



Inside(Retail)[®]

AUSTRALIAN RETAIL OUTLOOK[®] 2021

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Everything is different now. The retail industry is looking for answers. But before you can have the right answers, you need to ask the right questions. The process of answering them can help your business rethink, recover, adapt... and grow.

How you
grow matters



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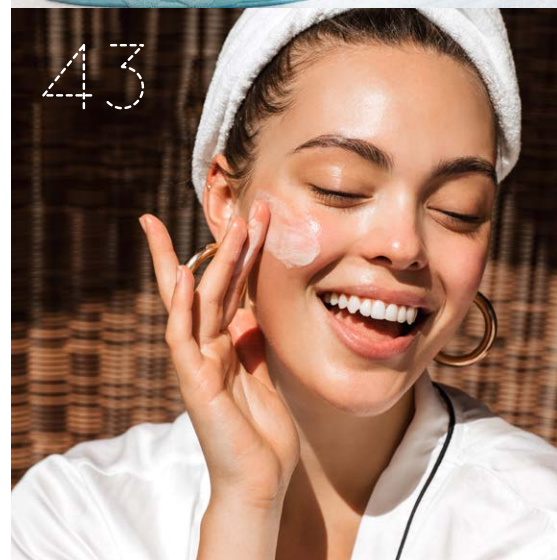
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HEAD OFFICE

S3, Ground Floor,
131 Clarence Street,
Sydney, NSW
PO Box R217 Royal Exchange
NSW 1225 Tel: +61 2 9901 1800
Fax: +61 2 9901 1800

EDITOR

Jo-Anne Hui-Miller
jo.anne@octomedia.com.au

ADVERTISING

Jeff Purser
ads@octomedia.com.au

GRAPHIC DESIGN

Sofia Costales
sofia.c@octomedia.com.au

GENERAL MANAGER

Amie Larter
amie@octomedia.com.au

FOR MEDIA RELEASES

irnews@octomedia.com.au

Inside@Retail

AUSTRALIAN RETAIL OUTLOOK 2021®

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From the editor

THE NEW YEAR HAS ONLY JUST BEGUN AND WE'RE STILL DUSTING ourselves off from what was a crazy rollercoaster of unpredictability. Congratulations are in order - you've made it through and you've come out on the other side.

When we published the *Australian Retail Outlook* last year, the eastern coast was being ravaged by bushfires and there were some murmurs about a strange disease called coronavirus, but no-one could have guessed that by March, it would quickly snowball into a global pandemic and turn the world upside down.

A year on, the repercussions of coronavirus are far from over, but this time, many of us are more aware of our resilience, ability to rise in the face of uncertainty and bravely march forward into the unknown. Bolstered by this newfound strength, I'm excited to see what the retail industry has to offer in 2021.

According to this year's *Australian Retail Outlook* survey, a third of respondents said they accelerated their existing plans last year and 27.49 per cent bravely explored new territory by entering new categories or launching new products.

As Erica Berchtold, CEO at The Iconic said: "If 2020 has taught us anything, it's that those organisations that can be agile and pivot quickly will lead the future growth and direction of our industry. We had a strategic plan in place pre-COVID, and instead of putting our foot on the brake in the face of uncertainty, we chose to hit the accelerator."

In so many ways, the 'new normal' has forced the retail industry to raise the bar when it comes to customer engagement, digital, delivery and even physical retail. Customers are savvier than ever and their demands and expectations have increased in the past 12 months.

In the latest edition of the Outlook, we take a look at how consumer behaviour has shifted, how business models have changed and the retail trends that you should know about. Meanwhile, we chat with some of Australia's most inspiring retail leaders, who share the ups and downs that they experienced last year and their plans for this coming year.

I hope you enjoy this year's Outlook. Who knows where the industry will be this time next year?



JO-ANNE HUI-MILLER
Editor,
Australian Retail Outlook

The year that was

LAST YEAR WAS A TURBULENT PERIOD OF TIME FOR AUSTRALIAN RETAIL.

In last year's *Australian Retail Outlook*, we stated that the next decade would see a dramatic change, as how we live and work reshapes how leading practice retail should look. We certainly couldn't have predicted the change that would occur in just a few months due to COVID-19.

Initially, COVID-19 was widely predicted to have a devastating effect on many retailers. Instead, retail collapses hit record lows as government initiatives (such as JobKeeper and the temporary suspension of insolvent trading laws) protected retailers. Consumers hoarded cash and retailers pivoted to online, driving some to produce financial results way beyond expectations.

However, we believe 2021 may be the year that challenges retailers even more than 2020, as the government's economic morphine starts to unwind, businesses return to business as usual and consumer cash piles slowly revert to more realistic levels. Indeed, COVID-19 has accelerated a wave of digital disruption for the retail sector, and with consumers now living differently, purchasing differently and thinking differently, retailers will need to place their bets around what will stick versus what is a glitch.

While the rapid shift to online caught many retailers unprepared, it has also seen businesses with strong digital DNA and e-commerce capabilities thrive, and their growth rapidly accelerate. After experiencing five years of e-commerce growth in a matter of months due to the pandemic, retailers and brands need to leapfrog their investment programs to deliver their 2025 plan today. As the consumer's preferred channel to purchase continues to shift, so too do the drivers influencing buying decisions as consumers demand greater personal safety and value for money.

Other challenges of COVID-19 will also continue.

Retail rents will undoubtedly remain in the spotlight this year, as landlords and retailers continue their delicate dance to work together to achieve a win-win outcome and succeed in transitioning their respective operating models for the new reality.

The new *Payment Times Reporting Act* commenced on 1 January 2021 and requires reporting entities to publicly report on their payment terms and times with small suppliers, which means that customers, suppliers, investors and, more importantly, the media, will have the ability to call out companies stretching their cashflow.

It's not all doom and gloom. The development of a COVID-19 vaccine provides a real reason for optimism, but it is important to understand that 2021 (and possibly beyond) will be all about the art of retailing against a lack of reasonable comp sales while vaccine distribution ramps up and supply chains are reconfigured.

While uncertainty and many challenges lie ahead, good retailers won't waste this opportunity to rethink their strategy, to embrace change and build competitive advantage. We believe those retailers will come out on top and will embrace 2021 as the year of retailing bravely.



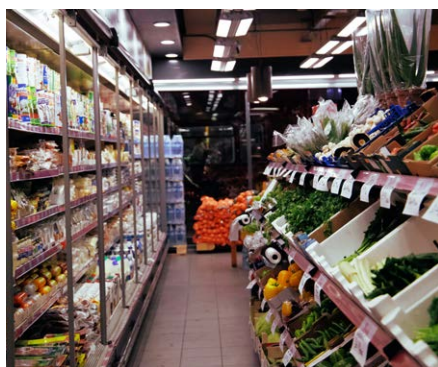
MATTHEW DARBY,
Partner, National Sector
Lead Retail, KPMG



JAMES STEWART,
Partner, National Leader,
Restructuring Services, KPMG

Retail on the 2020 rollercoaster

From the devastating bushfires and global pandemic to the Black Lives Matter events and the US elections, 2020 was jam-packed with unpredictability from start to finish.



LAST YEAR WAS AN EXERCISE IN LEADERSHIP AND RESILIENCE, as retail leaders were forced to think on their feet and respond to the ever-changing environment at a rapid pace, whether it was dealing with changing restrictions, disrupted supply chains, delivery delays or shifting consumer behaviour. There was no rest for the wicked.

Here are some of the major changes that impacted the retail industry in 2020.

DIGITAL TO THE FRONT

When the pandemic first hit Australia in March, it did not take long for the retail industry to realise that those with a strong e-commerce presence were in much better stead than others in the industry. In fact, many online retailers experienced record years of sales. According to Accent Group CEO Daniel Agostinelli, digital sales for the year grew by 142 per cent in the quarter ending June 30, 2020.

As the year went on, it became clear that omnichannel was the name of the game, and savvy retailers focused their energies on initiatives that could bridge the gap between on- and offline, catering to the changing needs and desires of consumers. Virtual appointments, click-and-collect and reserve-in-store were some of the ways that omnichannel retailers encouraged customers to shop with them during the year.

While there will always be a place for great bricks-and-mortar experiences, it's clear that consumers have now become accustomed to the convenience (and safety)

of e-commerce. Even beyond COVID, customers may now be considering whether it's worth their time to head to their local shopping centre or if it's best to simply shop online.

THE FUTURE OF PHYSICAL RETAIL

Unfortunately, social distancing and shopping centres do not comfortably go hand in hand. It's been a tough year for physical retail to say the least and many were forced to consolidate their store networks.

Meanwhile, at the peak of lockdown, the CBD in Melbourne and Sydney were virtually empty, with many in the industry wondering when or if it will ever return to its full glory. In response, some retailers put their focus on suburban neighbourhood centres. For example, international sporting giant Under Armour didn't choose to open their Sydney flagship store in Pitt Street Mall, but in the suburban Macquarie Shopping Centre.

According to the results of this year's *Australian Retail Outlook* survey, an overwhelming 80.57 per cent of retail execs believe that the relationship between retailers and landlords is under further strain. While some landlords may have been open to compromise, others took a hard-nosed approach. In August last year, due to long-term rental disputes with Noni B and Strandbags, Scentre Group temporarily locked their stores in Westfield centres across the country.

"These actions are extremely disappointing, given the current environment, and difficult to comprehend in the context of a relationship that spans close to 40 years," Mosaic chairman Richard Facioni said at the time.

"Mosaic continues to conduct rental negotiations in good faith with all landlords, including Scentre Group, in the spirit of sharing the burden of the impact of the COVID-19 crisis, consistent with Government recommendations."

However, by the end of the year, several major retailers' plans finally came to fruition when they launched impressive new flagship stores and retail concepts. Beauty giant Mecca opened an expansive three-storey flagship store, offering 50 services including make-up application workshops, ear piercing, blowdries, facials and more.

"The future of retail is still high touch. Even though we're in a 'post-COVID world, we will not be successful if we put up sterile retail stores for our customers – they'll stay home and we won't deserve their business in physical stores," said Danny Lattouf, partner at creative agency The General Store, which began working on the store concept with Rebel and Nike in January.

"Customers are yearning for great

experiences and it's our responsibility to bring it to them. Whilst convenience has risen to an even higher degree of importance in recent times, we must pair that with differentiated experiences that provide a real value exchange for people's time, energy and attention."

RISING FROM THE ASHES

For some retailers that were already struggling, COVID-19 sadly tipped them into voluntary administration, including: Tigerlily; PAS Group; Kikki K; Seafolly; Colette by Colette Hayman; My House; Jeanswest and Australian Fashion Labels.

However, most of the aforementioned retailers were able to find buyers to breathe new life into the businesses. MyHouse was acquired by Global Retail Brands; Jeanswest was bought back by a minority shareholder and US stationery business EC Designs bought much-loved lifestyle brand Kikki K. Meanwhile, Seafolly entered administration in June, but by September, there was a new CEO on board and even acquired rival Jets from PAS Group.

No doubt, it's a challenging time for retail, especially for physical stores, but it's clear that for those businesses with loyal customer bases and brand value, there's still some life in them, if they can find the right investors.

When Bernie Brookes and his team decided to invest in Colette, they recognised that the brand had expanded too quickly across the world, which led to its downfall. However, as Brookes revealed to *Inside Retail* in the middle of last year, there is still a lot of potential for the jewellery retailer in the future.

