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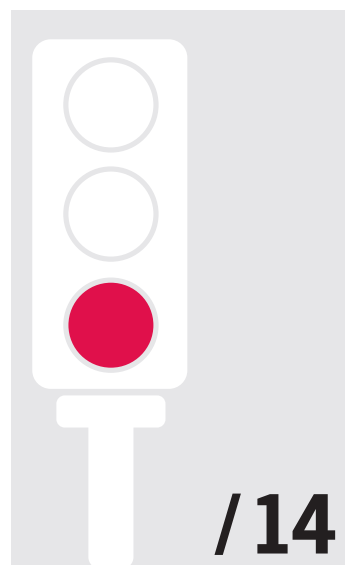
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# Insights

JULY 2015

## Consumer Products & Retail

# Welcome



Happy New (Financial) Year!

Let's hope the till rings enthusiastically for the coming year, with a strong Christmas. With department stores cranking up their reinvigorated strategies, and competition, it will be interesting to see the knock on to the rest of retail. A positive approach to the change in customer demands and omni-channel will place retailers in the best position to grow in 2015/2016.

This edition includes the following articles:

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**TwoCents**  
we are good ideas.

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# State of the market

RECENT RETAIL DATA, WHICH IN SUMMARY SHOWS...

\$\$\$  
4.4% ↑

Revenue up 4.4%  
in May 2015  
compared to  
May 2014

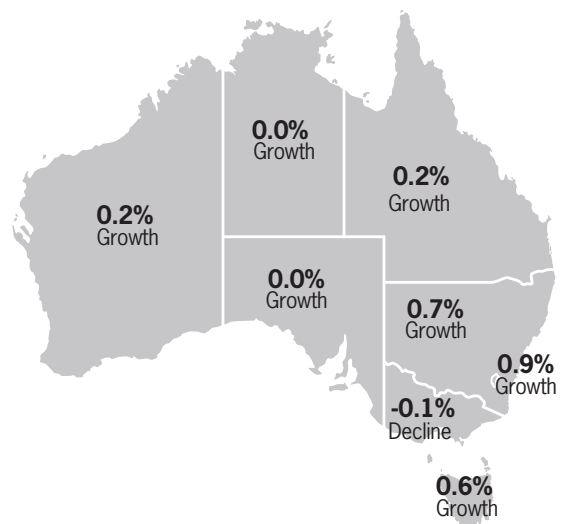


Growth driven by  
household goods,  
other sales and food  
retailing



Decline in clothing  
and footwear,  
department stores  
and restaurant sales

## RETAIL TURNOVER



## DETAIL BY INDUSTRY GROUP - RETAIL TURNOVER

CAFES, RESTAURANTS  
& TAKEAWAY



0.2% ↓

FOOD RETAILING



0.7% ↑

HOUSEHOLD  
GOODS RETAILING



0.9% ↑

CLOTHING, FOOTWEAR  
& ACCESSORIES



0.8% ↓

DEPARTMENT STORES



1.4% ↓

OTHER RETAILING



0.3% ↑

Source: ABS May 2015 retail turnover (seasonally adjusted) growth by state



# 2015 CPA RETAIL CONFERENCE KEY LEARNINGS

LOUISE WORSLEY

On the 15th of April Grant Thornton was a major sponsor of the CPA Retail Conference. Our own Simon Trivett and Gayle Dickerson were panellists along with a number of other retailer players. The key theme of the conference was certainly around innovation and connecting with your customers. We gleaned a lot from the speakers on the day and we share below some of the key insights shared by the panellists.

## INNOVATION

Innovation should be top down and across the whole organisation  
Small changes make a big impact - work out what small changes affect ROI  
Bring in external people where needed to collaborate and share ideas

## TRENDS

Consumer collaboration is still growing, the trend is to look to your customer to tell you where to innovate and focus your products and service offering  
China is an opportunity for growth - the Chinese middle class is growing rapidly each year  
Consider using store fulfilment models or Parcel Point for delivery and pick up rather than Australia Post  
An increasing number of retailers are collaborating with suppliers including data sharing

## USING DATA

Historical data can determine trends and who your real customer is versus the target customer  
Website search functions provide insights into your customer and the data can be used to determine what to stock and when  
Data can help you to understand how to create a better customer experience  
Data can be used to better understand underperforming parts of the business

