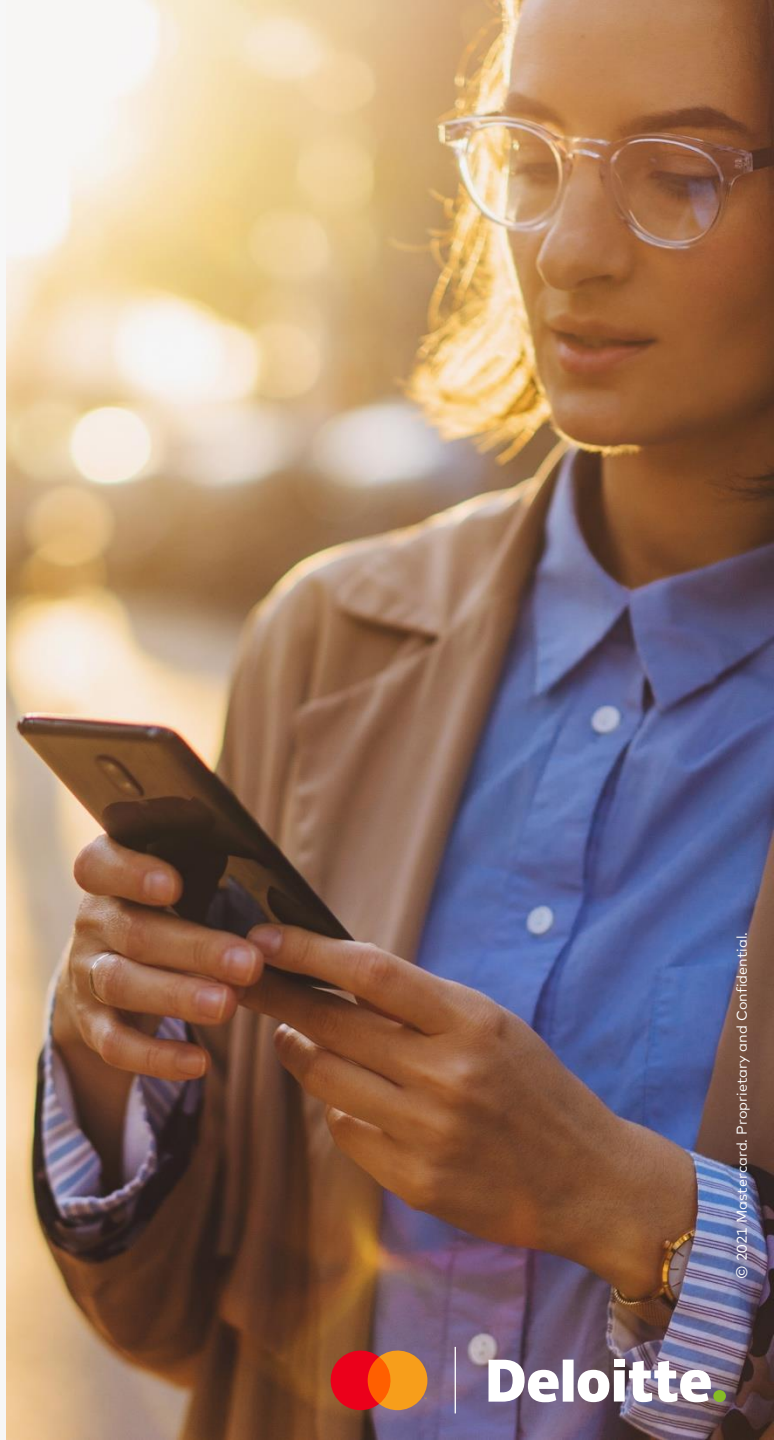
How Consumers Check Out Online

Canadian consumers still prefer to check out manually, as a majority of purchases (51%) involved the purchaser manually entering their card and personal information during checkout.¹ Manual entry represents a significant pain point in the checkout process, which can lead to cart abandonment. Card on file, which involves the consumer storing their card and personal information with the merchant, is the second most used option at checkout (35%).¹



Use of digital wallets has continued to grow over the past few years and represents almost 14%.¹ With manual guest checkout still holding more than 50% of the current market, there is opportunity for other checkout options to increase usage.

