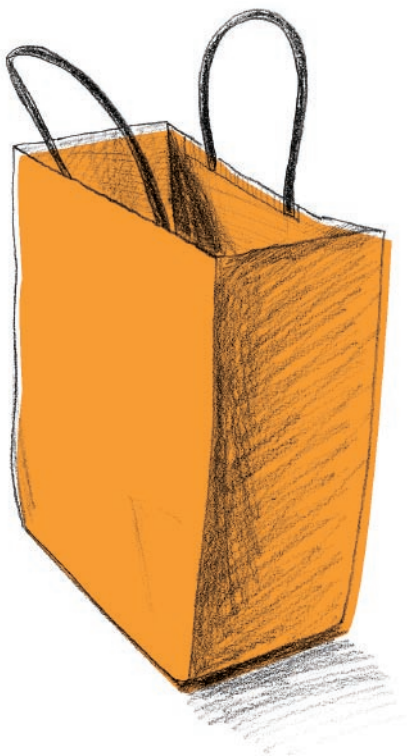


# Regular research papers and articles providing sector specific insights and issues analysis – Retail sector.

February edition 2010 – Retail

## Industry Intelligence Unit

Grant Thornton's Industry Intelligence Unit (IIU) blends the latest information and analysis of specific industries drawn from publicly available sources (including the Australian Bureau of Statistics and the national press) with pragmatic, commercial and practical initiatives to improve stakeholder value.



### Welcome to our latest edition of the Retail IIU.

The retail sector is an industry sector particularly susceptible to an economic downturn; however in Australia the retail sector has been surprisingly resilient to impact of the Global Financial Crisis (GFC).

While retail revenue growth rates declined 1.7% in FY2009, compared to a growth rate of 3.2% in FY2008, analysts predict retail revenue growth will recover to 1.7% in FY2010.

There is no doubt that the retail sector – as with the pubs and clubs sector - has been a net beneficiary of the

Government's stimulus packages, firstly in December 2008 and again in early 2009.

However retail sales have been mixed in recent months. October and November reported strong sales, however December's results were disappointing and January results are also expected to show slower sales.

Our latest edition of the Retail IIU covers the following key topics:

- Our usual statistical update on retail performance across Australia
- How did retailers trade over Christmas?
- Focus on strategies for growth.

# Retail industry snapshot

Seasonally adjusted turnover decreased 0.7% in December 2009. This followed a 0.4% increase in both November and October.

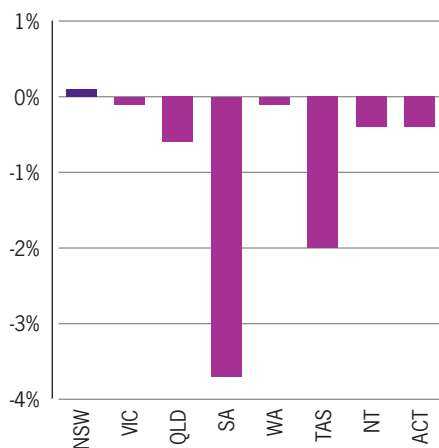
Department stores were the hardest hit in December, with sales falling 3.5%. Clothing, footwear and other personal accessory retailing dropped 1.9% and food retailing dropped 1.3%. The only sector to have grown in December was cafes, restaurants and takeaway food services, which rose by 0.3%.

## Around the States

All states have reported a decrease in the trend estimate, apart from NSW with only a 0.1% increase. South Australia recorded the strongest decrease of 3.7%.