## DIGITAL STRATEGIES

Challenges for retailers include working out the right mix between online and in-store and how best to structure and integrate the two  
The best Australian retailers tend to have 20% digital 80% bricks and mortar and those that do it well ensure a seamless approach between mediums. In Europe digital is 30%  
The size of the online opportunity is significant if all stock items are available online and you use a store fulfilment model

## CONNECTING WITH CUSTOMERS

Empower employees in store to connect with your customer and find ways for them to communicate their ideas to head office  
Consider building customer surveys into the retail experience eg. Kent and Lime won't allow returns without completion of a customer survey  
Focus on hiring people who match your brand experience, not just the best sales people

## MARGINS AND COST MANAGEMENT

To improve profitability in a market where rents and salaries generally increase by 3% per annum, combined with the Australian dollar increasing cost of goods for many retailers, revenue growth rather than cost cutting should be the focus

# 2015 SYDNEY CPA AUSTRALIAN RETAIL FORUM

## CHALLENGES AND GROWTH SURVEY

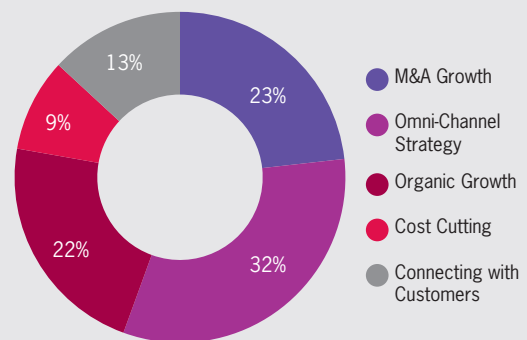
JONATHAN BUCCERI

Based on a recent survey conducted by Grant Thornton, omni-channel is the number one priority for the year ahead.

During the CPA Australia Retail Accounting and Finance Forum held in Sydney, Grant Thornton surveyed the senior executives of leading retailers operating in the Australian market to determine what challenges they are currently facing and where they expect to see growth occurring.

The survey results suggest that retailers are becoming less focused on cost cutting and are instead looking for growth, primarily through investment in omni-channel offerings. Digital disruption continues to cause significant challenges to the Australian retail market, and failure to recognise the potential threats caused by this shouldn't be underestimated. With online sales still lagging behind international markets and the anticipated continued invasion of international retailers, developing a effective digital strategy is becoming a necessity.

### TOP STRATEGIC PRIORITIES



65%

of respondents have not yet implemented an omni-channel strategy



84%

of retailers without an omni-channel strategy intend to implement one shortly

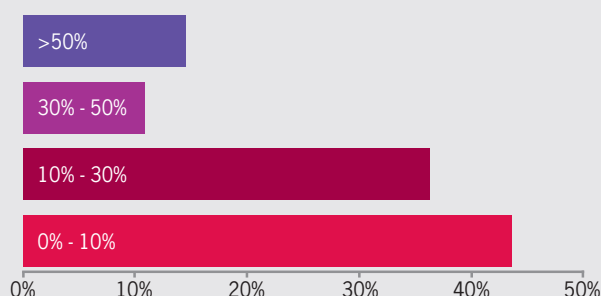


39%

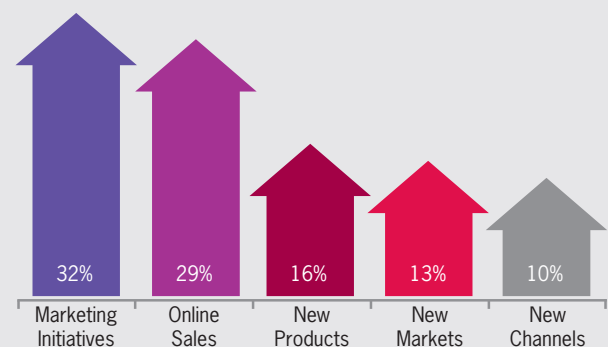
of respondents are considering expanding overseas in the next 18 months

The majority of respondents had less than 5-10% of their total sales occurring online, however were expecting this to increase.