Source:
1. "How Consumers check out online", based on Deloitte's 2020 National Canadian eCommerce survey responses to the question: (B3) For each of the credit payment processing methods below, please estimate the percentage of your usage at online checkout? August/September 2020



Online Checkout Pain Points

When it comes to payment, the online guest checkout experience features pain points that make it difficult for consumers to complete their purchases, leading to significant cart abandonment. Four major categories that impact cart abandonment: cost of shipping, security and fraud risk, convenience, and lack of payment options.



Cost of Shipping

Cost of shipping is by far the greatest contributor to abandonment based on 71% of respondents.¹ This skews slightly towards smaller purchases where the cost of shipping is more expensive relative to the cost of the item.



Security, Fraud & Privacy

Concerns over the security of a merchant's website, particularly when it comes to card numbers and data breaches, fraud risk on the transactions, and privacy concerns are the next highest influencers affecting cart abandonment.¹



Lack of Payment Options

The lack of payment options during the checkout was also cited by about a quarter of respondents, particularly if respondents only carried specific types of cards (debit vs. credit), as merchant acceptance is not ubiquitous across all brands.¹



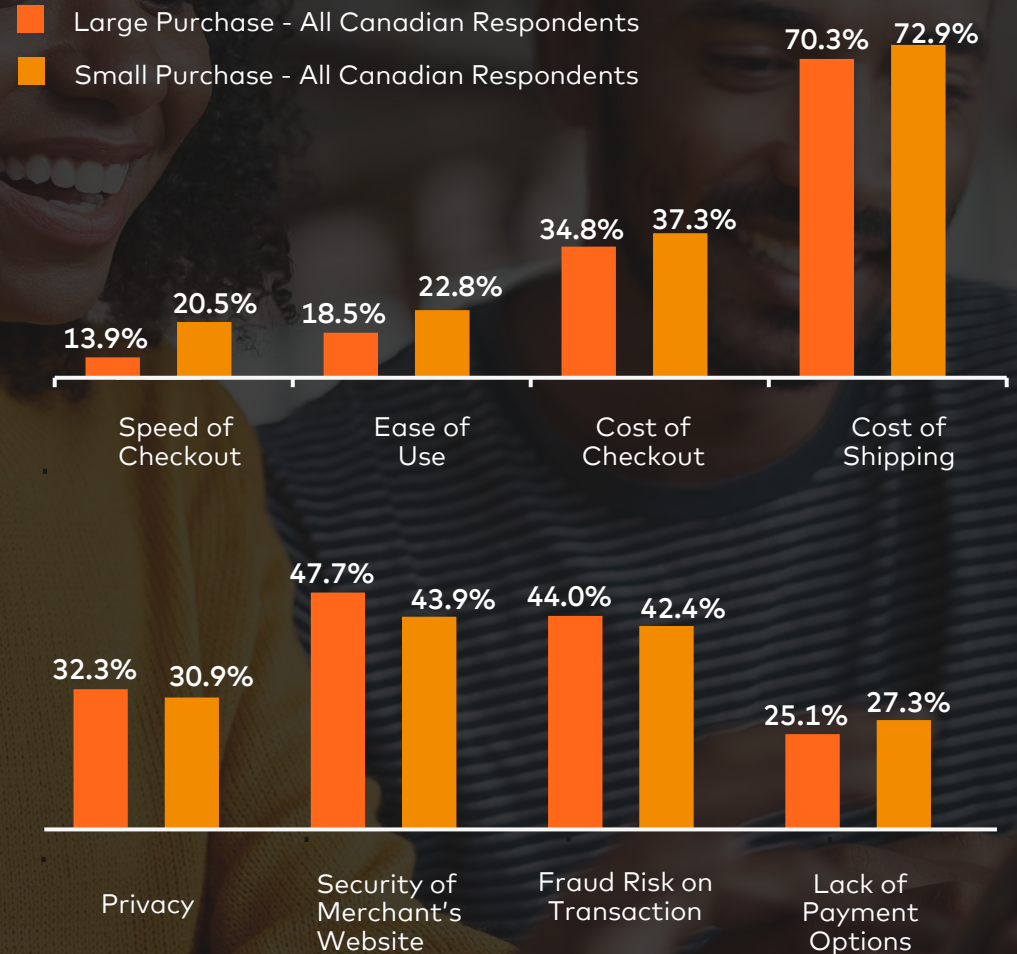
Speed & Convenience

Speed and convenience are also key factors that lead to cart abandonment.¹ Having a one-click checkout method and removing friction is helpful in reducing cart abandonment. The impact of convenience is slightly greater for small purchases than large ones.