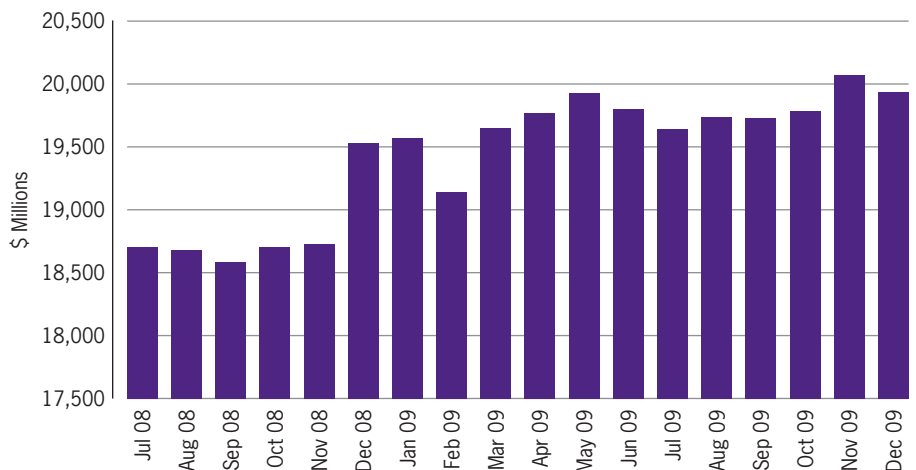
Change from preceding month (% seasonally adjusted)



Retail turnover (seasonally adjusted) July 2008 - December 2009

● Turnover (\$m)

Source: ABS Retail Trade 8501.0 December



# How did retailers trade over Christmas?

Following very strong sales in November, Australia retail sales softened noticeably in the lead up to Christmas. This feedback was consistent across department stores, discount department stores and electronics retailers.<sup>1</sup> Shopping centre traffic was less than anticipated and stores started heavily discounting items before Christmas, with both David Jones and Myer taking full page advertisements offering discounts of up to 30% and 35% off selected product lines respectively. Accordingly, we expect retailers will have suffered a double blow, with softening sales and lower margin in December.

However retailers appear to have fared better in the New Year with reported healthy levels of trading during the first week of post-Christmas sales. 67 percent of retailers surveyed reported trading to be the same or better when compared to the same period in 2008/2009.<sup>2</sup>

Gary Morgan reported that the weekly Roy Morgan Consumer Confidence Rating jumped strongly to start the New Year — up 7.4 points to 127.8. It is now at its highest for more than two months, since early November (128.0).<sup>3</sup>

“The traditional Boxing Day sales have also spurred many to the shops with 56% (up 4%) of Australians saying ‘now is a good time to buy’ major household items — this indicator was only higher than this during one week throughout 2009 — it is 8% higher than the first week of January 2009” says Morgan.

“Post-Christmas somewhat made up for a slower-than-expected pre-Christmas,” Richard Uechtritz, outgoing chief executive of electronics retailer JB Hi-Fi told Reuters in a interview. “Certainly post-Christmas made December a good month and January year-to-date has been very good. It is well up on last year,” Uechtritz said.<sup>4</sup>

Australian Retailers Association expects Australians to spend \$6.77 billion during the two weeks of post-Christmas sales, which got underway on December 26, up from \$6.5 billion a year earlier.

David Jones reported a pick-up in sales growth for the second quarter, which covers the November-January holiday shopping period, with same-store sales up 3.1 per cent, compared to growth of just 0.8 per cent in the first quarter. David Jones is also bullish on the outlook for the 2010-11 financial year, tipping profit after tax to grow within the 5-10 per cent range.<sup>5</sup>



1 Lyndal McFarland, Pre-Christmas retail sales soft, warns Citi analyst, Dow Jones Newswires, Dec, 24, 2009

2 Australian Retailers Association (ARA)

3 Colin Benjamin, Rate rise risks, www.smartcompany.com.au, Jan, 8, 2010

4 Reuters, Post-Christmas sales cheer retailers, www.smh.com.au, Jan, 12, 2010

5 The Australian, Feb, 4, 2010

# Reviving retail: Strategies for growth in 2010

Although the last year highlighted the high-risk nature of the retail industry, retailers should look at 2010 as a year to fine-tune their businesses in order to take advantage of new opportunities to stabilise, improve and grow.

Grant Thornton has identified four trends currently transforming the retail industry and offers tips for capitalising on these areas to increase profitability.

## 1. E-tailing: Building customers on social networking sites

The increase in internet penetration, combined with the growing preference of consumers to shop online has given a tremendous boost to e-tailing, the online version of retail shopping. While not a new innovation, Australians over the last decade have been somewhat slower in the take-up of “e-tailing” than some of their overseas compatriots.

