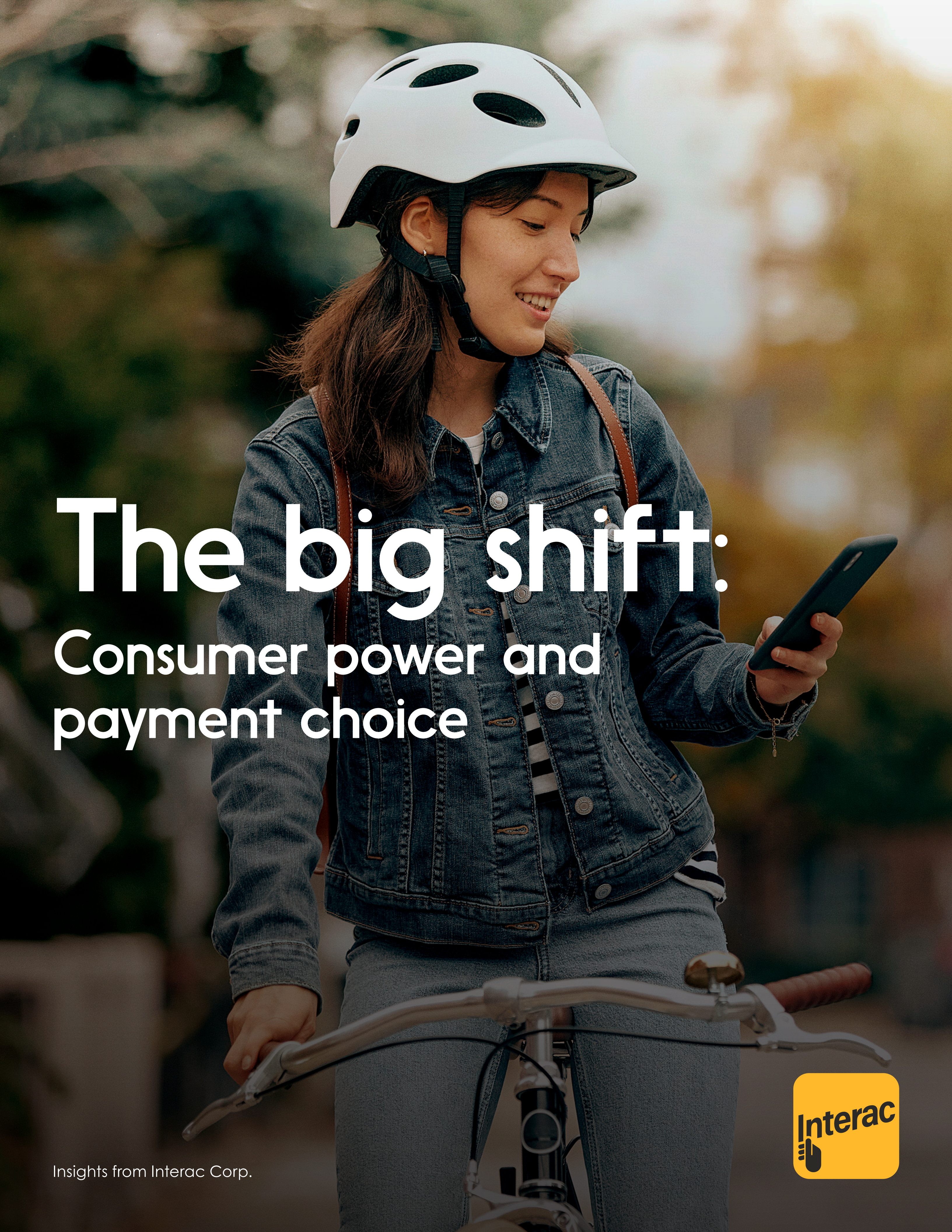


The big shift:

Consumer power and payment choice

Insights from Interac Corp.

Introduction

The global pandemic transformed many aspects of life, from housing expectations, to how we work, to our relationship with the government and each other.

But one of the most tangible ways our lives has changed is in how we shop.

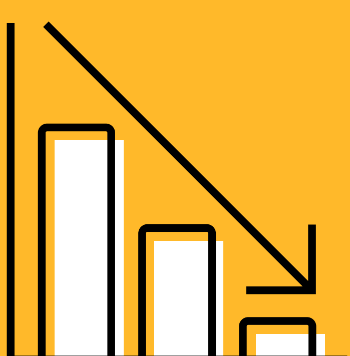
A move to a cashless society was already well under way, but the pandemic accelerated it. Over less than a decade, the share of in-person transactions conducted with cash fell from 54 per cent (in 2009) to a mere 17 per cent (in 2020).[1] In 2020 alone, there was a 10 percentage-point drop in cash's share of total transactions.