"It's a very strong brand that's been built up over an extended period of time...[and] because it's a private label, it doesn't depend on other brands to onsell. That means you get the full margin as a private label. The growing online business, which is now up to 30 per cent of the business a month...has enormous opportunities," he said.

CAUTIOUS OPTIMISM FOR THE FUTURE?

Now that many businesses have accelerated their plans and have developed a strong sense of resilience after last year, it will be interesting to see what's in store for 2021. As The Iconic CEO Erica Berchtold said: "If 2020 has taught us anything it's that those organisations that can be agile and pivot quickly will lead the future growth and direction of our industry."

"History shows that society shifts and new things are born when crises hit, and while complete with its challenges, times of disruption offer unique opportunities to rethink the way you do what you do and really lean into innovation." ■

Industry insights: EXECUTIVE VOICES

After such a tumultuous year and the uncertainty that continues to face us, we check in on how retail leaders are feeling about 2021 and how the industry has shifted.

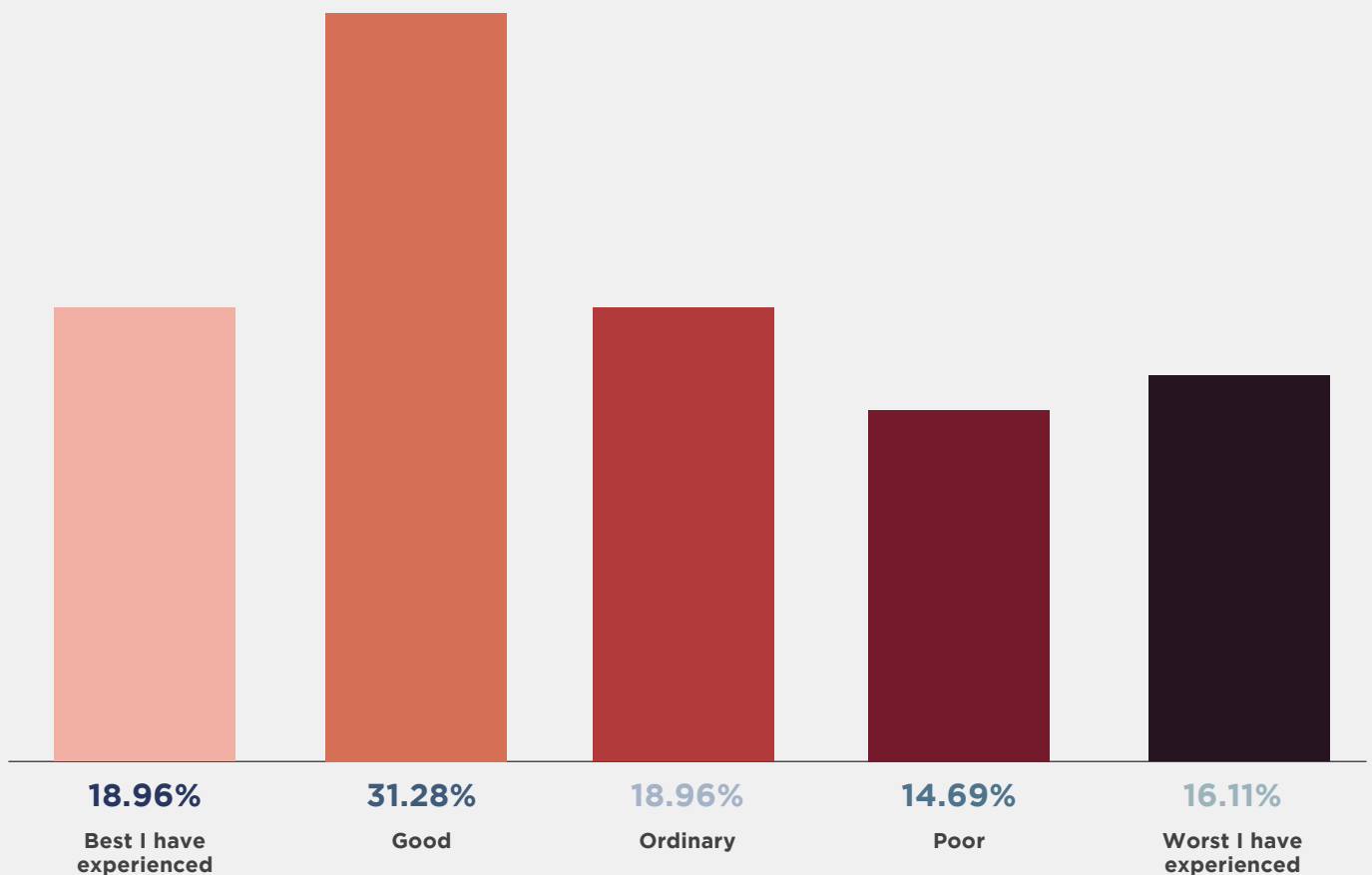
LAST YEAR WAS LIKE NO OTHER AND THE BUSINESS WORLD WAS TURNED UPSIDE DOWN as well changed the way we live, work and shop. It was a time for retail leaders to re-consider how they operate, experiment and be brave.

In this year's *Australian Retail Outlook*, around half of survey respondents were CEOs, owners or in upper management at retail businesses and 32.7 per cent of

respondents came from businesses with at least 250 employees.

All retail categories were represented in this year's survey, with 15 per cent of respondents coming from the fashion sector. Participants also came from grocery/supermarket (9.95 per cent), furniture and homewares (9.48 per cent), recreation/sports (6.16 per cent) and pharmacy and cosmetics (6.16 per cent).

Q.1 How would you describe trading conditions in the past 12 months?



Despite the rocky year, survey respondents indicated that 2020 was actually quite positive for their trade, with almost a third (31.28 per cent) describing conditions as 'good'. For some retailers that already had a strong online presence, last year actually saw sales skyrocket through the roof.

Q.2

How did the last 12 months compare to the previous?

Significant improvement

29.38%

Slight improvement

21.33%

Remained about the same

7.58%

Slightly worse

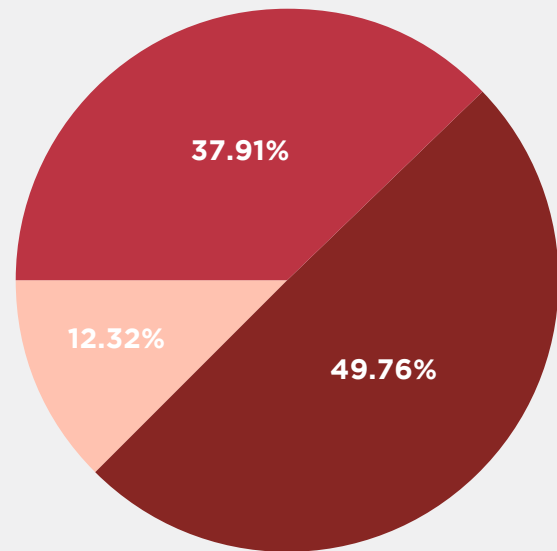
14.69%

Significantly worse

27.01%

Continuing on from their positive experiences of 2020, half of respondents (50.71 per cent) found that the last 12 months were an improvement upon the year before. Several categories were in high demand by consumers last year, including home improvement and furniture, kids' toys and clothing, health and beauty, activewear, loungewear and sporting goods.

Q.3 In the year ahead, how do you expect trading conditions to change?



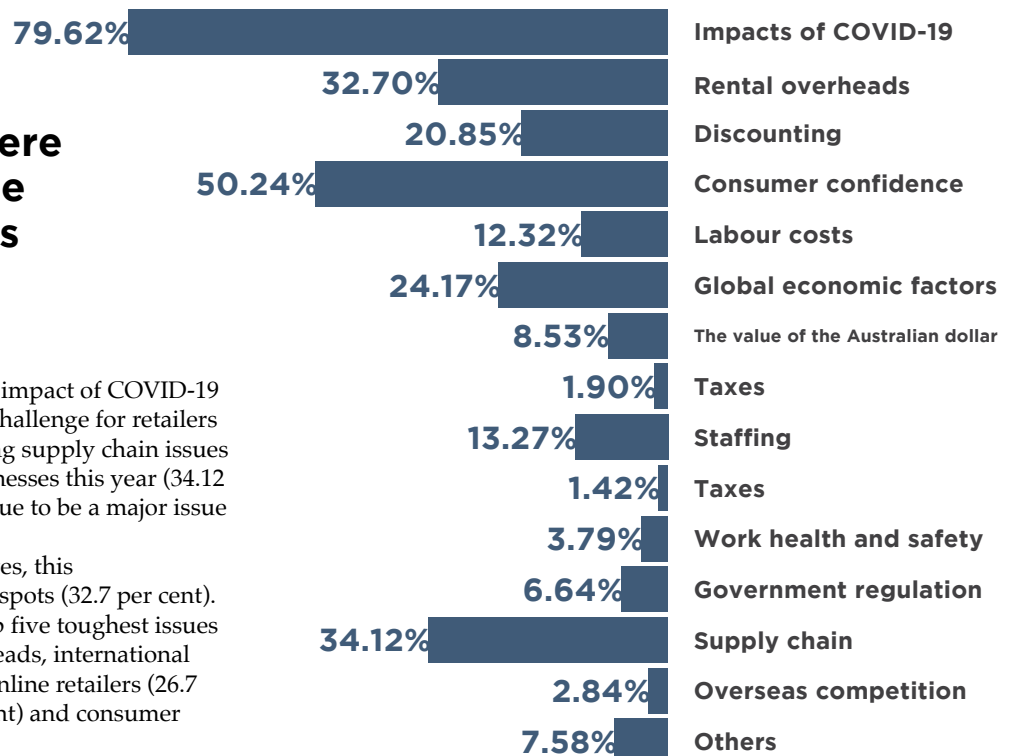
■ Significant changes
■ Slight changes
■ Remain about the same

At the time that this survey was conducted in mid-2020, half of respondents believed that trading conditions would 'slightly change'. Since then, restrictions across the nation have chopped and changed, borders opened and closed and discussions of vaccines around the globe have begun. Who knows where things will be in a few weeks' time, let alone months?

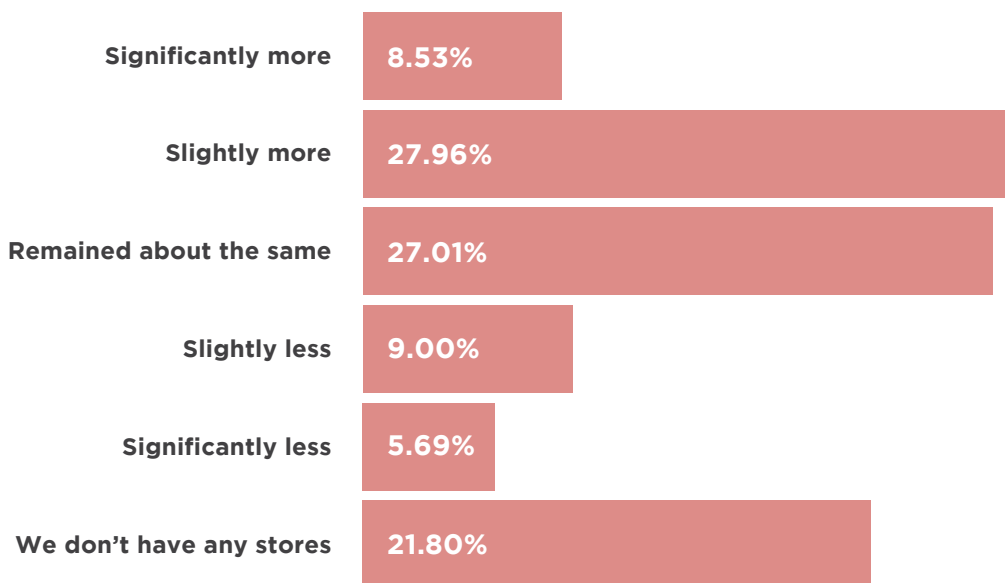
Q.4 What were the three biggest challenges facing the retail industry in 2020?