However, this is now clearly a thing of the past, with today’s net-savvy consumers making online purchases like never before. Both the number and variety of products sold online, has grown exponentially.

- According to Forrester Research, the e-tail market is estimated to grow in the US to US\$334.7 billion in 2012, from US\$128.1 billion in 2007 (see graph below).
- U.S. online spending rose 5 percent to \$27.12 billion from the start of November through Christmas Eve even though individuals spent slightly less than they did last year, according to data released by comScore.

- In the UK the internet will account for one in every five pounds of British retail spending by 2020, when online sales of electricals and books will overtake purchases made in store for the first time, according to a new study.
- Australian retail websites took greater than \$15 billion in 2009, with e-tail starting to make inroads into the local retail sector.
- According to the latest IBISWorld industry Report, online shopping in Australia will be one of the top 10 growth industries in 2010.

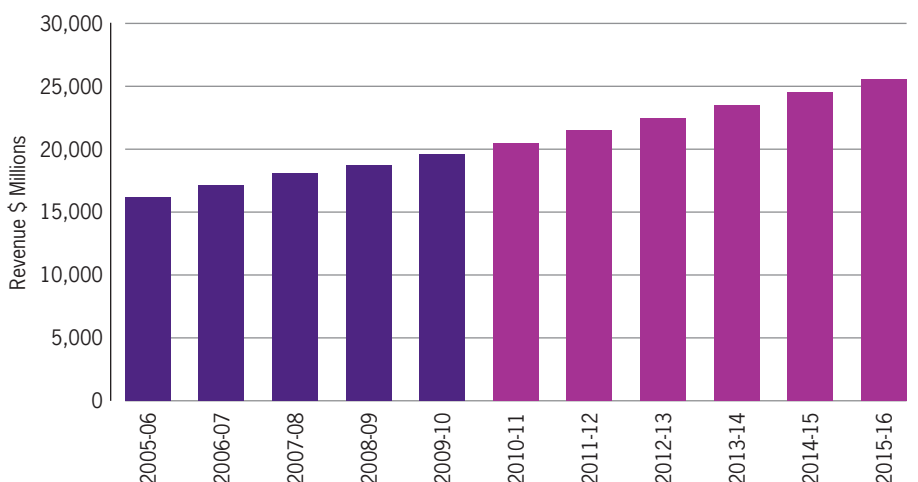
While online space remains the retail industry’s growth engine, the next frontier for retailers is social networking.

As access to technology improves, and Australia’s overall skill in using it grows, time-poor bargain hunters will continue to flock to e-tailers to meet their shopping needs. Improvements in online-store efficiency, reliability and security are expected to drive industry growth of 4.7% in 2010 to reach \$20 billion – resulting in a 2.9% growth in employment.

Within Australia, online sales currently represent just 5.5% of all retail sales, well below levels in the United States and Britain. Current lower levels are partly due to the fact that Australian retailers have been slow to offer online sales, using the internet solely as a marketing tool. If Australian retailers do not embrace online sales, they could lose billions of dollars in potential sales to specialist stores and foreign competitors. (IBISWorld Industry Report)

Australian online sales actual and projection 2005 to 2016

Source: IBIS World Report



## Social Networking

Social networking sites, like Facebook and Twitter, are conceptually a giant conversation of customers and potential customers. Even though they are not replacements for retail shop fronts, by engaging in or listening to customer conversations, retailers can gain information about their business including:

- what products are in high demand
- what prices people are paying
- what the market thinks of them and their product
- what people like about competitors

Retailers also have the opportunity to communicate with their customers and potential customers about news in their business, for instance new products, special events and promotions.

The number of customers and potential customers are huge. As at November 2009 there were more than 7.1 million Facebook users in Australia. The challenge for retailers is how they harness these types of medium to drive growth in their own businesses.

Interestingly, 44%, or more than 3 million, of Facebook users in Australia are aged 25 to 44 which is prime market for most retail businesses.