Source:

1. "Consumer Checkout Pain Points" based on Deloitte's 2020 National Canadian eCommerce survey responses to question C4. Which, if any, of the following might impact your shopping experience and potentially result in abandoning your cart when you make a purchase? August/September 2020

Factors Impacting Cart Abandonment for Small (under \$500) & Large (over \$500) Purchases¹



Click to Pay

Click to Pay is designed to create an e-commerce checkout experience that will deliver the security, convenience and control currently offered to consumers in the physical world. Click to Pay makes it easy for consumers to checkout across participating merchants, no matter what payment channel (PC, smartphone, tablet) they choose.

Key Benefits

With Mastercard, Click To Pay:



Is convenient

Click to Pay delivers a seamless, simple and consistent e-commerce checkout experience without the need for static passwords



Is secure and intelligent

Throughout the checkout experience, Click to Pay authenticates users via trusted data indicators and recognizes users and checkout preferences across devices and merchants



Puts consumers in control

Consumers can save their cards to their payment profile for secure use with participating merchants

Mastercard and other major networks in Canada are participating in the global expansion of Click to Pay, simplifying the adoption for merchants. Consumers have the flexibility to enroll directly at checkout from the merchant's page, through financial institutions or directly at mastercard.ca/clicktopay.

Enrollment Options for Consumers



Merchant checkout



Push provisioning through financial institution



mastercard.ca/clicktopay

Mastercard Click to Pay

A new, password-free guest checkout that provides a better way to pay online, featuring advanced payment technology and intelligent security.



The Click to Pay icon is a trademark owned by and used with permission of EMVCo, LLC.

Click to Pay Solution

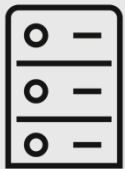
With Click to Pay, Mastercard can solve the challenges of online checkout, balancing intelligent security with simplicity and control. This reduces cart abandonment, which in turn increases merchants' revenue and engagement with issuers. With powerful security and increased convenience, conversion and trust will both increase.



Layered security when using network tokenization and ID Theft Protection



Higher approval rates when transactions are tokenized and use intelligent authentication



Store all Mastercard payment information in one place, supported by a foundation of industry standards and protected by Mastercard network tokenization technology



Support checkout in just a few clicks without static passwords



Click to Pay Experience Video

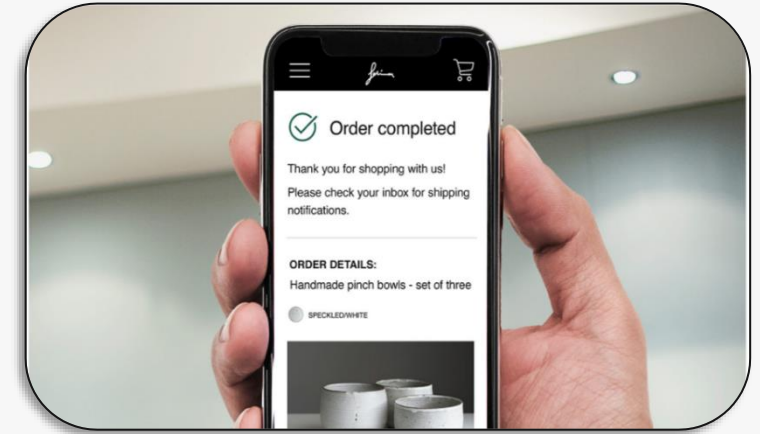
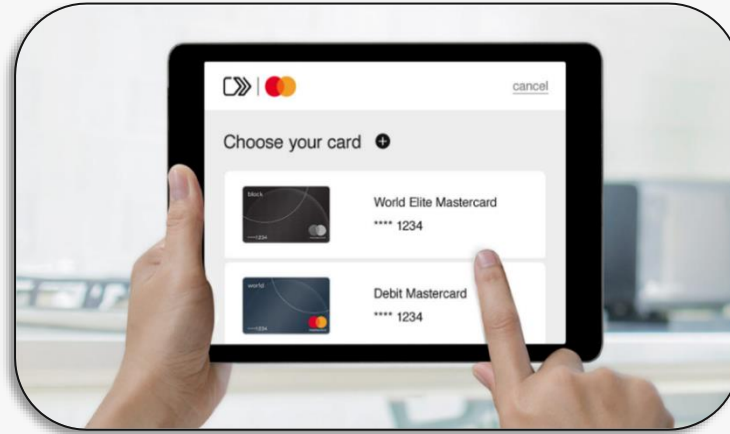
No more reaching for your card.