### ONLINE SALES GROWTH EXPECTATIONS

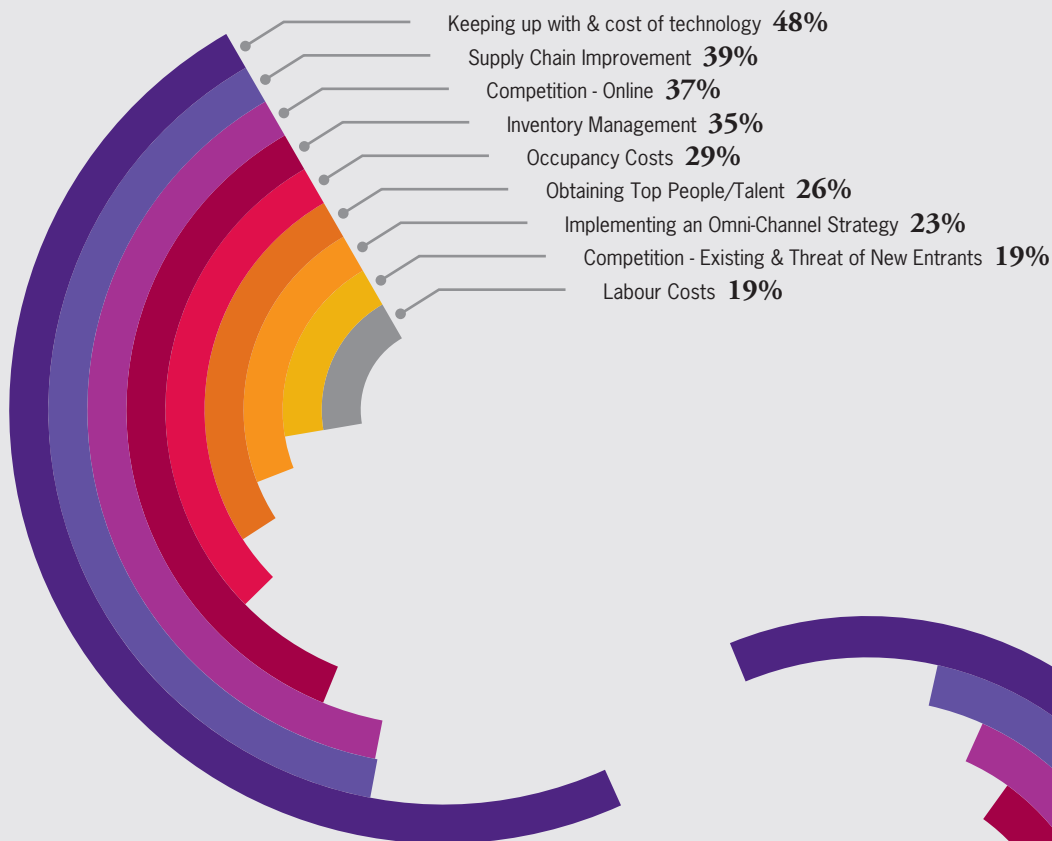


### PREDICTOR OF THE BIGGEST GROWTH DRIVER OF NEXT 12 MONTHS



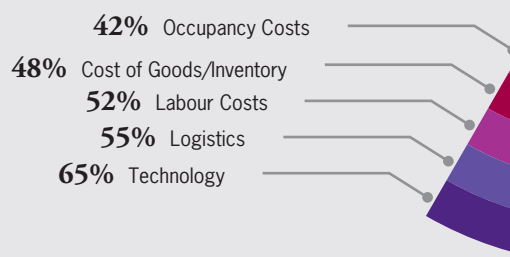
## TOP CHALLENGES

Keeping up with the cost of systems/technology was identified as one of the major challenges facing business, followed by supply-chain and inventory management.



## GREATEST COST OBSTACLES TO GROWTH

When questioned on the top three obstacles to driving growth technology and logistics represented the greatest cost obstacles.



# BUDGET WRAP UP

SIMON TRIVETT

When I listened to the budget speech in May, in the back of my mind was my view of what the current retail landscape in Australia looks like. Australian retailers are facing revolutionary changes to their industry in terms of digital disruption. Mobile devices and the proliferation of online stores and international competition has put the power squarely in the hands of the consumer. This trend is amplified by changing consumer demographics and the emerging purchasing power of the Millennial generation. So what was in the budget that might help retailers address any of that?

Retailers and the general business community wanted to see a budget that if not grew consumer confidence, at least didn't have a negative impact on it. Most commentators agree that the budget was fairly uncontroversial and already the early indications are that consumer confidence has improved. Michael Page Australia's recently released 2015/16 Salary and Employment Outlook showed that 55% of retail companies surveyed were planning to hire over the next 12 months. And in signs of improving economic optimism 53% rated the current national economy as "fair", while 35% rated it as "good".