Unsurprisingly, the unpredictable impact of COVID-19 was overwhelmingly the biggest challenge for retailers this year (79.62 per cent). Managing supply chain issues was also a struggle for many businesses this year (34.12 per cent). Rental overheads continue to be a major issue for the industry - last year it topped the list of major challenges, this year it dropped down by just two spots (32.7 per cent).

By comparison, last year, the top five toughest issues for retailers included rental overheads, international entrants (18.9 per cent), offshore online retailers (26.7 per cent), discounting (42.1 per cent) and consumer confidence (56.4 per cent).



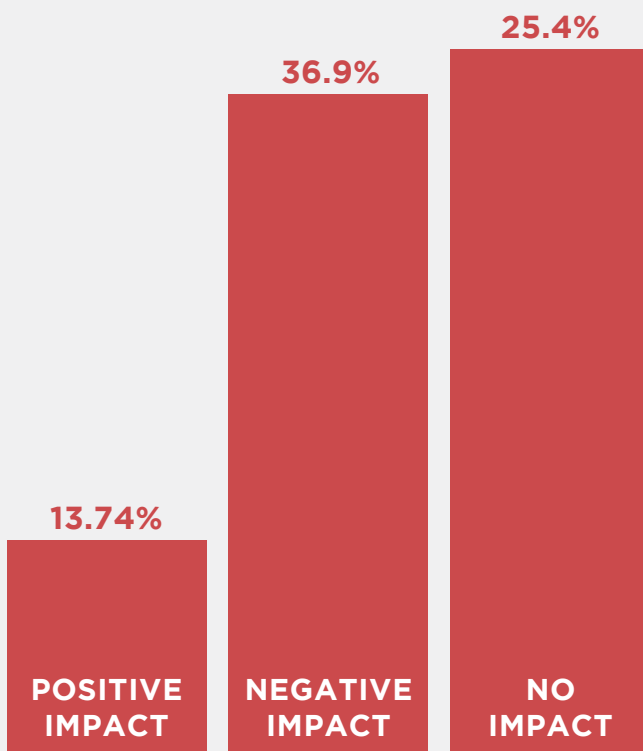
Q.5 Were landlords more willing to reduce rents this year?



The relationship between retailers and landlords was put under the microscope this year as restrictions forced many to shut their physical stores across the country. Despite the struggles that bricks-and-mortar retailers faced, according to respondents, landlords on the whole did not seem willing to reduce rents as a result of COVID, with 27.01 per cent stating that rents remained the same and 27.96 per cent claiming that slightly more landlords were willing to shift on rental costs.

Q.6 How will the value of the Australian dollar impact your business next year?

It's no surprise that almost half of execs (41.71 per cent) are concerned that the Australian dollar will have a negative impact on their business this year given the AUD to USD exchange rate hit an 18-year low in March 2020. At the time of publication, the rising Australian dollar was above 77 cents.



Q.7 How has your revenue from e-commerce changed in the past 12 months?

Increased significantly

42.18%

Increased slightly

27.7%

Stayed about the same

9.48%

Decreased

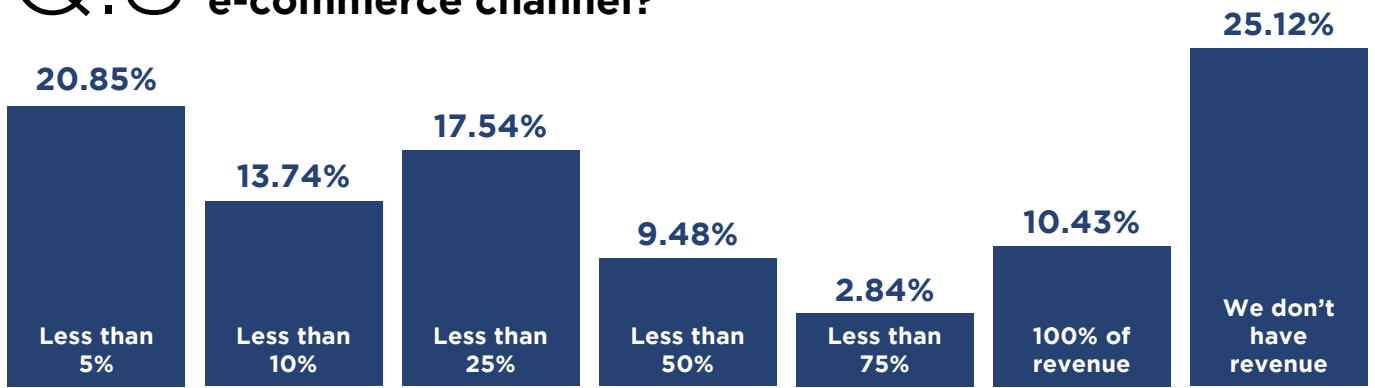
2.84%

We don't have e-commerce

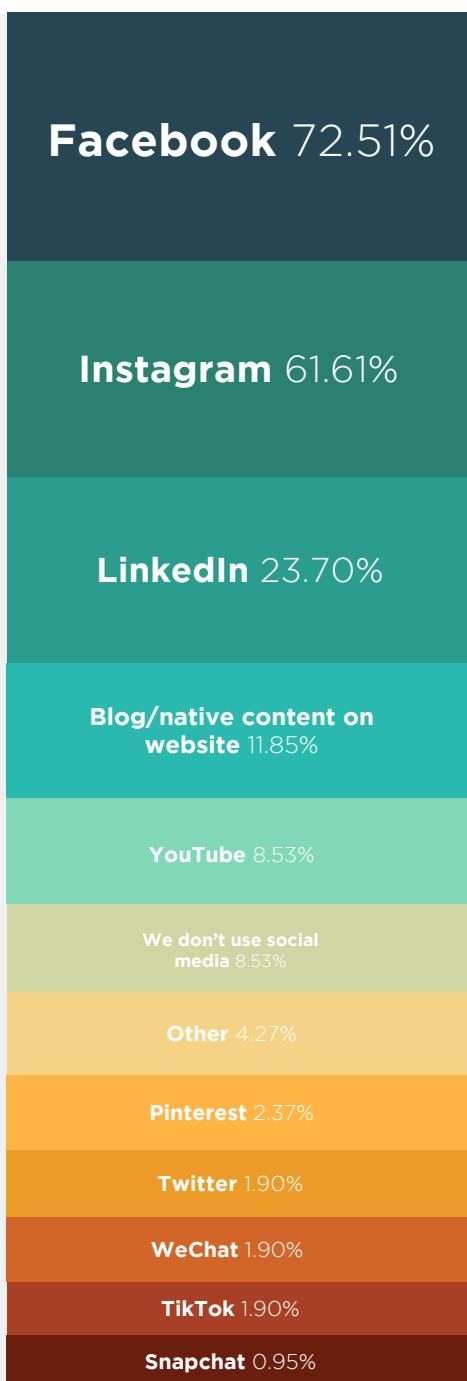
21.80%

This year, many retailers turned their focus to their online operations and unsurprisingly, may reaped the benefits. Almost half of respondents found that their e-commerce revenue significantly increased (42.18 per cent). Interestingly, 21.8 per cent of survey participants did not have an e-commerce channel.

Q.8 What percentage of your total revenue comes from your e-commerce channel?



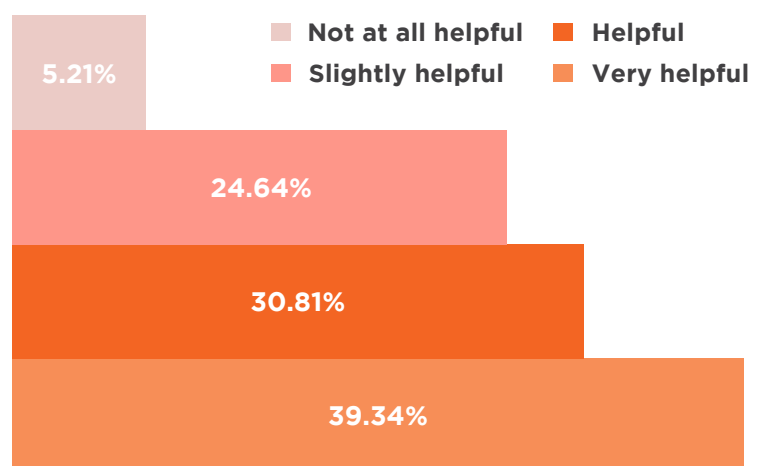
While there has been a big shift to online retail in recent years, interestingly, the majority of respondents claimed that e-commerce actually only makes up less than 5 per cent of their sales. Last year, savvy retailers worked on their omnichannel strategies to help customers, however they wish to shop. It will be interesting to see this year what successful physical retail looks like.



Q.9 Which are the two most effective social media channels your retail business uses?

Facebook continues to lead the way in terms of social media advertising (72.5 per cent), followed by Instagram (61.61 per cent) and LinkedIn (23.7 per cent). During the peak of the pandemic, while stores were closed and more people were online, many retailers invested in content to continue engaging their customers.

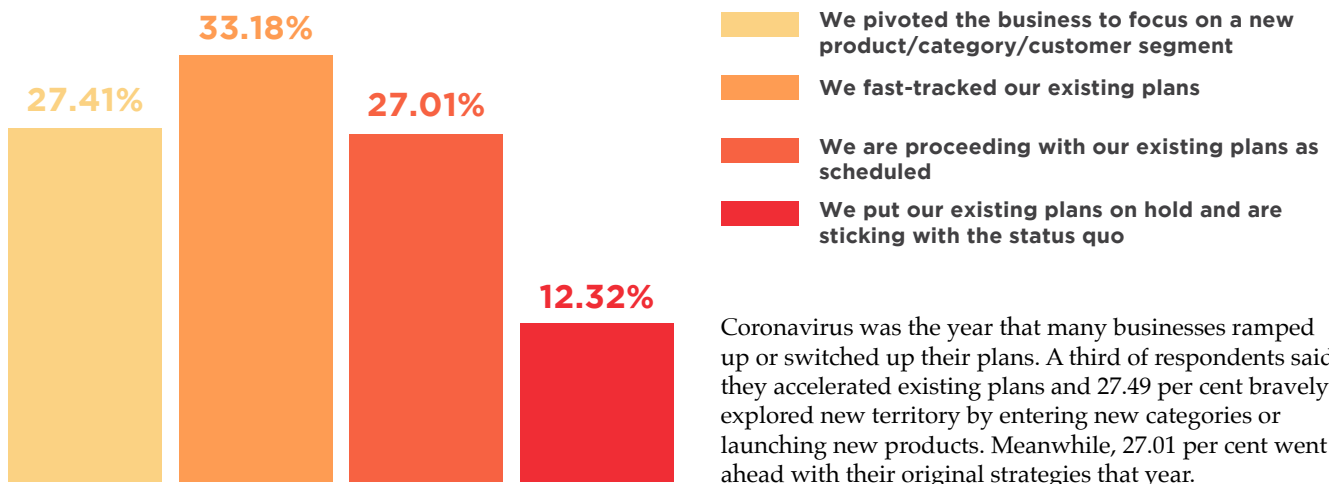
Q.10 How helpful was the government's economic response to businesses impacted by coronavirus?