Here's how it works 



Click to Pay Flow

Click to Pay allows consumers to check out seamlessly without leaving the merchant's website. Consumers can place their orders in a few seconds and pay with just a click of a button. Here's how it works: First, the consumer looks for the Click to Pay icon and clicks on it. Next they choose their payment method, then they can check out securely.



Step 1

Look for the Click to Pay icon at any participating merchant

Step 2

Choose your card

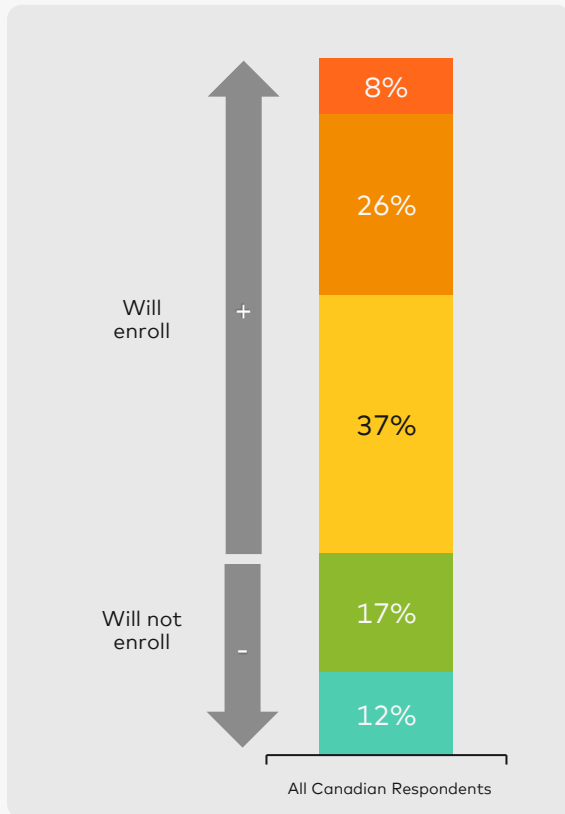
Step 3

Place your order and get on your way

Click to Pay Appeals to a Wide Range of Consumers

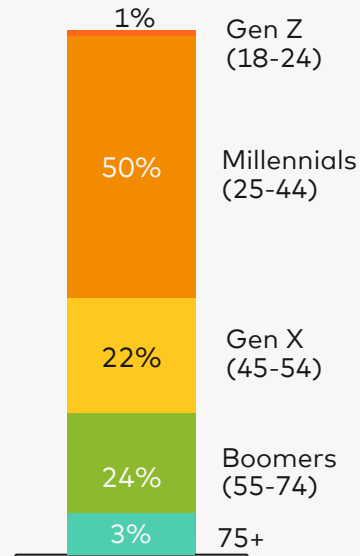
According to our survey, a majority of Canadian respondents (71%) responded positive to enrolling in Click to Pay.¹ While millennials represent 33% of the respondents, they represent 50% of likely users of Click to Pay.¹ Among all likely Canadian users, 77% preferred to make online purchases using credit cards and 47% typically spend between \$100 and \$400 online monthly.¹