The shift away from cash isn't only happening with in-person transactions. While brick-and-mortar businesses will always hold a special place in Canadians' hearts, we increasingly shop online. According to *Interac* Probit Quarterly Tracking, online transactions (as a share of total transactions) spiked in early 2020, jumping from just six per cent to 22 per cent – or nearly one in every four purchases made.

As lockdowns eased and people became more familiar managing COVID, online transactions dipped from that peak down to 16 per cent, roughly the level at which they remain today.

While we're not making as many online purchases as we did in April of 2020, it's clear that a **permanent shift has taken place**, with online commerce at a permanently higher level than it was pre-pandemic.

It's not only happening with payment choice, but with overall purchasing behaviour. Unprecedented circumstances led us to behave in unprecedented ways, from paying in new ways to purchasing from new places.



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54% in 2009

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[1]Source: Bank of Canada Methods of Payment Study

And we found we liked it.

“There was a very interesting behavioural change among consumers where they were open to new things in ways like never before,” says Michael LeBlanc, Senior Retail Advisor at Retail Council of Canada. “Something like 45 per cent of Canadians bought from a new brand or shop or retailer. That is both a risk and opportunity for retailers. But it’s also a jump ball moment where people were reconsidering how and where and in which ways they were going to shop.”

Public health restrictions might have forced shoppers to take the plunge into new ways of shopping – but when we did, we found that we liked the choice. Specifically, we embraced the convenience of ordering goods, meals, and even services with the click of a button. The pandemic has fundamentally altered our expectations. And it has fundamentally altered what businesses need to focus on in order to be successful. In the new environment, a digital experience is table stakes. To stay afloat in the early days of the pandemic, many businesses accelerated existing digital transformation plans, or put new plans into place. Now, having made those investments, retailers will need to continue to provide an omnichannel experience that meets what today’s shoppers expect.

And the pandemic has changed what consumers demand from retailers. Having experienced what it’s like to purchase goods when they want, on whatever channel they want, they expect it going forward. That means choice with respect to how to shop, how to pay and how to pick up and return your goods.

Businesses who fail to provide that experience will fall behind.

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> ***Senior Retail Advisor, Retail Council of Canada***

Smooth sailing

Even if online shopping offers the same goods as in-person retail, the customer experience is vastly different. While in-person retail looks to curate an experience and engage the shopper in store, online retail prizes conversion: convincing a curious browser to purchase a good or service – and typically, within a much shorter time frame.

Key to this process is reducing friction – limiting the number of annoying steps or barriers that might prevent the consumer from making their intended purchase.

Friction in the online shopping experience has a big impact on the bottom line. According to research conducted by the Baymard Institute, 69 per cent of online shopping carts are abandoned, with that number rising north of 80 per cent for shoppers browsing on mobile phones and tablets. Each of these carts represents a lost sale, and lost revenue.

"Some sectors are ultra-competitive, so losing customers [to friction] is a major opportunity cost and could spell a continual missed opportunity to scale," says Claudia Dessanti, Senior Manager of Policy at the Ontario Chamber of Commerce.

Reducing this abandonment rate is critical to ensuring an online business's success. Removing requirements to make a customer profile, offering free shipping, or simply reducing the number of separate pages that require a click can all make a difference.

This takes mapping the entire consumer journey – all the way to point of sale – through every channel, online and off, and reducing friction at every potential pain point. While many retailers were investing in reducing friction and enabling an omnichannel experience prior to the pandemic, post-pandemic, the competition – and the need – is even greater.

"If you look at the [in-person retail experience], years ago, you traveled through the [store] and checked out in a long line. Today, it's transformed," continues LeBlanc. "You can check out from the safety of your own personal device. There's lots of self-checkout. So I think there's lessons there to be learned for online retailers who would like to implement processes that reduce friction. Any kind of friction, anything at the point of sale that gets in the way of consummating that purchase, is to be avoided."

But a major source of friction remains: needing to find an alternate method of payment, if your preferred method of payment is not accepted by the online retailer.

And while this friction may seem minor, in the hyper-competitive world of online retail, every potential source of friction – every barrier, every form to be filled out, every extra click – can lead to lost sales, and diminished margins.

With consumers of every generation, but particularly younger consumers, demanding a frictionless online experience, it is no surprise that businesses of all sizes are looking to provide their customers with payment options. These include small businesses, but also large businesses like Walmart Canada, which recently began to offer *Interac*® Debit e-commerce payment options.

McDonald's continuing digital ambition reflects needs of guests and crew

McDonald's, like many businesses, was already in the process of digital transformation prior to the COVID-19 pandemic. The pandemic simply accelerated a shift that was already underway – and made the changes stick.

"We were fortunate that before the arrival of COVID-19 in Canada we were already set up to take digital payments," says Francesca Cardarelli, Senior Director, Marketing Planning and Digital Marketing Strategy, McDonald's Canada. "We were able to manage and support that transition seamlessly for our guests."