An overwhelming majority of respondents (94.79 per cent) found the government's support this year to be helpful on some level. Indeed, for many businesses both big and small, JobKeeper was the lifeline that kept them afloat during the year.

On the flipside, a report from Sensis in mid-December last year revealed that 42 per cent of retailers are concerned about the impact that the loss of JobKeeper in March will have on the sector.

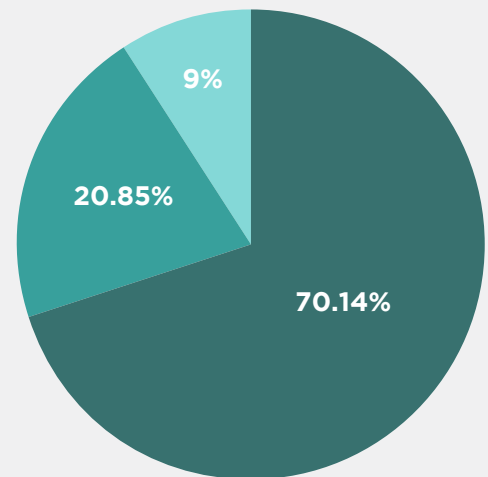
Q.11 How have your business plans changed due to coronavirus?



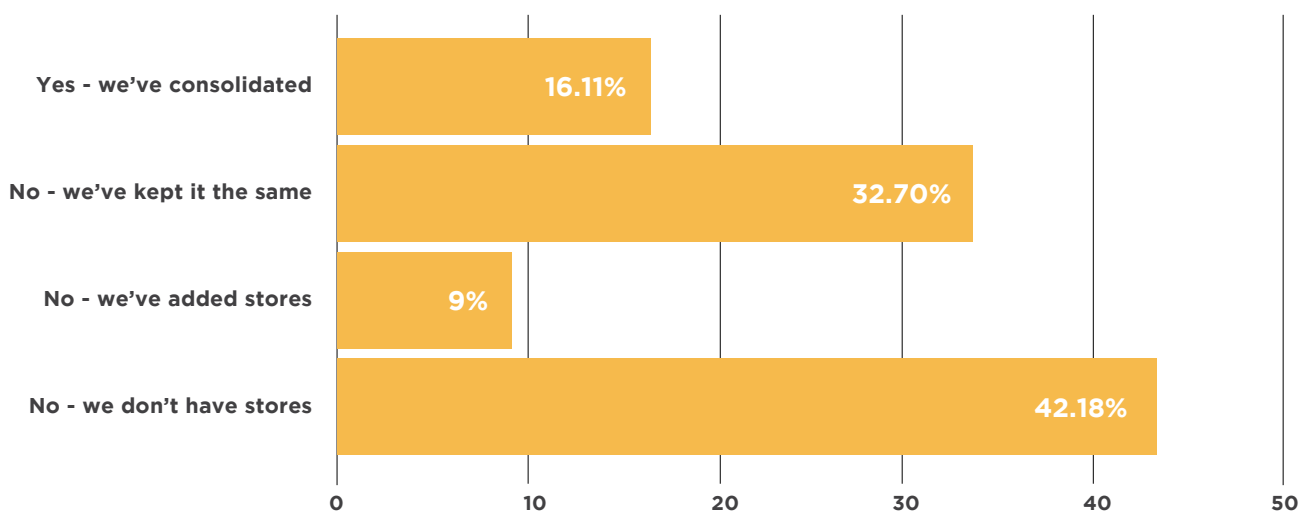
Q.12 As a result of coronavirus, have you invested more in your digital business?

- Yes
- No
- We don't have a digital side to the business

As the world enters 2021 with continued restrictions all over the world, the overwhelming majority of retailers (70.14 per cent) recognise that consumers are opting to shop online and are seeking to engage with them digitally. Last year saw many retailers experiment with a raft of new digital initiatives, from online consultations to livestreaming. Only 9 per cent of respondents didn't have a digital side to their business.

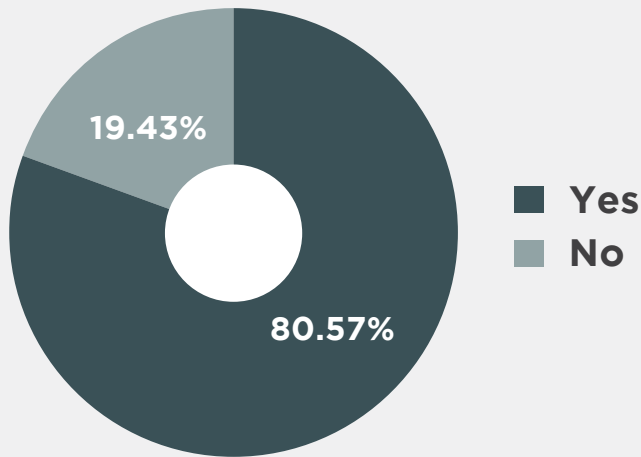


Q.13 If you have a physical store network, have you consolidated it as a result of the pandemic?



E-commerce stole the spotlight from physical retail this year, as consumers were forced to turn to online shopping in many cases. Physical retail took a backseat last year, as some businesses struggled to manage their rent and others considered the changing CBD retail landscape.

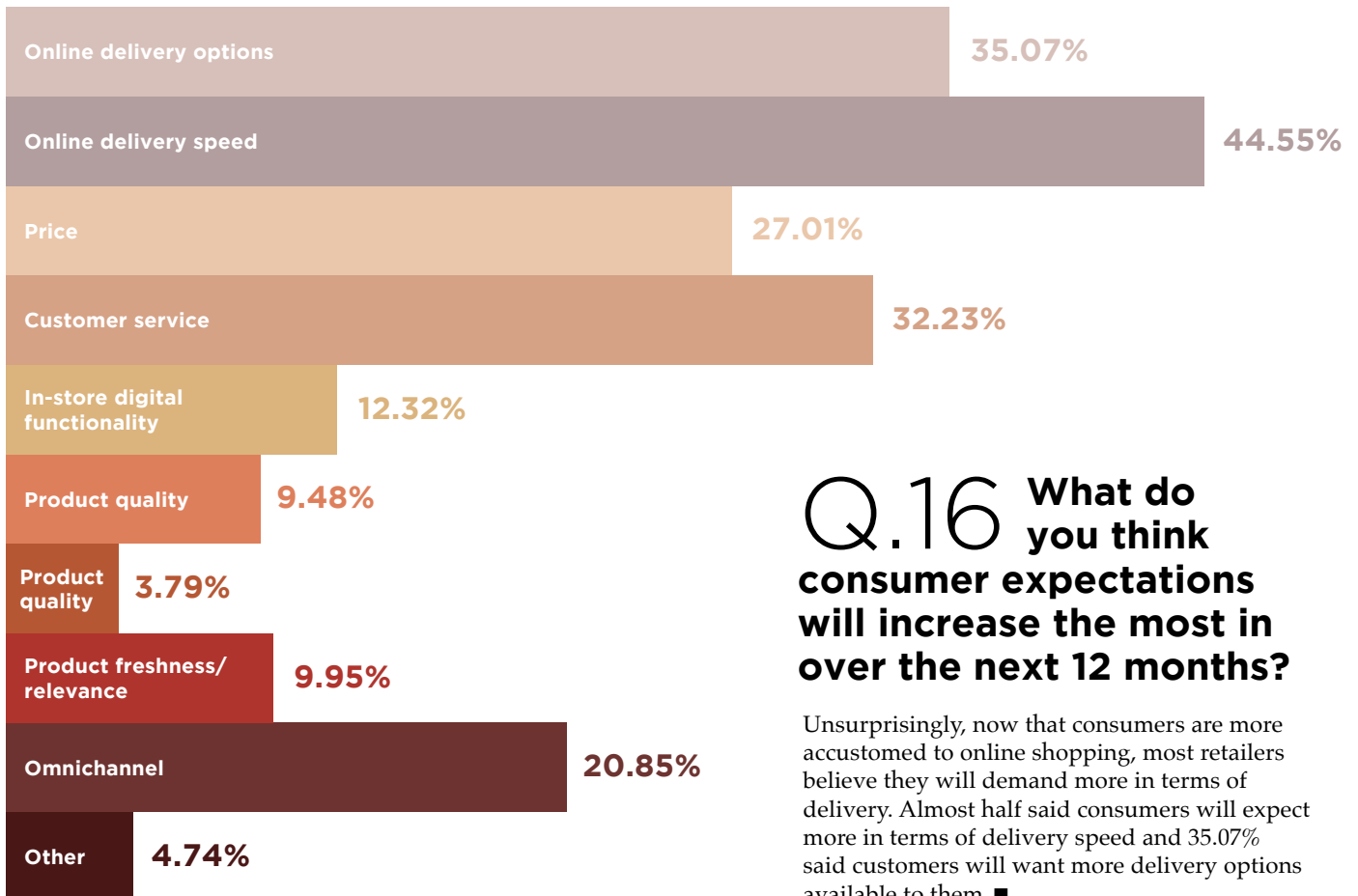
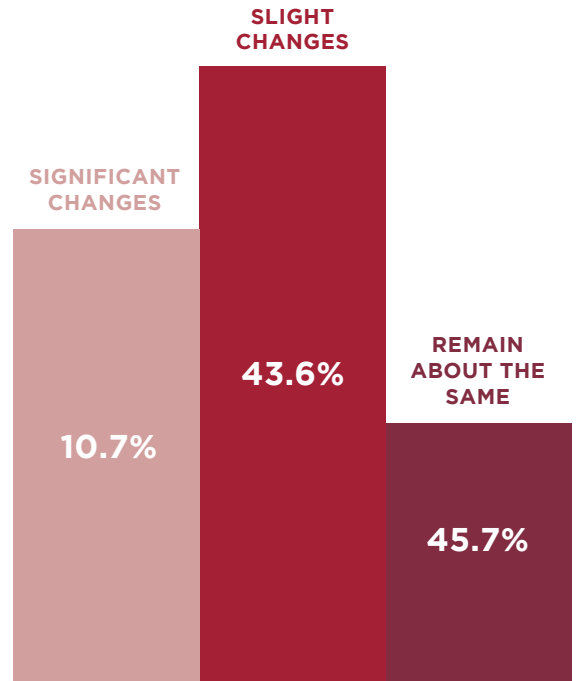
Q.14 Do you think relationships between landlords and retailers are more strained as a result of coronavirus?



Even at the best of times, landlords and retailers can struggle to make compromises that suit both parties. With lockdowns across the nation and more consumers heading online to shop, 2020 was a tough year for bricks-and-mortar retailers and the overwhelming majority of execs (80 per cent) believe the relationship between landlords and retailers has been under more strain as a result.

Q.10 How do you expect leasing terms to change this year?

