



# Visa e-commerce cross-border handbook *for U.S. retailers*

Chapter 1: assessing the financial  
and competitive opportunity





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## Chapter 1: assessing the financial and competitive opportunity

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### Preface

This e-commerce handbook aims to provide U.S. retailers and manufacturers with key information to consider before launching a cross-border initiative to Canada. To provide context, Chapter 1 gives an introductory overview, focusing on assessing the financial and competitive opportunities to give you a starting point to conduct a thorough examination of this business venture.

The chapter begins with a discussion about sizing the market, including the size of the Canadian population, and importantly, estimating the range of the specific segment you will be venturing into.

The chapter also discusses your competitive assessment, providing tips for conducting an audit of competitors in this market. Then, this section walks you through developing a forecast for the size of your online segment, to ascertain what portion of the pie you can conceivably attain.

As the first chapter of this handbook, this chapter will set the context for the more specific information to come in future chapters, and provides your organization with a general overview, as you examine the opportunities present in the Canadian market.

# Chapter 1: assessing the financial and competitive opportunity

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## Introduction

When a company embarks on a new initiative or program, a “due diligence” process is undertaken to assess the opportunity associated with that initiative. In this chapter, our intent is to provide you, the retailer, with a set of inputs to assist with that process.

To provide direction in building your business case for the online initiative, we will delve into the following topics:

### Sub-topics:

- Sizing the market
- The competitive assessment
- Developing a forecast

## Sizing the Market

As a retailer, two important questions you will need to address as you undertake the “due diligence” process are as follows:

1. What is the financial opportunity?; and
2. What does the competitive environment look like?

To assess the financial opportunity, a first step will be to determine the size of the online market and the potential dollars that are available to you. One approach that can be used to ascertain the size of the Canadian e-commerce market is outlined in Table 1.1.

Canadian population	1,000
Percent of Canadian Population online	55%
Canadian population online	550
Percent of Canadians who shop online	40%
Estimated online buyer population	220

The example provides a quick and simple way of determining the number of Canadians who shop online. Please note that the inputs for this calculation will be dependent on when you decide to launch your cross-border e-commerce program.

Several sources can be used to complete the above chart. For instance:

- Statistics Canada ([www.statcan.gc.ca](http://www.statcan.gc.ca))<sup>1</sup> provides population statistics based on projections made from the most recent census. The data is also broken down by age brackets in the event that you want to focus on specific age groups.
- Ipsos Reid ([www.ipsos.ca](http://www.ipsos.ca))<sup>2</sup> is another source that can be used to determine the number of Canadians that shop online. Ipsos' Interactive Reid Report provides tracking data on the number of Canadians who shop online at various points throughout the year.

A second and critically important measure, is estimating the size of the segment that you will be venturing into. Table 1.2 below provides the inputs that will be required to assess the opportunity.

Canadian Population (Age 19+)	25,000,000~
Proportion of household with incomes of \$50K+	57%~
Number of Canadians with household incomes (HHI) of \$50K+	14,250,000~
Est. proportion of Canadians who shop online in past year	61%~
Canadians with (HHI) of \$50K+ who shop online	8,692,500
Proportion of Canadian online shoppers with HHI of \$50K who bought category online	5%~
Canadians with HHI of \$50K+ who have bought the category online	434,625~
Average per capita spending among Canadian online shoppers with HHI of \$50K+	\$1,000~
Proportion of household expenditure spent on category	10%~
Per capita annual online category expenditure among Canadian online shoppers with HHI of \$50K+	\$100~
Est. online category among online Canadians with a HHI of \$50K+	\$43,625,000~

*Note: The figures have been used for illustrative purposes*

Some of the sources used to calculate the number of Canadians online in a particular household income bracket will be the same sources needed to size the total Canadian market. Data sources are located at the end of the chapter.

<sup>1</sup> Note: Some of Statistics Canada data is available at no cost on their website.

<sup>2</sup> Note: The Ipsos-Reid Interactive Report is not a free service.

## The Competitive Set

Determining your current and future competition is also a key input for your “due diligence” process. Assessing your current competition can take the form of a simple audit. This entails asking the question, “Who is in the market?” (e.g., domestic and international players) and, “What are they currently doing?”. Alternatively, a more detailed evaluation of your competitors is another, which is discussed below.

Using the Home Improvement sector as an example, a cursory audit of this category reveals the following:

Retailer	Store Presence	Direct Channel Presence
Bombay	■	■
Crate & Barrel	■	■
Ethan Allen	■	
Restoration Hardware	■	■
Williams-Sonoma/Pottery Barn	■	■
IKEA	■	■
Home Sense	■	
Leon's	■	■
The Brick	■	■

Table 1.3 provides a quick overview of some of the key players and whether they have an online presence in the Home Improvement space.

As noted earlier, an alternative would be to conduct a detailed audit of their “direct channel” capabilities.

The detailed audit could provide information about deficiencies and/or solutions that your current competitors in the category may be providing to consumers (this will be covered in Chapter 2).

A sampling of elements in the detailed audit that you may want to look into include the following:

**Geographical Attributes**

- Store locator
- Language offering

**Policies**

- Currency of prices
- Payment methods
- Refunds

**Customer Experience**

- Guided navigation
- Personalization of accounts
- Pick-up options
- Total pricing listed

**Cross-Channel**

- Cross-channel tools
- Acquisition methods

**Loyalty Program**

- Availability in Canada
- Benefits

Once you've completed the audit for the respective retailers based on the suggested list of elements, you will be better able to gauge your offerings relative to the current competitive set. In turn, you will be able to articulate a course that would best your competitors.

Finally, another critical piece of the puzzle that you will need to complete in order to determine the long-term viability of the cross-border e-commerce initiative is the development of a forecast.