Because the details of the budget measures and initiatives are already well and truly analysed in the media, I wanted to highlight one of the specific measures and what we have heard the early impacts have been.

**Asset writeoff / accelerated depreciation** from 12 May 2015 up to 30 June 2017, all small businesses (defined as annual turnover <\$2 million) were given an immediate tax deduction on any individual assets purchased that cost less than \$20,000. This deduction applies on an individual asset basis and there was no limit as to the number of individual assets that the small business can apply this towards. I was a little sceptical as to whether this would have any immediate impacts, as I thought small business really planned out any major purchases and probably wouldn't be influenced by this so quickly. However enough clients have reported a sales rise, particularly in June 2015 that can't be explained by the "usual" pre 30 June buying. And this appears to be across many sectors – business electronics, lower priced vehicles, hardware/tools of trade and office equipment. So it appears this budget measure has already positively impacted retailers.

The removal of FBT on mobile devices for small businesses appears also to have had a quick positive impact on sales according to a number of clients in this sector.

At a macro level, the recent lower Australian dollar has put pressure on margins across the board where these weren't able to be passed on quickly. As price rises gradually filter through to the consumer this will also give the impression that sales have increased, but as always your cash flows and profitability will be the main measures of success.





# TOP FIVE RETAIL TRENDS FOR THE NEXT 12 MONTHS

SIMON DELL

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TwoCents Group

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THE RETAIL INDUSTRY IS BECOMING A HIGHLY COMPETITIVE MARKETPLACE WITH BUSINESSES FIGHTING FOR THE CONSUMER DOLLAR WHILE SIMULTANEOUSLY TRYING TO STRETCH THEIR OWN. RETAILERS ARE INCREASING THEIR CREATIVITY AND ADJUSTING THEIR MARKETING STRATEGIES TO MAKE SURE THEY DON'T MISS OUT ON A SINGLE CUSTOMER. MANAGING DIRECTOR OF TWOCENTS DIGITAL MARKETING AGENCY, SIMON DELL DISCUSSES THE TOP FIVE RETAIL TRENDS FOR 2015.

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## 1. THE INFLUENCE OF THE BABY BOOMER

The baby boomer generation have been steadily increasing their disposable income over the last decade and are now worth 35% of the retail market. Born between 1946 and 1964 the baby boomers are one of the most desirable markets according to a report in 2014 by the Grattan Institute.

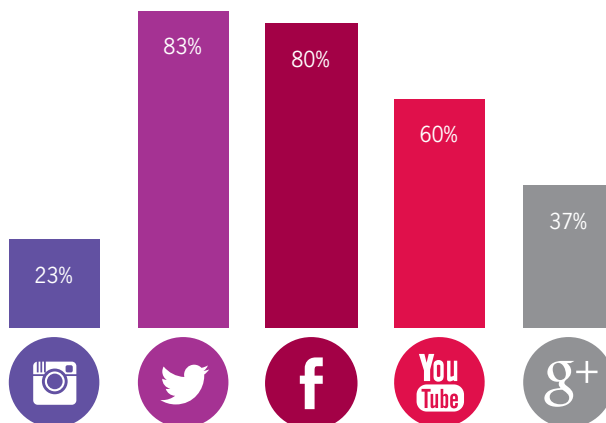
Households ranging from 65 to 75 years are on average \$215,000 better off than they were eight years ago.

COMPARATIVELY HOUSEHOLDS UNDER 35 YEARS OLD ARE POORER DUE TO INCREASES IN UNIVERSITY COSTS, PERSONAL DEBTS, HOUSEHOLD PRICES AND INCREASES IN TAX.

Retailers are keen to cater to this market by adjusting the retail experience to their specific post-retirement needs. This can be seen in shopping centres who offer free wheelchairs and scooters to shoppers, earlier opening hours, better lighting, softer music and wider aisles.

## 2. SOCIAL NETWORKS WILL SERVE AS SHOPPING PLATFORMS.

Brands using social media platforms



In 2015 even more brands will take to social media to reach their audiences. A 2015 report from the Social Times states 83% of brands have a presence on Twitter and 80% on Facebook, between 2014 to 2015 Instagram has seen a 204% increase in branded pages.