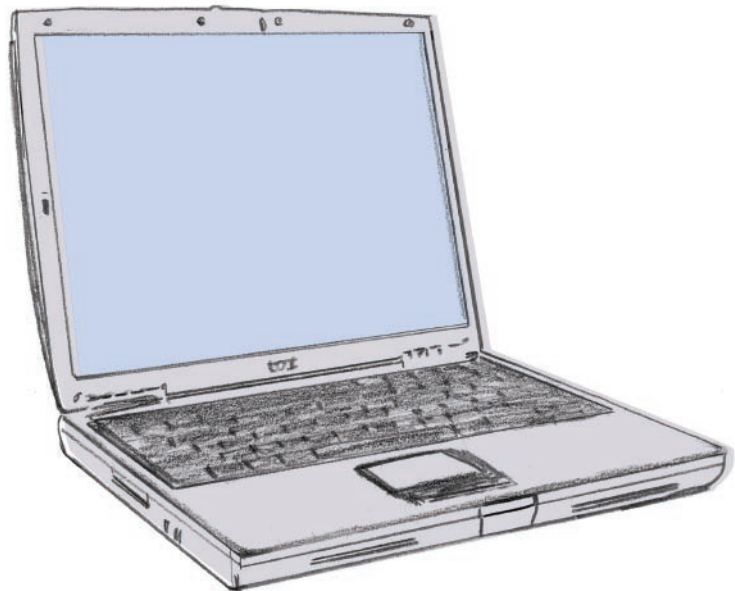


graysonline.com

### Aussie online success story

Graysonline retail and auction company has been transformed by the growth in e-tailing/ internet sales. Graysonline is one of Australia's leading auction houses which has been selling industrial and consumer goods for the last 20 years. A conscious decision was made by senior management approximately 8 years ago to switch the business sale model from traditional live auctions to online auctions.

As a result of this decision and the appropriate investment in infrastructure and resources, Graysonline has grown exponentially. Turnover has increased 5 fold, staff numbers have increased from 100 to 450 and the business now operates Australia wide. Over 720,000 unique visitors visit graysonline.com on a monthly basis. Graysonline's major vendors include Dell, Sharp, and Sony. Graysonline customers have the ability to purchase anything from a case of Wine, Computers, a Ferrari or even 100 tonne excavator without leaving their home or office.



## Strategies for retailers to capitalise on e-tailing:

### a. Research

Retailers need to analyse what will work for their store and products. Success will come from rigorous analysis of sales trends, customer demographics, product line, profitability and store profitability. Retailers should ask themselves:

- Do our target customers shop/ purchase online in general?
- Is our operation losing sales to online competitors?
- Do we offer something tangible or intangible in stores that cannot be replicated online?
- Will increased online sales improve overall sales or merely cannibalise brick-and-mortar stores?
- Will the right online infrastructure investments capture customer attention and sales and provide an adequate return on investment?

### b. Filter information

As consumers are currently information overloaded, retailers will need to decide on what to take on board and what to leave behind. This will be critical for their sales and business in 2010.

The key will be to find a reputable online site, references and publications that provide access to information that is backed by evidence, research and is free from sensationalism. 2010 will be about filtering information through a core vision, intention and strategy. This

will help to make decisions about what to take on board and what to leave behind. Too much information and indecision has the potential to paralyse.<sup>6</sup>

### c. Develop an efficient trading web site

Smaller retailers with limited resources, at a minimum should start with Facebook or Twitter as a way of building friends for their shop.

A Facebook page is a public profile that enables members to share their business and products with Facebook users. Pages are similar to personal profiles and brands accumulate fans instead of friends. Within pages retailers have the option of posting and collecting content, importing Twitter and blog feeds, collecting user reviews, and hosting discussions. Twitter has fewer users than Facebook but is simpler to use and to search. It is also free which is in stark contrast to Internet retailing.<sup>7</sup>

### Mobile web

An offshoot from the internet is web-enabled mobile phones. Even though they currently only account for only a tiny fraction of internet sales, mobile commerce is on the cusp of a rapid growth spurt as an increasing number of smart phones i.e. Apple's popular iPhone, enter circulation.

High-profile retailers including Ralph Lauren, Victoria's Secret and Net-A-Porter are among those who have recently entered the mobile commerce fray, offering full online shopping capability formatted for small screens. Whilst the market in Australia is small compared to the Asian markets, it is also an area of forecast growth in 2010.