There's no doubt that as a result of COVID, landlords will revisit their leasing terms and retailers will be demanding some flexibility in the coming year. Almost 80 per cent of respondents noted that there will be changes to come this year.



Q.16 What do you think consumer expectations will increase the most in over the next 12 months?

Unsurprisingly, now that consumers are more accustomed to online shopping, most retailers believe they will demand more in terms of delivery. Almost half said consumers will expect more in terms of delivery speed and 35.07% said customers will want more delivery options available to them. ■



THE YEAR OF RETAILING BRAVELY



E-commerce is Zooming



After experiencing five years of e-commerce growth in a matter of months due to the pandemic, retailers and brands need to leapfrog their investment programs to deliver their 2025 plan today.

BY JANE COHEN, Partner, Global Strategy Group, KPMG

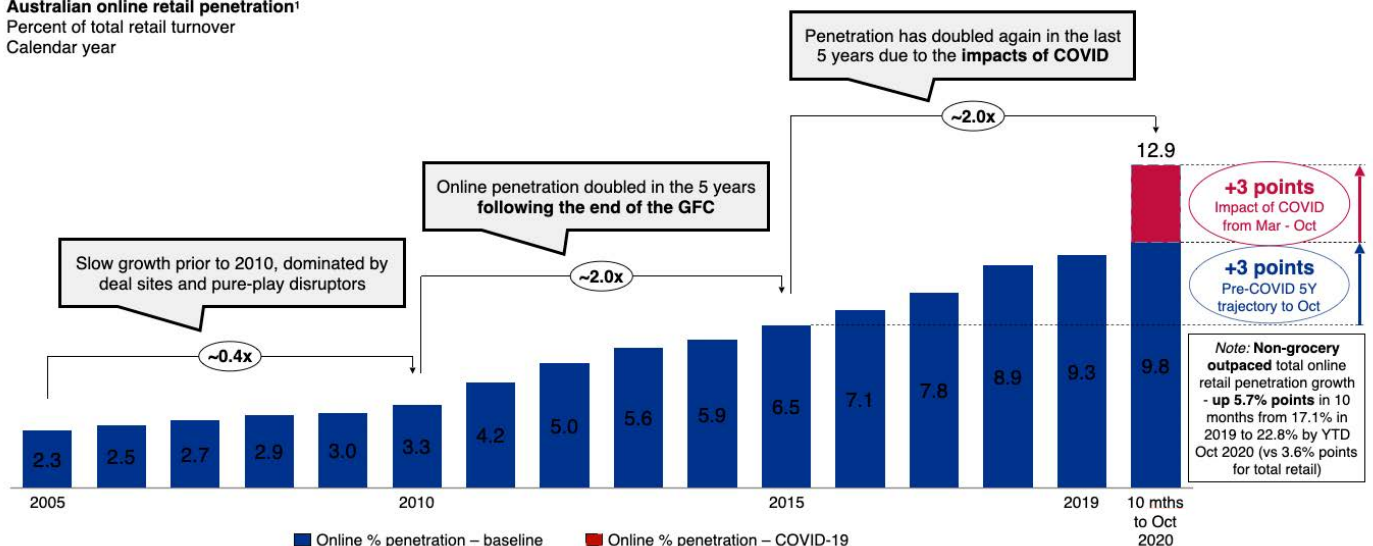
WE'VE SEEN EXTRAORDINARY E-COMMERCE GROWTH AS A result of the pandemic, and Australian retailers have stepped up to the challenge by innovating at a speed we never realised was possible. As a result, the industry unlocked and fulfilled five years of online retail growth in just six months through

a patchwork of band-aids and gut-led experiments – effectively realising 2025 sales levels in 2020.

Examining Australia's e-commerce penetration trajectory of the past 15 years brings the scale of this growth to life, as shown in the chart below. Before COVID-19, we were expecting online penetration

to experience an increase of 3.3 per cent points in the five years to October 2020, reaching about 9.8 per cent of total retail turnover (including grocery, liquor and hospitality). Breaking double digits would have been an incredible growth story and a coming-of-age moment for Australian online retail.

Australian online retail penetration¹
Percent of total retail turnover
Calendar year



What transpired in 2020 is beyond even the most bullish of predictions. The catalytic impact of the health crisis effectively delivered an additional five years' worth of growth in the six months from March – another 3.0 per cent points of penetration to reach 12.9 per cent of total retail turnover for the year to October 2020. Online penetration of non-food retail grew even faster. It reached 22.8 per cent for the 2020 year by October — up from 17.1 per cent in 2019 — to sit almost 10 points ahead of the overall market.

MORE ROOM TO ZOOM

Assuming Australia continues to manage the virus successfully, we will continue to see an exuberant return to physical retail spaces. However, we have now been living, working and shopping differently for almost a year. It is safe to say that customers have changed as a result of this experience by breaking old habits and loyalties and forming new ones. Yet only time will tell just how much we have changed.

Customers of all generations have embraced online shopping for more categories and more of their spend, which has been driven not only by non-essential stores closing and people avoiding busy spaces but also by the shift to working from home. With more people around to receive deliveries, online shopping has become even easier. It has made it possible to order perishable goods such as fresh produce and thereby unlocking new categories for the online shopper.

Given the expectation that working from home will continue, and that people have formed new enduring online shopping habits, we expect that much of this e-commerce growth will stick. While some consumers will revert to their pre-pandemic behaviours, at least half of Australian consumers recently surveyed stated their desire to continue their new online shopping activities.

DIGITAL NOW INEXTRICABLE FROM PHYSICAL

Lockdowns virtually transformed the role of online retail overnight. Digital and multi-channel experience investment cases all across Australia clicked over to “green light” status. Agility was embraced all the way to the boardroom, and the industry innovated and experimented at lightning speed. And now that we have reopened, digital is also playing a critical role in enabling shopping and experiences to be COVID Safe.

The line between physical and digital is now blurred to the point of being inextricable. We have wanted to say for a while that e-commerce is just commerce, and now that is true in Australia. Consumers are doing as much as possible through digital and contactless channels, even when shopping in-store.

Three growing trends that fuse the digital and physical shopping experience include:

1. Click-and-collect. This service has jumped as a result of physical retail lockdowns and evolved to include contactless options such as drive-and-collect, in which staff deliver goods directly to a customers' car. Click- or drive-and-collect merge the online and offline worlds by bringing shopping journeys that started online to the physical store, in turn highlighting to people entering the store the convenience of online shopping. It was great to see retailers such as Ikea, Bunnings and Harvey Norman, which have been slow to embrace e-commerce, begin offering the service. As we've seen globally, click-and-collect has the potential to remove frictions in the online shopping experience by reducing the cost, uncertainty and time for home delivery.

2. Same-day deliveries. Having this option brings physical shopping's instant gratification to online retail. The explosive growth of on-demand food delivery and ride-sharing in Australia made these services a resourceful option for retailers as they faced lockdown. Food delivery companies started delivering non-food retail categories. DoorDash, for example, announced a partnership with The Reject Shop to offer same-day deliveries. Ola, DiDi, Uber and 13cabs also entered the parcel delivery scene.

3. Digital payment. This was an instant winner. Consumer engagement and momentum for digital payment was robust going into the pandemic but took a giant leap as merchants discouraged the use of cash, based on hygiene grounds. Digital payment in physical stores removes some people's concerns about the security of

digital payments. Being able to test the option offline, confidence in payment security will likely increase online. This should expand the online retail customer base to include older consumers who, as a high-risk group for the virus, have much to gain by shopping online.

PLAYING CATCH-UP BEHIND THE SCENES

Our challenge now is to re-establish order, stabilise and secure newly introduced processes, and bring forward e-commerce and digital investments by five years. We need to deliver the customer experience planned for 2025, today.

Until now, many retailers have struggled to justify the scale of investment required to deliver world-class digital and e-commerce experiences. In large part, this has been due to sub-scale online operations and the cost of last-mile delivery. Traditional retailers looked at profit by channel rather than the end-to-end customer experience.

The five-year leapfrog in sales as a result of the pandemic changes this. If the level of penetration sticks, retailers believe the scale of online penetration will increase by almost 40 per cent in one year. The growth in click-and-collect and improved last-mile delivery drop densities will also reduce the cost of delivery.

The mindset of retailers is the biggest barrier to catching up. A sale is not either online or offline; most are a messy combination of both. We know this, yet we have not meaningfully adapted our financial measures and incentives to acknowledge it. As a result, in many born-physical retailers, it is nigh impossible to stand up a business case to transform. A mindset change is required to take a customer lens rather than a channel lens to performance measures to win online post-COVID. ■



Consumers and the new reality

When toilet paper panic buying kicked in and many physical stores closed their doors, retailers knew that customers' buying behaviour had drastically changed and that they would need to adapt.

BY **MATTHEW DARBY**, Partner, National Sector Lead Retail, KPMG
SHAE MACDOUGALL, Associate Director, Audit Assurance Risk, KPMG



GLOBALLY A DIFFERENT RETAIL CUSTOMER HAS EMERGED WITH new behaviours and decision-making criteria. In KPMG's *Responding to consumer trends in the new retail* report, our research details findings from 75,000 consumer survey responses taken over four months, from May to September 2020, across 12 countries. The evidence arising from the research points to a rapid shift in how customers view their world: such is the level of change, it demands an equally rapid response from retailers' approach in their markets.

We will explore the four key themes emerging from our research and how retailers need to respond to the changed consumer. We will also unpack the actions required by retailers and their prioritisation to navigate the complexities of the new reality.

A generation of change has occurred

in just a few months, and leaders will need to navigate upheaval across many factors, forcing the sector to reconsider the approach to their route to market. There are four critical macro trends expected to shape how these considerations need to be made.

1 ECONOMIC IMPACT

COVID-19 has had a polarising effect on consumers' finances. Some have been directly affected, while others will have been less impacted and will be building their savings. For example, 45 per cent of customers still claim to be financially comfortable.

Retailers will need to better understand the needs of each of the consumer groups via segmentation driven by AI and psychometrics. Personalisation not only of communication but also of developed products will be the key to meeting these

needs. Consumers are also consistently looking for more competitive pricing, presenting challenges in a market with a prevalence of discounts and special offers.

2 EROSION OF TRUST

The outcomes of COVID-19 for retailers have been unbalanced, with some types of retail doing well, such as grocery and home goods. Our research shows that net trust vs pre-COVID has grown by one per cent in grocery and dropped by two per cent in the non-grocery segment.

Success depends more on communicating and demonstrating commitments to consumer safety, on top of actions taken.

Social safety is still a top-of-mind concern. Non-grocery retail chains have been perceived as not putting customer safety first. To convince customers to spend, retailers need to show a clear purpose to community safety. This

is especially relevant for financially vulnerable consumers, who feel even less trust for brands across sectors.

Net trust vs. pre-COVID-19



3 RISE OF DIGITAL

The switch to a delivery-focused model has been challenging due to changing costs of doing business. Online delivery carries a lower profit margin, and retailers’ ability to adapt to the new reality has been affected by their infrastructure and available capital to invest.

With this in mind, retailers that are succeeding in this space are doing so off the back of years of investment in direct-to-customer infrastructure.

For those small- to mid-scale operations, consolidation of infrastructure will likely be necessary for these brands to succeed.

“Clients have said that they have been fast to grow online sales via existing online services but building supply chain capability and meeting fulfillment expectations from customers has been a real challenge,” said Robert Poole, National Sector Lead of Consumer and Retail at KPMG Australia.