In 2015 brands will take the step from using social media as a form of communication with their audience to selling products.

FACEBOOK AND TWITTER WILL BE INTRODUCING "BUY" BUTTONS AND A LIKE2BUY PLATFORM WILL BE AVAILABLE FOR INSTAGRAM.

The buy button allows consumers to research the price, item description and shipping information while making the purchase decision. The customer is then prompted to enter their shipping address, credit card details and place the order.

The buy button has proven effective in reaching impulse shoppers as it eliminates the number of clicks a shopper must make and increasing the likelihood of the transaction being completed.

### 3. BRANDS WILL INCREASE THEIR CORPORATE SOCIAL RESPONSIBILITY

According to the Australian Centre for Corporate Social Responsibility (ACCSR) 87% of customers factor CSR into their purchasing behaviour.

In 2015, consumers expect companies to have sustainable supply chains, ensure none of their activities breach human rights and they adhere to community and ethical standards. An example of good CSR would be Heinz foods donating products to various food banks and charities.

Consumers respond well to CSR as they feel they are contributing to a worthwhile cause when purchasing from that brand.

SHOPPERS WANT TO KNOW THE MONEY THEY ARE SPENDING IS NOT GOING STRAIGHT INTO A CORPORATION, BUT IS TRULY MAKING A DIFFERENCE IN THE COMMUNITY.

### 4. LOYALTY PROGRAMS WILL EVOLVE

As we move forward retailers are enriching and personalising the shopping experience and simply offering discounts and offers will not be enough to attract customers into stores anymore.

Retailers will find additional ways to make the customer's experience unique and memorable by focusing on customer loyalty. Loyalty programs will need to reward shoppers for their actions and engagement, rather than just purchases.

One example of this would be Lorna Jane with their Move Nourish Believe campaign where consumers are encouraged to share their health and fitness experiences online. Due to the high levels of engagement and interaction online Lorna Jane has a large and positive social media presence and is able to offer a unique online customer loyalty program.

### 5. RETAILERS WILL ADOPT AND EXPERIMENT WITH TECHNOLOGY

Increasingly retailers are adopting and experimenting with new technologies to benefit both their businesses and customer experiences.

For example many restaurants are using ipads as a system of ordering where the customer is given an ipad once seated and has the ability to order meals at their own pace. Such a system is excellent for both the customer and business as it decreases frustration with customers waiting to order and also decreases the number of wait staff needed to be working.

TECHNOLOGY THAT SAVES TIME AND MONEY WILL ALWAYS BE LOOKED ON FAVOURABLY BY RETAILERS AND AS WE SEE INCREASES IN TECHNOLOGY SO TO WILL WE SEE THE RETAIL LANDSCAPE CHANGE.

# BIG DATA



# A path to smarter data:

## Using a strategy map approach to understand opportunities

KRISTY FOTIADIS

### BIG DATA TERMS, LOTS OF TECHNOLOGY OPTIONS

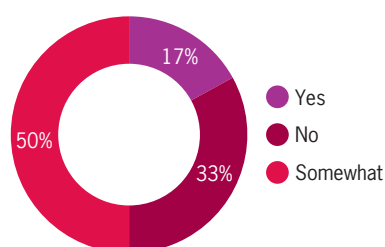
Big terms such as 'Big Data', 'Digital Disruption', 'Complex Analytics', and 'Connectivity' are all designed to scare us into the limitless information possibilities available to retailers.

Thousands of products exist on the market, with over 900 technology companies offering solutions to retailers. However technology should not be viewed as the starting point. Rather businesses need to understand how data will support their business strategy and create value for their organisation and how people, processes and decision making structures need to align.

### UNSURPRISINGLY ORGANISATIONS ARE GRAPPLING WITH WHAT THIS MEANS

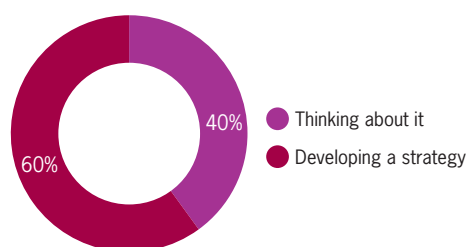
88% of mid-sized retailers polled were unclear on what big data means for their organisation.

Q. Is your organisation clear on what big data is?



Mid-sized retailers are in the midst of planning their big -data path, however not yet implementing.