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## Developing the Forecast

This entails forecasting the size of your online segment to ascertain what portion of the pie you can conceivably attain.

There are two areas that need to be covered by the forecast. The first will be to address the overall market and the second the particular segment.

Using high-end women's apparel (HEWA) as an example, you will need to determine the growth of the market several years out. Subsequent to this, the portion of the online space accounting for the total market will also need to be forecast.

When developing a forecast, it is recommended that three growth scenarios are utilized (e.g., low, medium and high). Another way of referring to the scenarios would be conservative, stretch and aggressive. Let's presume that the HEWA segment is expected to grow at 5% per annum (Note: This figure could be validated by using the CAGR for the category OR the overall growth of the women's apparel sector could be used as a proxy).

The 5% per annum figure could be used as the low/conservative growth scenario. For simplicity, we will pick 7.5% and 10% respectively for the medium/stretch and high/aggressive growth scenarios. The dollar volume of the HEWA segment is also required in order to complete the forecasts.

If you were to assume that the HEWA sector generated \$400 million in sales in 2008, under the low growth scenario, that market would be worth approximately \$420 million in 2009.

**Exhibit A**

Year	Low Growth (5%)	Medium Growth (7.5%)	High Growth (10%)
2009	\$420.0	\$430.0	\$440.0
2010	\$441.0	\$462.3	\$484.0
2011	\$463.0	\$469.9	\$532.4

These projections will offer an overall view of the total HEWA market segment. They also provide direction as to the potential size of the online market for this segment.

Speaking of the online market size for this segment, the second and more crucial forecast is the determination of the size of the online HEWA segment.

Using the calculations in Table 1.2 as an example, let’s presume that those calculations represent the “Online Women’s Apparel Market among online Canadians with HHI of \$50K+” and that number totals \$43.6 million.

To calculate the forecast for the HEWA segment, you will need to develop a number of growth scenarios for the segment. You could apply low, medium and high growth levels based on your company’s prior results or you could look at other players in the high-end market and use those figures as proxies for the levels.

For our purposes, let’s assume the following growth rates for the respective periods, as illustrated in Exhibit B.

**Exhibit B**

Year	Low Growth	Medium Growth	High Growth
2009–2010	15%	20%	25%
2010–2012	10%	15%	20%
2012–2014	7.5%	10%	15%

Applying the growth projection above to the estimated \$43.6 million that we assumed would be the “Online Women’s Apparel Market among online Canadians with HHI of \$50K+,” this would yield the following:

**Exhibit C**

Year	Low Growth	Medium Growth	High Growth
2009	\$48.9	\$51.0	\$53.1
2010	\$56.2	\$61.2	\$66.4
2011	\$61.8	\$70.4	\$79.7
2012	\$68.0	\$80.9	495.6

Using the information contained in Exhibits C and A, you can now calculate a projected penetration level for each year of the HEWA sector. An example of the penetration level in 2011 using the low growth scenario is an online portion of the HEWA is approximately 14%.

In closing, the steps presented to assist you in calculating cross-border e-commerce opportunities are a guide. Thus, for your particular industry, the application of additional assumptions or caveats will likely need to be applied.

The following chapters will delve into other components of your “due diligence” process and provide examples, tips and additional considerations for you to think about as you embark on this venture.

**Implications**

- **Financial:** The financial implications of this exercise will provide you with the necessary inputs for your business case. The outcome will determine whether your company moves forward or not.
- **Strategic:** Should the financials and competitive analysis support the business case, the decision to move forward will impact every facet of the project, initially at a strategic level and subsequently at the tactical level. Initially, strategic decisions about IT and operations will have to be made, followed by the type of marketing and merchandising that will be employed.
- **Consumers:** For the consumer, this decision will provide them with another retail option from which to choose.

## Checklist

The checklist is intended as a reminder of the key elements your firm will need to confront when considering the Canadian opportunity. In addition, we have highlighted the key cross-border elements that we feel are the most salient, as in Table 1.4.

Table 1.4: Key Elements and Cross-border Checklist		
Review of Items	Key Elements	Cross-border Emphasis Required
<b>Market Size Inputs</b>		
■ Population statistics	■	
■ Percent of Canadians online	■	■
■ Percent of Canadians who shop online	■	■
<b>Market Segment Estimates Inputs</b>		
■ Population statistics	■	
■ Percent of individuals in the segment	■	
■ Percent of Canadians who shop online	■	
■ Percent of populations who have made a purchase in category	■	■
■ Share of the market the category represents	■	■
<b>Forecasts</b>		
Market forecast inputs		
- Three- to five-year growth rates	■	
- Estimated size of the market	■	■
Segment forecast		
- Estimated size of the online segment	■	■
- Estimated three- to five-year growth rates	■	■

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## Data Sources

- Ipsos Reid – [www.ipsos.ca](http://www.ipsos.ca)
- J.C Williams Group – [www.jcwg.com](http://www.jcwg.com)
- Statistics Canada – [www.statcan.gc.ca](http://www.statcan.gc.ca)

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## About the Author

**Gregory Antrobus** is the Research Director at J.C. Williams Group. Gregory's more than 15 years of market research experience in both a client and vendor capacity spans the retail, packaged goods, and financial services industries. As a research professional, Gregory has provided both internal and external clients with guidance, analysis, and insights in solving their strategic and tactical business requirements.

Gregory has managed various quantitative and qualitative market and consumer research projects for North American and Asia-Pacific companies such as Alliance Data, Black Photo Corporation, E-mart/Shinsegae, Indigo Books and Music, Liquor Control Board of Ontario, Loyalty Group, Price Chopper, Staples Business Depot, Lands' End, Limited Brands and Roche Asia-Pacific.