The pandemic saw customers ordering familiar McDonald's favourites, like their World Famous Fries®, but in new ways, including kiosks in restaurants, digital menu boards at Drive-Thru, and with mobile ordering, paying through their phone and picking up with Drive-Thru, Curbside Service or at the Front Counter. And although the in-store experience is familiar to many Canadians, McDonald's has been continually enhancing the digital experience for their guests.

"As part of our ongoing digital ambition, we've invested in technology to transform the McDonald's guest and crew experience," continues Cardarelli. "We must continue to respond to the evolving needs of our guests through digital innovation, like that offered by our new loyalty program. Streamlining payment at check-out and in-app helps us keep moving towards even more frictionless, convenient and personalized experiences for our guests – and makes life easier for our crew, too."

Throughout COVID-19, McDonald's remained an inclusive brand, and accessible to all Canadians. That included managing a large shift to McDelivery, Drive-Thru, Curbside Service and Mobile Order Ahead, which enables customer choice in payment, offering greater options and personalization across the McDonald's experience. This allows guests to access McDonald's in whatever way they preferred and felt safe. It also meant not abandoning the use of cash when allowed to by public health regulations, as some consumers prefer to use cash even in the face of public health restrictions.

McDonald's digital ambitions do not end with its COVID-inspired transformations – they are continuing to invest in the digital experience.

"The recent launch of MyMcDonald's Rewards loyalty program is another significant milestone in McDonald's digital ambition," says Cardarelli. "This further evolves the guest experience to meet their needs, and rewards them for every visit in the form of a new loyalty currency, unlocking free food. In addition to the seamless, personalized service that's customized through digital order channels and payment platforms, we're still accepting cash, as we know our guests appreciate being able to pay their way."

How SkipTheDishes helped restaurateurs go digital

SkipTheDishes has always been a low-contact company, allowing customers to order, pay and receive delivery online. Digital commerce is their space – and they understand that a seamless, frictionless purchase and checkout process is necessary to retain customers.

That's why they commit to providing choice to customers: both in terms of a vast array of food delivery options, and how to pay for their order.

"SkipTheDishes is focused on providing the best choice for customers, and this is also true for our payment options which include Debit, Credit and Digital Wallet," says Rob Stewart, Director of Product Engineering at SkipTheDishes. "Not all Canadians have access to credit cards or always wish to use them, and we believe that everyone should be able to use the payment type that works best for them."

As a digital commerce company that works with more traditional businesses, like restaurants, they have an understanding of some of the perceived barriers that they face, such as updating legacy technology partnerships. Skip looks to help their restaurant partners surmount these barriers by offering exceptional technology to make operations easier, and constantly listening to feedback from partners, enabling them to provide more capabilities and data into their hands.

Their experience in digital commerce has also given them a degree of savvy when it comes to attracting, converting and retaining customers in the highly competitive online space. This is expertise that they can put to work in service of restaurant owners, as they connect millions of customers with over 47,000 restaurant partners across the country.

"We have seen that if the checkout process is not seamless, a customer may choose to go elsewhere," continues Stewart. "This is true for any industry in the online space. That's why we believe that choice of payment is so important, to ensure that customers can be served, and we will always be evolving our payment options if and when demand requires it."

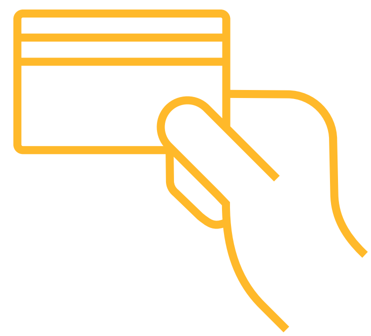
Method mismatch

Online commerce has long focused on credit – but demand to use debit online is growing. In a recent survey, we found that 72 per cent of Canadians believe they should have the option to use their debit card when checking out online, making a purchase in-app, or paying in-store or curbside.

We're seeing proof of this demand in our transaction volumes, too. In 2021, we found a 51 per cent year-over-year increase in *Interac* Debit payments made within a merchant app or website.

Looking at consumer trends, this is not a surprise. The pandemic didn't just alter how we shop. Lockdowns, and the disruptions to the job market and to people's incomes that followed, also changed financial realities and the way we look at money.

72% of Canadians believe they should have the option to use their debit card when checking out online



In 2020, just after the end of the first lockdown, we found that over half of Gen Z adults and Millennials were more concerned about managing their finances than ever before – significantly more than their counterparts in the Baby Boomer (31%) or Silent generation (36%).

Several groups are also looking for more control over their finances, including new Canadians, who may have little to no credit history in this country, and Canadians under the age of 18, younger Canadians, who may be too young to take out a loan.