Canadian Users Likely to Enroll¹



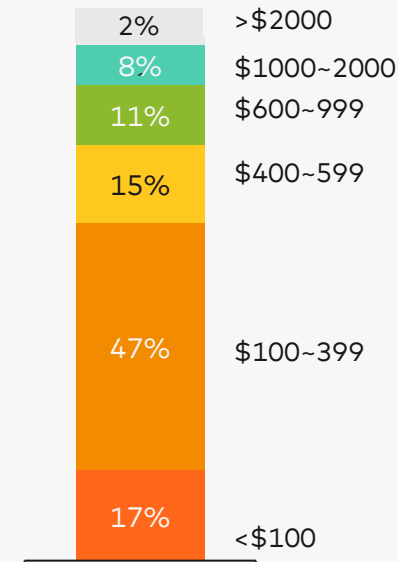
Age Distribution

While millennials represent 33% of Canadian respondents, they represent 50% of likely users



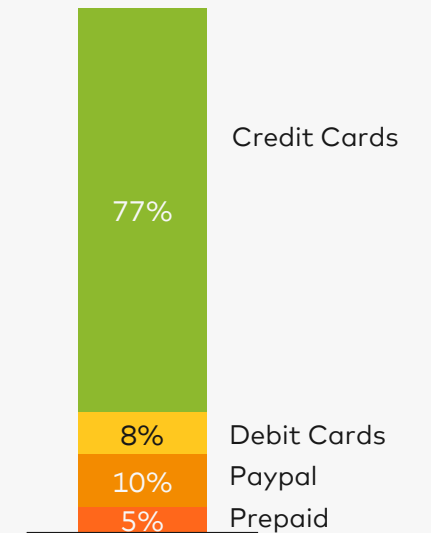
Monthly Online Spending

The data is very similar to the rest of Canada with 50% of respondents spending \$100 to \$400 online every month



Preferred Payment Type

Likely Click to Pay users have the same characteristics as the Canadian population when it comes to payment method preference