## 2. Sustainability: Going green brings in the green

Consumers are increasingly focused on the environmental impacts of their consumption. Reduce, reuse, recycle – the three Rs of the green/sustainability movement – continue to influence customer behaviour. Environmentally sensitive goods and practices win a growing share of customer dollars.

Purchasing environmentally sensitive goods is, for many consumers, no longer an afterthought but a way of life. Retailers need to both be green and sell green products if they plan to cash in on this trend.

Retailers are demonstrating their commitment to the sustainability movements in a number of ways:

- H-E-B in the United States, LUSH, Marks & Spencer, Alliance Boots, Monsoon and Tesco in the UK, Musgrave Group in Ireland, Monoprix and Carrefour in France, Aeon in Japan, and Woolworths in Australia, have been listed as leading green retail businesses.
- Woolworths officially opened two state-of-the-art “green stores” at Rouse Hill, Sydney, and Victoria Harbour, Melbourne Docklands, and have incorporated many environmentally driven initiatives in all of their new and refurbished stores.
- EcoNomics Group, a public company formed to amalgamate sustainability focused, retail related business, is planning to list on the

Australian Stock Exchange.

- Many retailers now sell organic clothing, such as Walmart, and it is a growing part of their business.
- The UK fashion retail market has claimed the world’s first carbon footprint label for clothing. Continental Clothing, described as an ethical and eco-chic manufacturer, working with Carbon Trust, is launching the world’s first Carbon Reduction Label for textile products.
- Tesco, the largest British retailer, has commissioned a study by Oxford University toward developing a Sustainable Consumption Institute to establish a system to label every product sold by Tesco on the basis of its carbon emission footprint.

## 3. Customer loyalty: Growing investment in key customers

There is growing recognition that enhancing affinity among retailers’ best customers can produce long-term benefits, particularly since 20 percent of customers typically account for 80 percent of sales. Many retailers are investing their marketing, promotion, and discount dollars with their most loyal customers, putting as much emphasis on affinity as on generating traffic. Many retailers may fare better if they consider their ability to leave positive impressions with key customers as a performance indicator.

Many bricks-and-mortar retailers are sending cards and e-mails inviting loyal customers for special shopping

experiences such as wine tasting or fashion shows. Online retailers continue to foster loyalty for returning customers by offering discounts or upgrades to faster shipping methods.

Customer loyalty programs need to be thoroughly analysed, using statistical and other analytical techniques to calculate true returns. These same tools should be applied to gift-card usage, often a component of loyalty programs. This is especially critical after a down Christmas season: Were customers wary of buying gift cards amid major store closings and liquidations? Were redemption rates higher than past years as cash-strapped consumers made sure to use the cards they received?

Customer loyalty programs suit certain types of business. It is best for those businesses that do not have a natural connection with their customers. For instance, if you’re an online marketer, you don’t need a loyalty program. If you’re a Telecoms company, probably you don’t need a loyalty program because you already have a direct connection with your customer. However if you’re a grocer, chemist, hardware chain or a petrol chain, you cannot participate in the digital revolution without a loyalty program.