4 HOME IS THE NEW HUB

The shift towards regionalisation and “shop local” campaigns has presented challenges for retailers, such as the decline in consumer use of larger department stores. However, for those brands that are able to understand their customer segments, there is a significant opportunity. Consumers are seeking an individualised approach to value for money and ease of experience.

Brands with the ability to reach customers in or close to their homes, and those willing to consolidate infrastructure to more easily enable this will likely be the success stories. This is an opportunity for further growth, with consumers willing to spend more on locally sourced products. Consumers will also be spending more time in the home, and retailers will need

to rapidly understand new consumer preferences and trends for types of products: a new view of what is essential and non-essential.

Our research shows that the top purchase drivers remained consistent. Value for money remains the most important factor for all consumers, irrespective of the financial segment. Ease of purchase remains a close second, driven by the rise in online shopping.

To ensure success through these times of rapid change, organisations must continue to articulate their commitment to customers’ safety and more deeply understanding the needs of the new consumer. ■

“ A generation of change has occurred in just a few months, and leaders will need to navigate upheaval across many factors.”





Retailers and landlords - to have or to hold

The survival of both landlords and retailers remains intrinsically linked and this year, that relationship was tested in a particularly challenging climate for bricks-and-mortar stores. Here's how to create balance and harmony in a difficult time.

BY **SAMANTHA TAYLOR, Director, Property, Restructuring Services, KPMG**
JANE COHEN, Partner, Global Strategy Group, KPMG

WHETHER THEY LIKE IT OR NOT, LANDLORDS AND RETAILERS are in a relationship. Just like any other relationship in life, the success of one party is intrinsically linked to the success of the other. There needs to be mutual respect, commitment to the deal, trust, open and honest communication and a desire for each to thrive.

But, also like any other relationship, there will be times of conflict. When it comes to landlords and tenants, this often happens when one side tries to leverage their position to influence the other.

Even before COVID-19, retail landlords' yields were being squeezed, and they were grappling with how

to increase revenue to underpin an increase in value. Retail precinct footfall had been in decline for years as e-commerce penetration grew, recording 8.1 per cent in cumulative footfall losses over the three years to 2020.

Retailers, too, have been grappling with declining retail profit margins, and for most of 2019, consumer confidence was in decline following increased concern about the cost of living, stagnant wage growth, and prolonged drought and bushfires.

Bricks-and-mortar retailers that pay rent have also had to grapple with increased competition from online companies such as Amazon, as well as new business models due to the

growing acceptance of online shopping.

COVID-19 has merely added to the already complex relationship between retailers and landlords.

Bricks-and-mortar retail is a volume game: the higher the footfall, the more time consumers are in their financial wellbeing, the more money they spend with retailers, which can then pay rent to landlords and make a profit. The COVID-19 physical distancing measures and the resulting recession work against all three of these value drivers: footfall, dwell times and consumer confidence.

While retailers will need to rebalance their operating models and better connect their physical and digital experience, there is no doubt landlords

already understood that retail was changing, even pre-COVID 19. Many larger shopping centre owners were already seeking to diversify their centres by incorporating things such as office and leisure spaces.

However, converting space and tenants takes time.

Furthermore, landlords' virtual vacancy list is now long gone and replacing tenants will become increasingly difficult, even for the short-term periods. So, although we have seen empty stores before and the ebb and flow of hopeful new businesses, landlords will have to work harder to attract new tenants and repurpose their centres to make them relevant to their communities.

Ordinarily, this would not be of great concern for landlords due to their long investment horizons and the relative stability of their tenancy mix. What is different here, however, is that despite the current level of optimism in the wake of government stimulus initiatives, COVID-19 could precipitate a wave of concurrent retailer consolidations, failures and exits from bricks-and-mortar that could shake even the steadiest investor and lender stakeholder.

The rapid acceleration of e-commerce growth as a result of lockdowns is also one of the most critical changes impacting the viability of retail property in Australia.

Retailers are taking the opportunity to reset their market strategies, with a greater focus on online delivery. Although there is a level of optimism that everything is going to go back to the way it was, there are still big unknowns. One big concern is what will happen once the government stimulus ends, with consumer spending likely to slow due to falls in wages, higher unemployment and higher savings ratios.

Both sides are under significant pressure, and achieving a win-win outcome will require give-and-take on both sides. Those pairings that can achieve this will ultimately succeed.

Retailers need landlords to gracefully release them from long lease tails to enable them to rebalance their cost base to offer profitable omnichannel experiences. Landlords need retailers to survive and pay rent until they can repurpose the space once it is no longer required.

Given the robust nature of tenant and landlord negotiations, both sides will be carefully thinking of ways to shift the balance of power in their favour.

Resolving the retail property issue is, therefore, about trust: a challenge

in an industry well known for being adversarial at times. However, the COVID-19 context creates a unique opportunity for retailers and landlords to find more collaborative and innovative ways to transform the industry without unnecessary duress.

Ultimately this may mean the introduction of more flexible lease models akin to those in Singapore, Europe, the UK and the US, where there are often no minimum lease terms and a higher proportion of turnover rent. But it cannot be a one-way street. Retailers perhaps need to consider offering a portion of online sales revenue with their landlords, particularly if landlords provide supporting infrastructures such as curbside pick-up zones, dark stores/floors, shared click-and-collect counters or parcel lockers.

This could create great local solutions for consumers who are shopping both online and physically, increasing their loyalty to both the retailer and the landlord's shopping precinct.

Rent negotiations will be a major priority for retailers to navigate, as the impact of COVID-19 is still unknown and rent moratorium periods implemented by various state governments will be coming to an end. Keeping in mind the requirement to enhance relationships with landlords, retailers should carefully think about their approach and strategies to ensure both parties reach an acceptable resolution.

Some key points to consider are:

- **Be honest:** It may take a leap of faith, but being open and transparent about financial aspects and plans for the business should enhance negotiations and set a solid base for trust between

the parties.

- **Demonstrate attempts to remain viable:** Showing adaptability by using lateral and innovative thinking to ensure a continuation of revenue streams, or adjusting business operating models, will be a big tick for landlords.
- **Open the dialogue early:** The longer it takes to communicate with the landlord, the worse the problem may become. Communicating problems early on may help ease the pressure and provide quick solutions.
- **Approach negotiations commercially:** Try to anticipate and look at the circumstances from the landlord's point of view, and strategise commercial outcomes that provide a win-win for both parties before you commence negotiations. Plan the approach and ensure you have several options in your negotiating bag for each issue that may arise. Be able to demonstrate what will happen if you are not able to reach a mutually agreed position.
- **Beware of not paying rent:** Failure to pay rent risks the landlord locking you out of the premises once government-imposed moratorium periods cease. Refusing to pay rent is also likely to create animosity, making future negotiations difficult.

Retailers and landlords need to work on their relationships to achieve a win-win outcome and succeed in transitioning their respective operating models for a long and prosperous future together. ■



The future of retail operations

Understanding a few key trends can be the difference between a sustainable business model and a fleeting endeavour.

BY **MATTHEW DARBY**, Partner, National Sector Lead Retail, KPMG
HENRY BRUNEKREEF, Director, Operations Advisory and National Leader, Supply Chain Management, KPMG
CHRIS BURNS, Associate Director, Supply Chain & Operations Advisory, KPMG

LAST YEAR WAS A MONUMENTAL DISRUPTION FOR EVERYONE. From a challenging 2019 straight into bushfires and drought, the year didn't start well for retailers. Then came the pandemic.

As we figure out what the new reality looks like and try to plan for 2021, we can already see the short-term trading environment for retail will continue to be a challenging one.

Consumers have made several changes to what, where, how and when they buy. With that insight,

retailers need to make decisions about what will stick versus what is a glitch and the duration that this will apply over.

COVID-19 has accelerated the adoption of business trends and changes to consumer sentiments, unlike any other period we have experienced. We shouldn't waste this opportunity to rethink strategy, to embrace change and build competitive advantage while assessing the impact across the financial, commercial and operational aspects of the business.

KPMG's Global Retail Outlook analyses the industry around our 10+1 Key Trends model. For 2020 and 2021, we focussed on the four key trends identified by Australian retailers. Each of these trends has accelerated, creating conditions that we had predicted to be three years away in the space of a few months.

In this article, we focus on the first two trends to provide insight into how retailers are working towards coping with the new normal in their omnichannel operations.

 <p>1</p> <p>Business models and partnerships</p> <ul style="list-style-type: none"> • Omni-channel/ seamless retail accelerated • Reinventing the role of the physical and digital channels • Boom in online across generations • Localisation • Accelerated partnerships for complementary services 	 <p>2</p> <p>Declining margins and productivity - Cost of doing business</p> <ul style="list-style-type: none"> • Inventory management • Range proliferation • Financial management in lean times • Physical space reduction and lease agreements • Supply chain optimisation 	 <p>3</p> <p>Purpose and reputation - Sustainability and higher purpose</p> <ul style="list-style-type: none"> • Crisis diverting funding and focus away from sustainability • Retailers proving/disproving their values • Safety highlighted in purpose • Local business and community focus • Re-build with strong socially and environmentally aware propositions 	 <p>4</p> <p>Customer Power</p> <ul style="list-style-type: none"> • Single view of customer critical • Offer authentic to customer value proposition • Essential items vs non-essential • Health, financial and geopolitical challenges • Consumers emphasising experiences over products
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1 BUSINESS MODEL AND PARTNERSHIPS

The acceleration of online retailing throughout this year has highlighted that traditional store-based retailing has shifted to the omnichannel model. The strength of platform-based

businesses such as Amazon and Alibaba were already growing as they enabled capabilities, such as value exchange, between the consumer and producer. For traditional retailers, this is an opportunity to operationalise the omnichannel business model. It's also

a chance to consider how to evolve to embrace partnership models with different platforms and businesses.

Future of supply chain partnerships

Retailers are looking at how to repurpose and reorganise the fulfilment



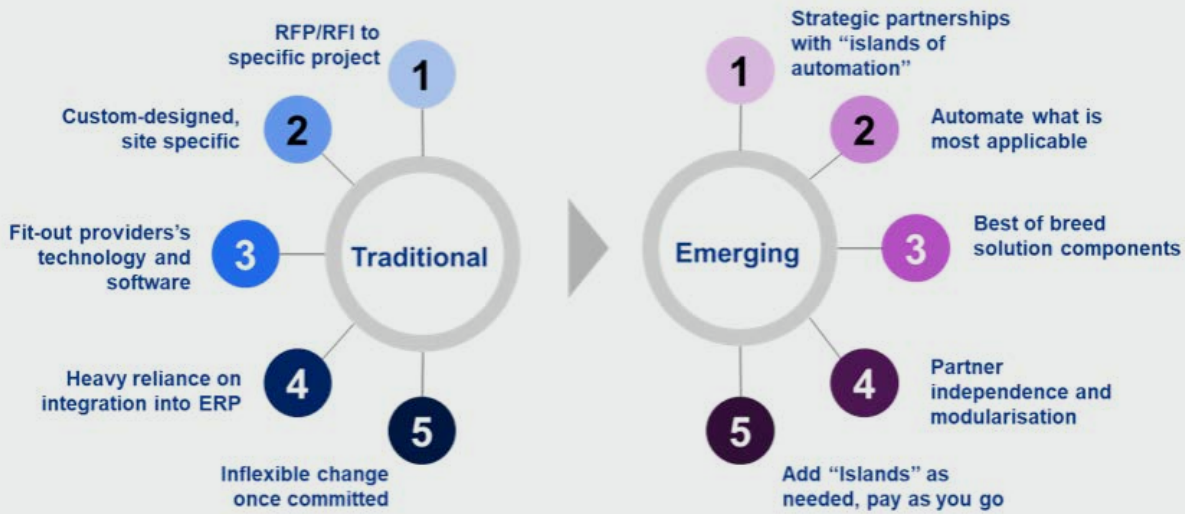
“ We shouldn't waste this opportunity to rethink strategy, to embrace change and build competitive advantage.”

supply chain to dramatically shorten reaction times and catch up to customer-driven changes in service needs. Retailers of all scales are working

out how to move from Traditional to Emerging approaches for engaging with a wide range of partners for operational and technology solutions. The Emerging

approach allows retailers to pick and choose who they partner with to deliver on their omnichannel capabilities without the need to build it themselves.