Q. At what stage is your organisation in big data?



### MAKING IT MEANINGFUL AND USEFUL

We have heard time and time again that data means nothing in the absence of interpretation and it is definitely not useful if we are drowning in it.

So how does an organisation use data to:

- Ensure it's useful and meaningful?
- Link it to its strategy?
- Connect to its customers
- Change behaviours or drive actions, for customers, sales or backoffice

Right upfront the executive team and the board need to recognise **'It's a change that will affect every part of our business'**<sup>1</sup> and plan and manage it as such.

The true potential lies in allowing you to understand the nature of the customer and what they value, and then to reinforce your strategy to maximise value. This involves shaping your people, processes and decision making structures around how you will use data to ultimately achieve the desired customer experience and financial drivers of the business.

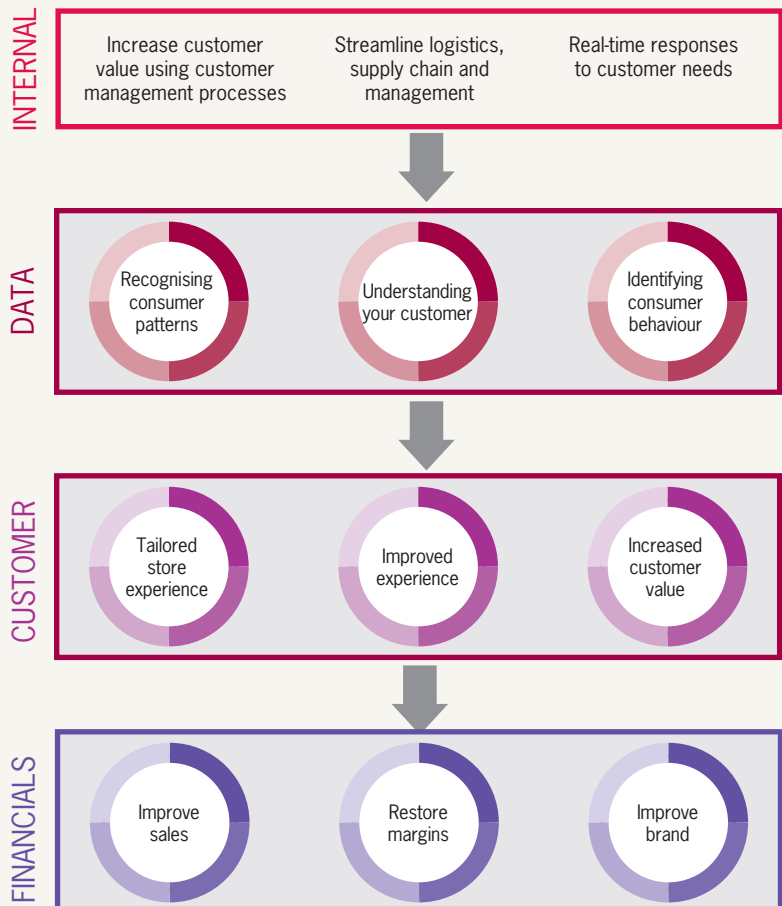
1. Quote: Darren Stoll, VP Marketing, Macy's  
2. 'The Strategy Focused Organisation, 2001, Kaplan and Norton