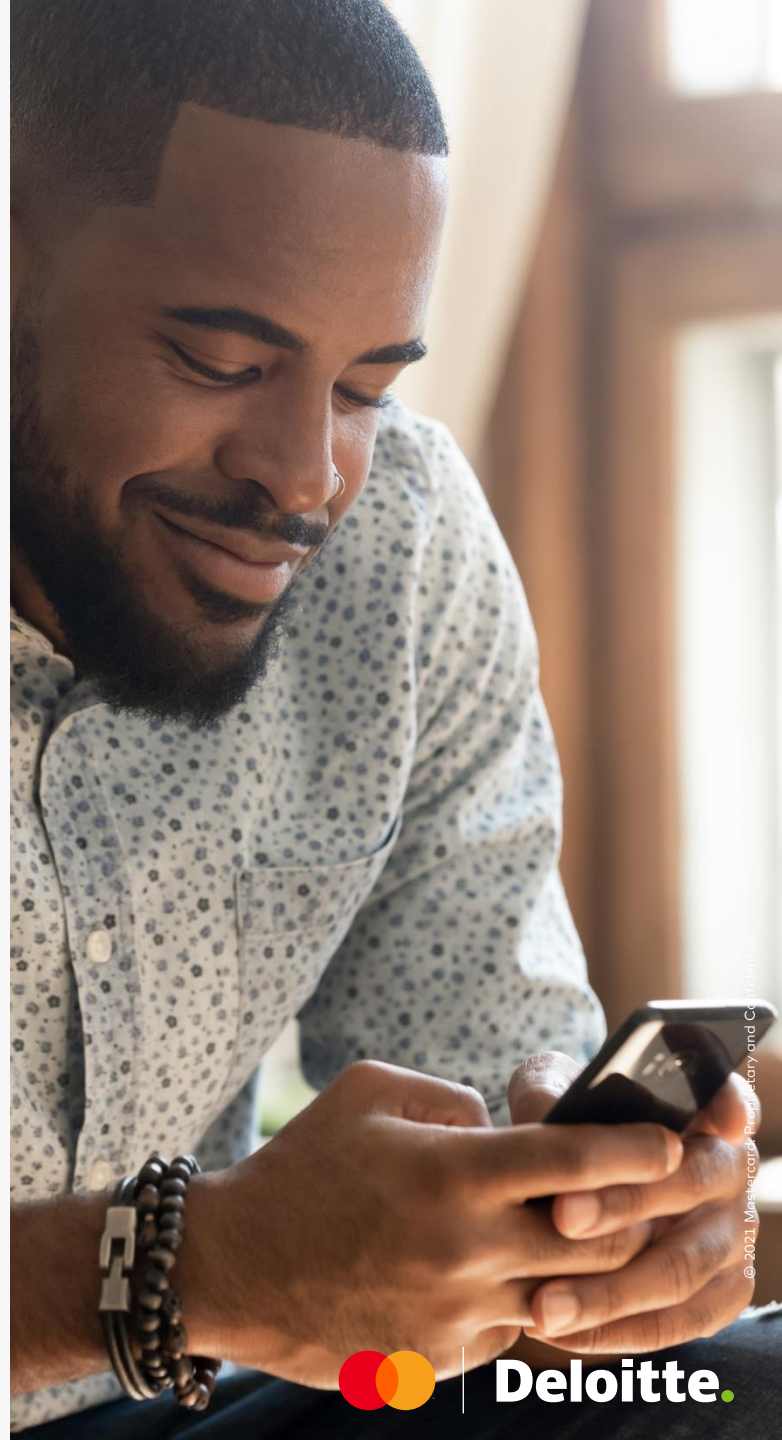
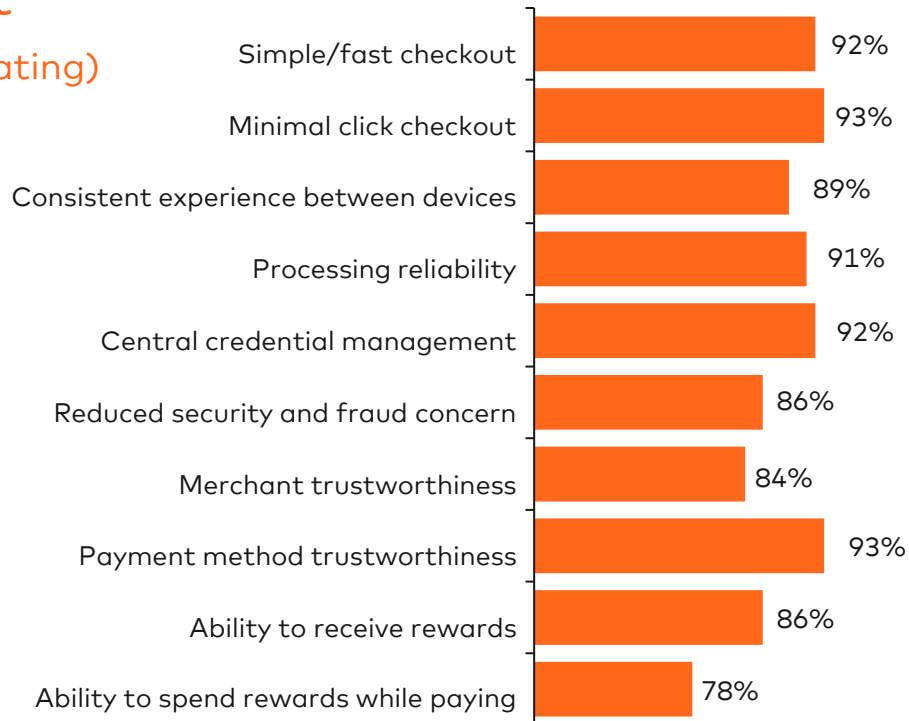


Click to Pay Perceived Benefits

The statistics below show what criteria respondents like about Click to Pay. Respondents scored Click to Pay at over 90% on the following key satisfaction criteria: simple/fast checkout, minimal-click checkout, processing reliability, credential management and payment method trustworthiness.¹

What Users Like About Click to Pay¹ (% Positive Rating)

Users scored Click To Pay on the following on key satisfaction criteria...