Changing approaches to partner collaboration



The Traditional approach focuses on up-front capital investments with limited finance options available and a two-to-five-year ROI expectation.

The emerging approach to supply chain efficiency

This approach recognises that retailers have lower budgets and higher expectations, are aiming to pay as they go, scale up and scale down, and avoid regretting investment. As the cost of back-office and logistics automation is continually falling, automated pop-up

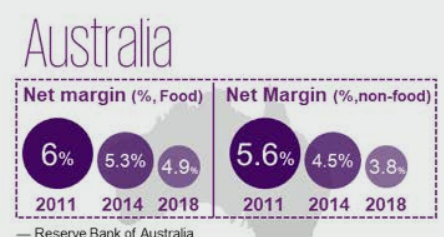
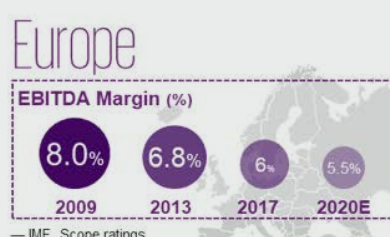
DCs are now likely to be realistic future choices for managing peaks, events and expanded customer service variety. This will be carried out in traditionally bricks-and-mortar metro locations to leverage the changing commercial and industrial property environment. Last-mile delivery freight is Uber-ising, and both DC and freight operational trends can build resilience with maximum flexibility and reactivity. A key challenge is that the high tempo of innovation can make picking technology winners difficult as short technology

lifecycles result in rapid obsolescence.

2 REDUCING THE COST OF DOING BUSINESS

Retail margins were already under pressure, and all retailers recognise that conventional forms of cost-cutting are not enough to rebuild the business. The rapid shift to increased omnichannel operation with a focus on retaining engagement with the customer has resulted in much higher costs to serve in the short-term, combined with continuing pressure on margin. ▶

Retail margin achievement changes since 2011



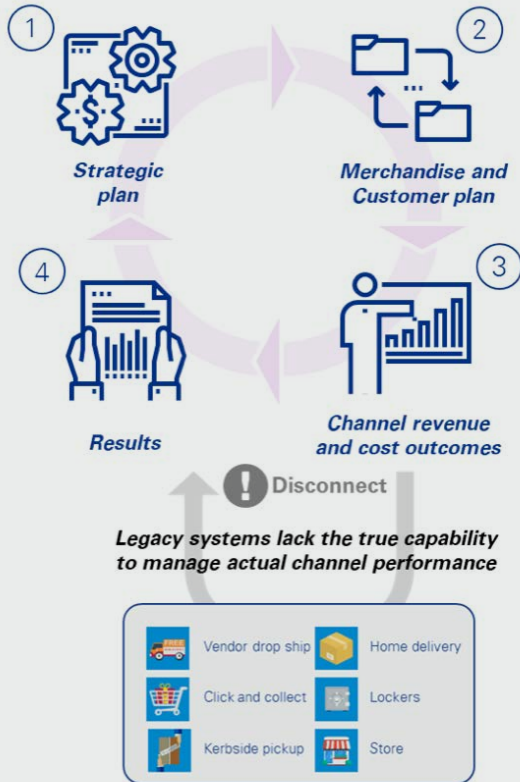
Profitable omnichannel operations

The fundamental shifts in consumer behaviour caused by COVID have turbocharged the need for Australian

omnichannel retailers to catch up to the rest of the world. Retailers need to understand and manage the profitability of these changes across all channels and

ranges. Legacy supply chain systems and infrastructure have often been built around workarounds that are not truly fit for future purposes.

The profitability management gap in the retail cycle



Retailers are seeking specialised capabilities to fill the gaps in managing the most profitable pathways to customers. The solution lies in aligning and tailoring front-middle-back office, category merchandise plan and channel execution through:

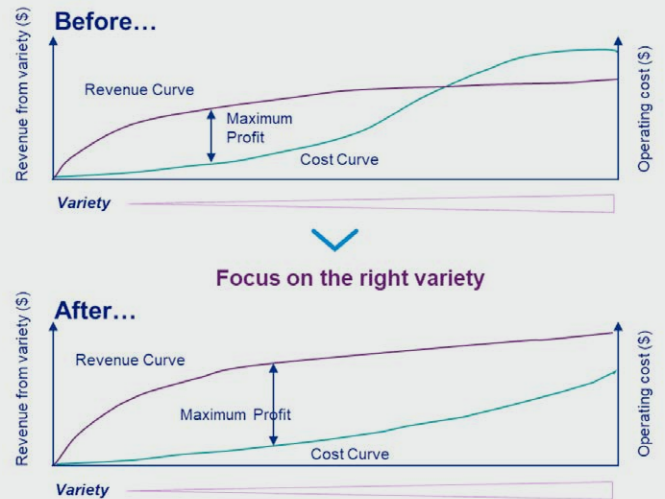
- Data-driven insights, to tailor range and channel offers
- AI and big data, to leverage loyalty and customer programmes
- Operational specialisation for omnichannel
- Supply chain control tower, to optimise multi-modal fulfilment.

These solutions focus on understanding the profitability of each SKU-customer-channel segment and build the supply chain around the resultant customer strategy. Increasingly, these solutions aren't big ERP-led projects but are quick, diagnostic exercises provided by cost-effective partners rather than the traditional in-house build.

Aligned capabilities such as signals repository (reacting to customer behaviours and demands based on individual buying patterns) and predictive supply chain operations (planning for disruption and modifying consequent decision making) can support the new capabilities required for profitable omnichannel operations.



The future omnichannel operating model



Focusing on the two trends detailed above will enable retailers to build a new operating model that is orientated towards profitably managing a greater variety of products, services and external impacts with increased resilience.

All businesses are on transformation journeys, with some or all of these trends, to develop winning business models. At KPMG, we have developed a set of capabilities required to help a business visualise and measure the effectiveness of its model. We also help retailers adapt to trends and design the roadmap for their future. We would be delighted to show you how we can help you create your North Star vision and develop and deploy the capabilities to get there and grow. ■

The sustainability snowball: 5 movements consumers are pushing

Even during a global pandemic, environmental issues are still top of mind for consumers.

BY MYRIAM BENTLEY, Manager Operations Advisory, KPMG
SARAH NEWMAN, Associate Director Sustainability Services, KPMG

WHEN COVID-19 HAPPENED, THERE WERE SETBACKS AND many retailers pushed away from sustainability practices, as the immediate focus shifted to maintaining employee and customer safety and keeping the doors open long enough to ride out the pandemic. Disposable coffee cups became mandatory, single use masks and gloves were required, even more products and food items were wrapped in plastic and many felt like sustainability was a past trend and squashed from future ambitions.

Yet while there were these impediments, consumers started to make environmental and social causes a priority when choices were available. Initially, benefits started to surface. There was reduced pollution from empty factories and less tourist-related travel resulted in clean water, even bringing back wildlife to areas where they hadn't been seen in a long time.

Now further on as the COVID-19 impacts transition us to the new reality, it has provided a momentous catalyst for consumers to embrace social and environmental causes, seeking products and brands that align with their values. Sustainability is coming back strong and it's vital for a successful business model.

According to a global research report from the National Retail Federation, 57 per cent of consumers are willing to change their shopping habits to reduce negative environmental impact; 81 per cent indicated sustainability is important to them and 71 per cent of consumers claimed traceability is important to them and that they would even be willing to pay a premium for brands to provide it.

Here are five major changes currently underway, all powered by consumers' changing expectations and preferences.

1 Businesses are moving towards net zero carbon

The number of Australian retailers that made pledges in 2020 to reduce carbon emissions has been substantial, and many align with the action required

for Australia to achieve the net zero emissions by 2050, compatible with the Paris Climate Agreement. These include major retailers such as Bunnings and Officeworks.

A report by Climate Works in April 2020 analysed 23 Australian retailers – and reported that 80 per cent had started undertaking activities to reduce emissions or had a publicly stated commitment.

2 Customers know plastics are bad

Customers know that single-use plastic has a detrimental environmental impact and are keen to reduce packaging and support recycling. We have seen brands and retailers set bold targets to meet or exceed the Australian Packaging Covenant Organisation's target of 100 per cent of Australian packaging to be recyclable, compostable and reusable by 2025.

Even retailers synonymous with low prices and margins are changing their approach. Kmart has committed to phasing out 10 priority own-brand single-use plastic products by July 2021. Meanwhile, Aldi plans to phase out single-use plastic in its store by the end of this year and reduce plastic in its packaging by 25 per cent by 2025.

Retailers are also actively looking to participate in the new circular economy to find innovations to reduce waste and develop new products. This type of innovation brings endless life to products and services through regeneration, sharing, optimisation, virtualisation and exchange, limiting waste going into landfill while stimulating the economy.

3 Radical traceability and transparent product information

Long gone are the days when customers are willing to buy something without wanting to know the ethics behind it. Customers are demanding details such as sustainable product choices, responsible sourcing certification, source of origin and supply chain cost breakdown.

In response to this, Country Road

Group has introduced an interactive global supplier map which allows customers to select a specific factory, and gain details of the goods produced and supplier credentials. Patagonia and Marks & Spencer offer similar information.

In addition, we have seen new blockchain platforms such as KPMG Origins, that connects growers, suppliers, sellers and consumers. In one of its features, the platform tracks each step of a product's journey to better understand the impacts on quality while empowering consumers to interactively see the production journey.

4 Greater exposure of supply chain mistreatment

Specific to the fashion industry, the not-for-profit group Pay UP Fashion has emerged to expose retailers whose practices contribute to human rights abuses. They are tracking 40 global fashion brands and assessing them against 7 supply chain actions. They argue that COVID-19 has brought a crisis to factory and garment workers and their findings have proven to be damaging to brands in the past.

5 Shop local

COVID-19 has facilitated shorter supply chains in part due to consumers wanting to know where their food comes from and supporting local businesses. A Roy Morgan poll (July 2020) showed "more than half of Australians have shown a higher preference for Australian made products" since the start of the pandemic. Both Coles and Woolworths marketing now reinforces their Australian sourcing policy.

Sustainability has become a key part of the consumer decisionmaking process, and it's imperative that brands and retailers increase their focus and improve their ability to meet these preferences. This allows competitors of all sizes to build trust and demonstrate they truly understand their customers current and future needs. ■



Nice price? Think twice

Affordable prices for consumers are important, but not at the expense of running a profitable business. Here's how to strike the right balance.