## USING STRATEGY MAPS AS A TOOL TO LINK DATA AND CREATE VALUE

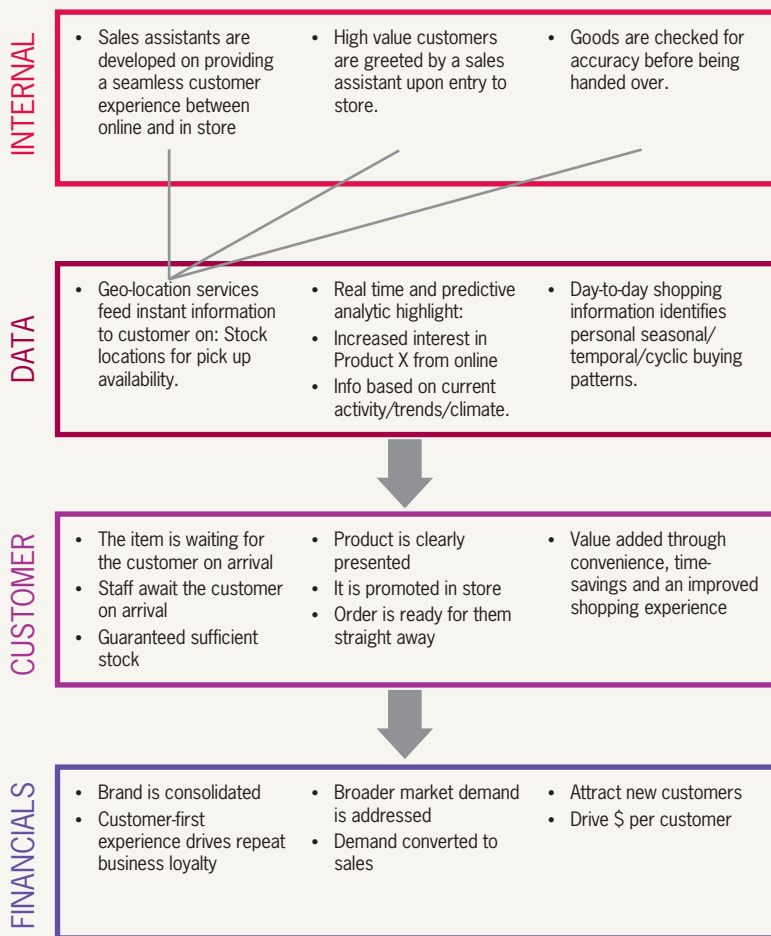
A strategy map<sup>2</sup> visually describes how a business creates value by connecting strategic objectives using a cause and effect relationship with the balance scorecard metrics of financial, customer, internal processes and learning and growth. It is a great way to describe and communicate to people within the business how everything aligns around the businesses strategy and what is required to make it successful.

1. Start with your strategy and customers in mind
2. Translate your strategy in measurable outcomes
3. Understand the data required to support the outcomes
4. Understand what actions and activities this should create
5. Link these all together

### Illustrative Strategy Map 1



Illustrative Strategy Map 2



**“IT’S A CHANGE  
THAT WILL AFFECT  
EVERY PART OF  
OUR BUSINESS.”**

# Key Insurance and Risk Issues for the Retail Sector

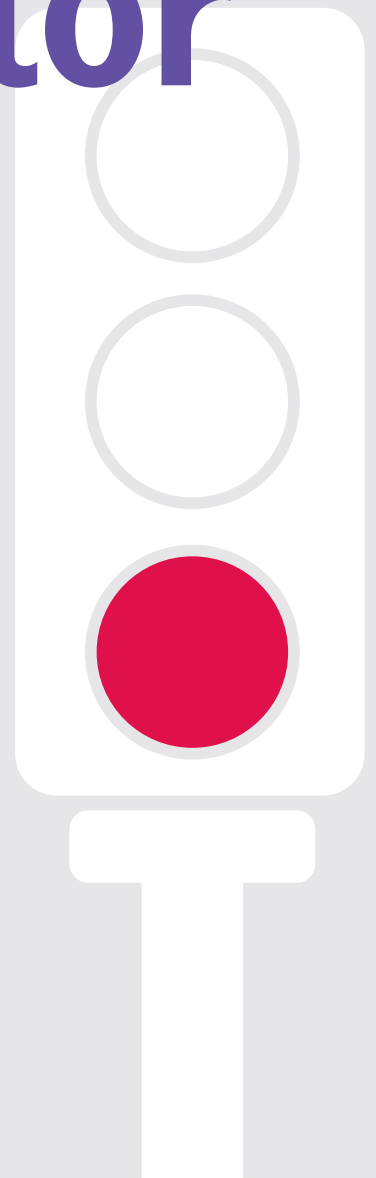
JOHN MUTTON, JAMES SINCLAIR & NICK HODGES

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InterRISK Australia Pty Ltd

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The insurance industry is in a very competitive position from a cost-cover perspective. This is very relevant to the retail sector as this is a preferred industry class from an insurance perspective. In the main, this is because businesses are typically well managed, operate in a safe environment and are profitable for the insurance sector.

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There are standard policy covers that would be purchased by the majority participants in this sector. Smaller businesses would generally be covered within Business Package and Management Liability policies. Larger buyers of insurance would have a number of policies, including: Property & Business Interruption (often referred to as Industrial Special Risks), General Liability, Management Liability (or the various components within a policy of this type on a stand-alone basis), Motor, Marine and Business Travel. Depending on the size, profile and complexity of the business in question, additional coverages may also include Product Recall, Product Contamination, Cyber and Data Privacy.