These shifting attitudes and demographics explain much of the surge in debit usage: debit solutions allow users to make purchases with their own money, without paying interest fees.

Consumers aren't just seeking debit as a payment option in the wake of the changes wrought by COVID. In a separate poll, 52 per cent of Canadians said that they were just as comfortable paying a small business by *Interac* e-Transfer as they would be using other payment methods.

It's no surprise that we've seen significant uptake with *Interac* e-Transfer, too. More than 1.7 billion *Interac* e-Transfer transactions have been sent since the beginning of April 2020.

But despite the the growing numbers of Canadians of all kinds who would prefer to choose debit, many online merchants – large and small – continue to limit consumer payment choices.

In an increasingly competitive retail market, this is a problem.

A powerful preference

The trend of consumers demanding more payment options is consistent across business types, including small retailers.

Canadians have heart for their local retailers. In a May 2021 survey, Canadians indicated a willingness to pay to support small businesses. They'll accept longer delivery times (48 per cent), plus are willing to pay up to $5 (50 per cent) or even $10 more (31 per cent) for the same product – all to support a local business instead of purchasing from a large online retailer.

This support for local businesses held during lockdowns. Even during periods when stay-at-home orders were in effect, 64 per cent of Canadians looked to support their local businesses.

But even in this context, Canadians craved payment choice. Nearly 70 per cent said they believe businesses that offer debit in-store should also accept debit for online payments.

An advantage at scale

Offering a greater number of options for payment not only improves the customer experience. It tangibly strengthens merchants' margins – critically important when many businesses are still trying to recover from the damage caused by the pandemic.

And offering more choice doesn't have to come at a cost to a merchant. *Interac* Debit charges per transaction, for example, are comparatively lower for merchants than alternate payment methods, which typically have an average cost of 1.4 per cent of the total transaction value. *Interac* Debit contactless payments also have a low flat-rate fee per transaction. *Interac* Debit online payments, meanwhile, are priced at 60 basis points (0.6%) of the total value, capped at $1.80 for all transactions over $300.

> **If you sell a $500 item, it might cost you $10 – if you sell that over debit, it costs you 10 cents. So that gives you some idea of the magnitude of difference. These still may sound like trivial numbers, but you've got to appreciate that with profit margins at five or 10 per cent, that those start to become pretty material.**
>
> **Karl Littler,**
> ***Senior Vice-President of Public Affairs, Retail Council of Canada***

Although this difference is minor on a single transaction, at scale, the differences are magnified – and the consumer behaviour shifts created by the COVID-19 pandemic have brought that scale.

"If you sell a $500 item, it might cost you $10 – if you sell that over debit, it costs you 10 cents. So that gives you some idea of the magnitude of difference," says Karl Littler, Senior Vice-President of Public Affairs at Retail Council of Canada. "These still may sound like trivial numbers, but you've got to appreciate that with profit margins at five or 10 per cent, that those start to become pretty material."

These differences matter to every sort of business, but particularly to small businesses, whose margins can be perilously thin.

"Margins are huge for businesses right now," the Ontario Chamber of Commerce's Dessanti says. "Especially because the cost of living is going up, their input costs are going up, and labour costs are going up. They're facing extremely tight situations financially, and cash flows are in a crisis for a lot of them. So the more that they can do to maximize revenue and minimize costs, the better off they're going to be."

New habits die hard

It’s not just industry-watchers that believe that the change in the way we shop is permanent. Consumers see it too: in a recent poll, we found that not only do the vast majority of Canadians believe that they should have the option to pay with debit when online, but a similar number (66 per cent) believe that businesses that fail to adapt to allow digital payments will struggle.

Businesses, too, believe the shift is permanent.

“We have seen some data on this, and I think for the vast majority of our members, [digital commerce] is not going away,” Dessanti says. “They’ve found that it’s now very convenient for customers to reach them – and that's true regardless of whether or not there's a lockdown. And secondly, the upfront costs of setting up all of that digital infrastructure, both in time and in money, have already been paid – so it just doesn't make sense to go back to the way it was. And third, depending on what their service or good is, they've been able to reach people from all over the country and even globally, in a way that they weren't when it was brick and mortar only."

The evidence is clear: although COVID-19 forced us to adopt digital shopping habits, these habits are here to stay.

The shift to digital gives businesses access to new markets and new customers – but it also exposed them to new competition. The scramble for consumers' dollars will only intensify. And, they'll intensify in an environment where consumers are increasingly money-conscious, and looking for more control over their monthly budget.

Who will come out on top?

It will be those businesses who understand consumers' demand for choice and convenience – and deliver, reducing abandoned carts, increasing customer satisfaction, buttressing margins, and improving business performance overall.

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> ***Senior Manager of Policy, Ontario Chamber of Commerce***

For more information on this topic, visit
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Published March 2022