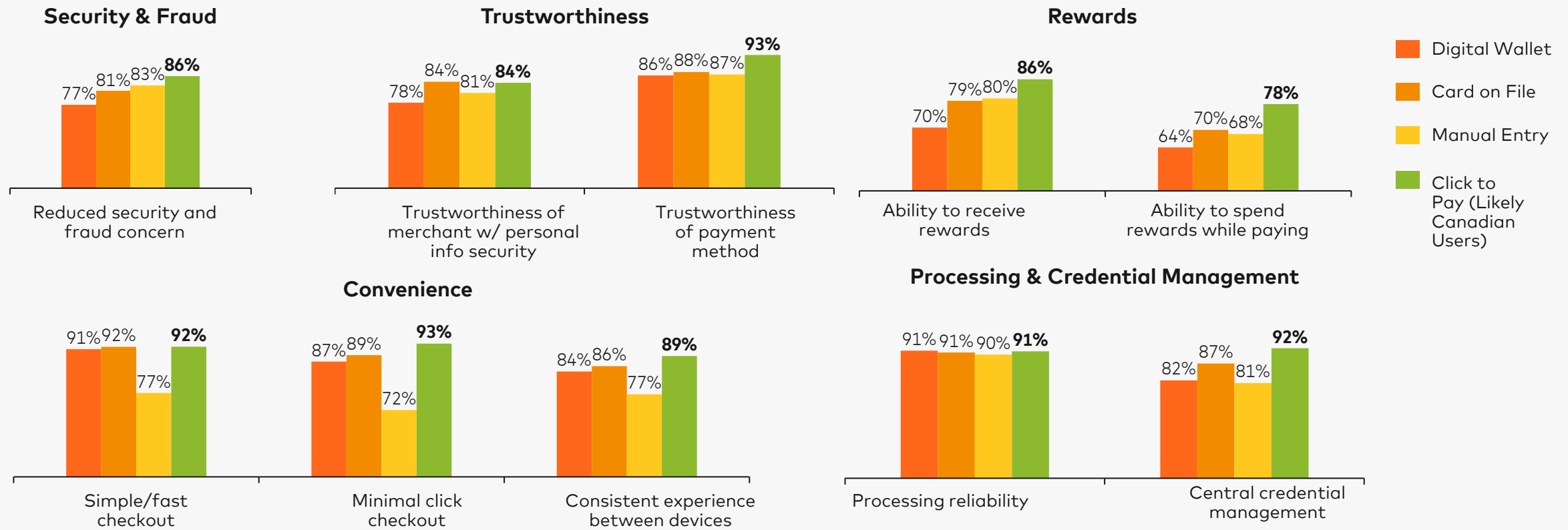


Source: 1. "Product and Services Perspective" based on Deloitte's 2020 National Canadian eCommerce survey responses to D5. Based on the description of Mastercard Click to Pay checkout process, please rate the following: August/September 2020

Perception of Click to Pay against Other Payment Methods

In the national survey, Canadian respondents and likely users rated Click to Pay against other payment methods by key satisfaction metrics, including Security & Fraud, Trustworthiness, Rewards, Convenience, and Processing & Credential Management. Overall, Click to Pay scored higher than other payment methods across nearly all factors.¹ In particular, Click to Pay scored highest with respondents on trustworthiness of payment method, minimal-click checkout and simple and fast checkout.¹ Click to Pay is also perceived to be very reliable, with strong credential management.¹

User Satisfaction by Key Satisfaction Indicator¹



The Rollout in Canada

Click to Pay is enabled to support all Mastercard card types – from consumer to commercial and prepaid to debit and more – where accepted by the merchant. Click to Pay is enabled to support Mastercard tokenization of card information, as well as tokenized Click to Pay transactions.

The rollout of Click to Pay is gaining traction at key merchants in retail, pharmacy, travel, fast food, as well as with payment service providers and issuers across Canada.

Mastercard Click to Pay data shows that more than 30% of Click to Pay transactions are **completed by users who have previously used Click to Pay to checkout online.**¹
This percentage increases month over month.



Conclusion

As e-commerce volumes continue to grow globally and in Canada, it becomes increasingly important for stakeholders such as merchants, issuers, payment service providers, acquirers and other players to provide a checkout experience that is frictionless, secure and interoperable. With Click To Pay, consumers will enjoy a password-free guest checkout experience that is secure, reliable and convenient.

Looking ahead, we expect further evolution in Click to Pay and how consumers make purchases online by bringing additional payment options, experiences and value-added services that are currently absent in online checkouts.

Consumers will have more choices as the landscape evolves, and it will be increasingly critical for online checkout providers – as well as their partners – to provide an interoperable, secure and frictionless checkout experience like Click to Pay.