## 4. Cost and productivity management: Improving processes lowers costs and enhances customer satisfaction

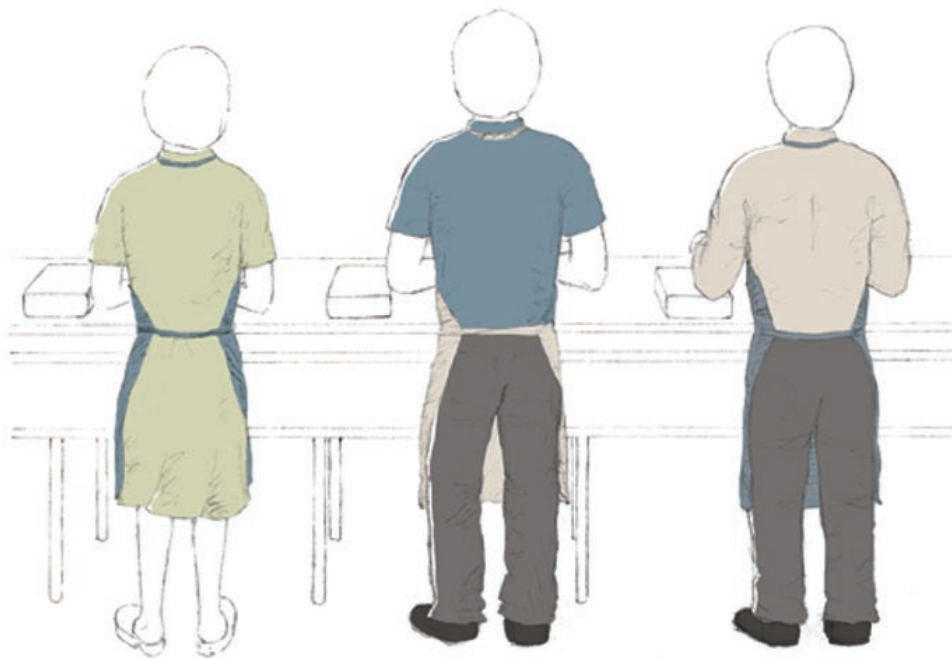
There is vast potential for retailers to improve their business processes, cut costs and increase efficiency in

both customer facing and back-end processes. Anyone who has waited in a long checkout line while cashiers simultaneously answer telephones, perform price checks and ring up orders will agree that process improvement is desperately needed in retail. While customer-facing processes offer obvious examples, a myriad of back-end processes can also improve productivity with more efficient approaches.

Lean thinking is one approach that is becoming increasingly common. This involves an intense focus on perfectly satisfying customer demand, while improving productivity and lowering costs by eliminating various forms of waste. For example, too much inventory, unused time and resources, damaged products, long waits for shipments, etc. A growing number of retailers, such as U.K. grocery and merchandise chain Tesco and Spanish fashion chain Zara, are adopting lean concepts.

### Conclusion

The time is now for retailers to re-examine their strategies and position their companies effectively both to ride out the economic downturn and maximise profitability as the economy rebounds. A number of highly successful retailers, such as Zappos.com and Amazon, have identified and exploited these timely opportunities. So too can other retailers that are savvy and forward-looking. Certainly, managing the challenges and opportunities facing retailers can seem overwhelming in a downturn, especially considering the many other issues retailers face each day. But after every recession, the winners that emerge during the recovery are those companies that invest the time, effort and resources to position themselves effectively for the future. With many competitors already moving forward, smart retailers cannot afford to wait.



# Industry Intelligence Unit

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The IIU is unique in its objective of providing stakeholders with information, understanding and analysis of the issues faced within specific industries and sub-industries. The IIU also seeks to provide pragmatic, commercial, practical measures and initiatives to improve stakeholder value.

## Industry focus

The IIU utilises the industry experience and expertise of Grant Thornton partners and staff across Australia. The IIU is predominantly focused on the following industries and their related sub industries:

- Property
- Retail
- Aged Care
- Automotive
- Hospitality
- Financial Services.

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If you want to know more, please **contact us...**

### Adelaide

Dale Ryan  
T 08 8372 6666  
F 08 8372 6677  
E [info@gttsa.com.au](mailto:info@gttsa.com.au)

### Brisbane

Graham Killer  
Michael McCann  
T 07 3222 0200  
F 07 3222 0444  
E [info.qld@grantthornton.com.au](mailto:info.qld@grantthornton.com.au)

### Melbourne

Matthew Byrnes  
Andrew Hewitt  
Greg Keith  
Nick Mellos  
T 03 8663 6000  
F 03 8663 6333  
E [info@grantthorntonvic.com.au](mailto:info@grantthorntonvic.com.au)

### Perth

Matthew Donnelly  
Tony Douglas-Brown  
T 08 9480 2000  
F 08 9322 7787  
E [info@gtwa.com.au](mailto:info@gtwa.com.au)

### Sydney

Paul Billingham  
Said Jahani  
Michael Owen  
Trevor Pogroske  
T 02 8297 2400  
F 02 9299 4533  
E [info.nsw@grantthornton.com.au](mailto:info.nsw@grantthornton.com.au)



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