**Product Recall Expenses** cover provides ‘expense cover’ towards physically removing stock from shelves that is likely to cause third party property damage, or cause third party bodily injury.

**Product Contamination** goes beyond the scope of Product Recall Expenses cover and provides cover for both first and third party costs resulting from a malicious act, product tamper, extortion, or an accident through the supply chain.

**Crime, Cyber and Data Privacy** is a key area of exposure for retailers. Cyber is a relatively new insurance solution and is widely misrepresented and misunderstood. At a basic level, the intention of this cover is to address risks that companies face from criminal interruption to electronic systems, along with breaches of privacy. The dynamic complexities of cyber crime make it almost impossible to articulate every loss scenario, but retail specific examples include:

- 1 Breach of credit card or membership card information, resulting in personal information being inadvertently, or criminally released.
- 2 Fraudulent communication relating to changes in supplier bank account details, resulting in false vendors being paid for the supply of goods.
- 3 Fraudulent ‘internal’ emails (actually sent by external parties) instructing staff to transfer funds to a fraudulent bank account, on the basis of what appears to be a legitimate instruction from a superior within the business.

In addition to this mosaic of insurance covers, every business is required to purchase Workers Compensation to cover its workforce. More sophisticated brokers will be able to render considerable support in the capacity of return to work coordination and claims-case management. Workers Compensation is generally the largest insurance ‘spend’ and it is critical that your broker provides guidance around correct industry classification as one of the key-premium drivers in every State/Territory scheme.

Putting the insurance products aside, a good broker will also have a service model that is suited to those within the retail sector. In our experience, critical factors will include:

- Efficient platform to deliver Certificates of Currency which are generally requested annually by Landlords. The usual risks of interest are Plate Glass and Public Liability;
- Accessibility to senior brokers that have the experience and ability to work through Lease issues. In the vast majority of cases, Landlords look to leverage their (often) larger position against the Tenant and require onerous, one-way and often unachievable insurance and indemnity clauses. An experienced insurance broker will assist their client agreeing a mutually acceptable contractual position;
- Understanding any specific or unique risk characteristics of their retail client. The majority of retail clients are importers of third party produced goods, supply-chain risk is critical and will often need a specific insurance solution;
- Experience in the Professional Liability space. With the evolution of computer based fraud and data/privacy and hacking type losses, it is absolutely imperative the broker has the technical understanding and experience of this product suite. The challenge here for retail clients is to ensure they partner with brokers that can ask the right risk-based questions;
- An open-market model where it is the clients' business that dictates the available insurance market, not the brokers preferred-insurer relationship. Retail businesses like many others operate on slim margins and deserve to deal with insurance brokers that are committed to deliver the most cost-effective and appropriate insurance outcome available; and
- Providing risk-based solutions also. Insurance brokers talk every day to their clients about what is insured. In our experience, the better brokers spend just as much (if not more) time working through the various risks that are either (a) not insured, and (b) not insurable. The only way to complete this task properly is to look at the business from a risk perspective. A great tool to assist in this regard is the development of a risk-register. The outcome of which will be a working document that identifies and quantifies each key-risk to the business and then aligns each risk with a solution which may include insurance, or require other strategies for remedy. The objective here is to provide a solution for the retail business that is predictable.

According to Jaqueline Rota Managing Director of Austbrokers Trade Credit Pty Ltd insolvency rates are on the rise again. As such it is not only important to know who you are selling to, but also have comfort in knowing that you are covered if one of your customers doesn't pay you.

Credit Insurance is a product that helps to identify your customers, assesses whether you should be selling to them and covers you in the event that they fail.

A credit insurance policy can be tailored to your business' individual requirements and will help you sleep better at night, knowing that if one your customers doesn't pay, your business won't fail as a result.

Therefore our advice to members of the retail sector is to partner with a broker that demonstrates experience by asking the right questions. Your profile is likely to underpin a competitive outcome in almost all cases, a good broker will maximise this position and ensure the program is designed properly and will deliver predictable outcomes.

**It is easy to  
classify all  
businesses that  
operate in the  
retail sector the  
same, in reality  
every business  
is different  
and requires a  
specific solution.**



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