BY LISA BORA, Partner, Customer, Brand & Marketing Advisory, KPMG
CAROLINE VEITCH, Management Consulting Lead, Consumer Products, KPMG

DURING AND POST COVID-19, YOU CANNOT UNDERESTIMATE the importance of having an effective pricing strategy. Nor can you disregard having a greater understanding of your organisation's cost to serve.

To ensure a customer keeps coming back, it's crucial your organisation implements increased channel delivery options and that your brand is engaging for consumers.

While many brands price reactively, others have a consistent price strategy that aligns with their values and positioning. However, often they have not reconciled this strategy with the increasing cost to serve implications that retail is experiencing.

Channel choice and multiple delivery options are great for consumers. Yet, for the retailer, they often mean increased margin pressure and channels being serviced at a loss just to retain customers. This often takes place despite the true intention of bringing new customers to the brand.

Your pricing strategy is critical to ensuring top-line success in bringing consumers to your brand, and also critical for ensuring your bottom line is profitable. The increased costs to serve across channel service design and supply chain management, including reverse

logistics, need to be factored in. A sound pricing strategy remains a very effective profit lever in business and can propel your performance. However, many underestimate the strategic mindset, execution ability, and discipline it takes to unlock value from pricing. Without a clear "owner" of pricing and cross-functional linkages, many brands struggle to set a strategy and achieve next-level pricing capabilities.

You must consider four key areas:

Pricing strategy: Who are my different customer segments? What value extraction mechanisms and price bases most align to customer value for these segments? Is our brand or service going to focus on being cost-oriented, value-oriented or competitor comparison-oriented?

Price setting: How much is my product/service worth to my customer segments? How do I incorporate cost, competition and value in setting prices? What discount structure do we need to drive customer behaviours? How do I differentiate across customer segments?

Price execution: How do we integrate pricing processes with sales processes? And how do we factor in cost to serve

components across the supply chain? How do we identify and correct issues with pricing and discount leakages?

Pricing embedment: How do we ensure sustainability in setting and executing the right prices over time? What governance mechanisms and decision rights are needed to help pricing changes stick? Which data and tools support decision making and monitoring?

The collective response to the pandemic has certainly challenged pricing discipline. This, as well as the growth of spike events such as Click Frenzy, Black Friday and Cyber Monday, impact the ongoing effectiveness of pricing strategy. Millions of dollars are spent in price promotions every year, representing one of the key levers for retail and consumer goods businesses. Arguably, Australian consumers have become conditioned to these promotion mechanisms, as shown in Australia's high portion of sales on promotions. COVID-19 may have broken the traditional sales and promo cycle, as we anticipate more retailers are now questioning how best to price and promote in the current environment. With such significant changes to operating models, costs and buying patterns, pricing

strategies of yesterday are unlikely to be optimised for today.

WHAT TO CONSIDER IN 2021

1 Channel-specific pricing and promotion strategies

With permanent shifts in how and where consumers purchase, retailers need to consider which pricing and promotion mechanisms work for each channel where there are marked differences in consumer purchase drivers. This extends beyond individual items to basket discounts and bottom of invoice fees and charges. Retailers can consider channel-specific pricing with online-only promotions or differentiated pricing in certain cases. However, a critical consideration is the growing cross-channel customer journey, and its impact on brand consideration and purchase where pricing consistency and clarity is required.

2 Resetting price but beware of profiteering

Demand has surged across categories. While there is an opportunity to reset pricing while consumers are willing to pay a premium for short-supply items (think back to the toilet paper wars), any perceived price gouging will quickly impact on brand trust and loyalty. We saw this response when retailers paused catalogue specials at the height of the first wave of COVID-19. Honesty must be front and centre in consideration of pricing, as well as recognition of vulnerable customers.

3 Recognising cost as a factor in pricing decisions

Margins were already under pressure and have continued to decline rapidly through the pandemic as operations react to fluctuating demands. Understanding the permanent shifts in your cost base and undertaking fresh cost to serve analysis

can lead to the right product, pricing and channel strategies. This should be done more than annually. Shrinkage, service design and reverse logistics create additional costs and complexities that must be woven into pricing strategy reviews.

4 Test and learn

The movement away from bricks-and-mortar opens further opportunities for retailers to test and learn, with an increased ability to play with price and promotions without risking the farm. Online pricing can be the home of test-and-learn, with faster communication and reduced lead times than in-store promotions, which require printing price tags and briefing store teams. By collecting and analysing the right data and metrics, retailers can quickly assess the effectiveness of the promotions and leverage for insights into enticing consumers to your most profitable products and channels.

These test-and-learn scenarios can help retailers understand the new price elasticity and pricing zones. It can also assist in determining the mix of promotional mechanisms. Is now the time to get off the drug of high-low pricing to consider alternatives such as everyday low price (EDLP), buy-one, get-one-free (BOGO), price matching, category-based promotions or spend-and-save? Data analysts are the new norm in retail, with some harnessing insights to generate margin increases across retail portfolios.

5 Competitive pricing

Keeping an eye on your competition is always critical, and with such uncertainty in the economy, new and different pricing will likely emerge. Some retailers may look at this as an opportunity to break through long-held price ceilings, while others may see a chance to deepen discounts to gain market share. War-gaming scenarios to

predetermine your response can enable you to respond quickly and effectively. Keeping an eye on your KVI's (Key Value Items) is key. Get these wrong, and it won't matter how optimally priced the rest of the range is, as KVIs is that handful of products that drives close to 50 per cent of a shoppers' price perception of you.

6 Keep a handle on the various price reduction mechanisms

Less is more. Stay across the variations in price throughout your business and the stacking rules that may apply. Many brands have been alarmed at the leakage across their retail footprint.

Promotions	Payment type discounts	Freight choice discounts
Volume discounts	Channel discounts	Loyalty program offers
Bundle discounts	Markdowns	Other

7 Dynamic pricing is the target state

Online pure plays are increasingly sophisticated in managing price, reacting to competitive pricing consistently through the day. Top-selling items are often repriced three or four times per day and can be repriced up to 12 times daily. Assessing where this is feasible for omnichannel operations is an important skill to harness across key range items.

8 Personalisation and pricing

Don't always assume price discounting is the only lever you can pull. Consumers are increasingly expecting personalised deals, and some retailers can deliver these based on shopping history. Consider service and delivery extensions based on their previous consumption behaviour. Often the biggest concern with traditional loyalty programs is the over-reliance on margin impacts with earn-and-burn methodology at the core.

9 Reframe pricing

Market higher-priced options as "upgrades". Don't forget, pricing is both art and science. Tapping into the psychology of certain customer segments can have meaningful impacts.

10 Pricing and private labels

With price and quality the two most important factors for shoppers, it's hardly surprising that their embrace of private labels ticked up in 2020 and is likely to increase even more in 2021. Retailers have the optimal opportunity to revisit their private label product mix and find that profitable sweet-spot on a price that attracts and retains shoppers while preserving the margin advantage presented by private label options. ■





Going beyond pilates

The coronavirus has presented compelling evidence that flexible working is feasible for both companies and their people, while also driving a deeper understanding of employee mental health.

BY **CARLY RICHARDS, Director, Retail Lead, Risk Consulting, KPMG**
GABRIEL KAUFMANN, Senior Consultant, Audit Assurance Risk, KPMG

A STUDY FUNDED BY THE WORLD HEALTH ORGANIZATION (WHO) reported that across the 36 largest countries in the world, more than 12 billion days of lost productivity (equivalent to more than 50 million years of work) are attributable to depression and anxiety disorders, at an estimated annual cost to the global economy of US\$1 trillion.

In Australia, a report handed down by the Productivity Commission in November examined the cost of mental health and implications for the broader economy and found that one-in-five Australians experience mental ill-health. The inquiry reported a conservative annual cost to the economy of up to \$220 billion. These costs have been rising over time and are the equivalent to a little more than one-tenth of the size of Australia’s entire economic production in 2019.

THE IMPACT

COVID-19 has drastically impacted the way we live and work. It is paramount that leaders reassess how

their organisations can foster a safe and supportive environment as they navigate a broad range of interrelated and complex issues triggered by the pandemic. The latest 2020 Harvey Nash/KPMG CIO Survey, which includes more than 4,200 responses from CIOs and technology executives across 83 countries (including 265 from Australia), revealed that 84 per cent of technology leaders reported they were concerned with the mental health of their team. Modern-day knowledge workers are living in a time of ‘always on’ culture, often leading to increased anxiety, loss of connectivity with fellow workers and added complexities of juggling home and work responsibilities.

Given the rapid shift to working from home for a significant part of the workforce, it would be remiss not to consider the impacts of COVID-19 on frontline retail workers. To service the needs of consumers, essential service workers have remained on shop floors throughout the pandemic to meet unprecedented levels of demand – packing

orders, stocking shelves and serving customers. Many have continued to use public transport and work in public spaces, facing an inherently higher risk of being exposed to COVID-19.

Within stores, stress has pervaded essential service retailers, with staff bearing the brunt of panic-buying, abuse and violence from agitated customers. Working from behind transparent screens, mask requirements and exposure to the public are factors that have added an extra layer to employee stress. Moreover, the steep decline in customer traffic in non-essential retail stores has cast a looming shadow over job security throughout the industry.

COMING TOGETHER

A collection of Australia’s largest companies united in 2020 to form The Corporate Mental Health Alliance Australia (CMHAA), a business-led, expert-guided organisation dedicated to improving mental health in the workplace.

Steven Worrall, Chair of CMHAA and

managing director of Microsoft Australia, said that “now more than ever, businesses need to come together to take collective responsibility for creating mentally healthy workplaces. In a panel discussion, he further emphasised the need to pool collective experience and resources “by sharing what we’re each doing in the workplace to support our people’s mental health and wellbeing”, and to place mental health at the heart of the business agendas.

According to SafeWork Australia, work-related mental health conditions (also known as psychological injuries) have become a significant concern. An estimated 7,200 Australians are compensated for work-related mental health conditions each year, with 90 per cent of workers’ compensation claims involving a mental health condition linked to work-related stress or mental stress. This equates to around six per cent of total workers’ compensation claims. For businesses to support workers and adhere to legislation, they must take proactive steps toward complying with health and safety laws concerning psychological health.

THE WAY FORWARD

In the past, the standard, off-the-shelf approach to wellbeing featured wellness weeks with free yoga classes or discounted gym memberships. Nowadays, the need to develop a long-term strategy with practical measures has become essential and expected.

Businesses need to go beyond pilates. Below are three key considerations for retailers who wish to create a sustainable, evidence-based approach to workplace wellbeing.

1 Socialising the agenda. Leadership is a requisite for lasting success. Support from boards and senior management is essential in driving change and embedding new cultures. A zero-tolerance approach to abusive customer behaviour should be driven by leaders and managers in stores and demonstrated by active communication and a standard approach to safeguarding the wellbeing of employees on the front line. Leaders should pair any instances of abuse from customers that put service workers at risk with swift action, such as the refusal of service or police attendance. Consistent messaging should flow through all layers of the organisation to establish expectations for working hours, build awareness and reduce the stigma associated with mental health.

2 Upskilling the workforce. Core to any wellbeing strategy is ensuring people have the skills to engage in effective conversations about mental health. To measure the effectiveness of training and support mechanisms,



“ COVID-19 may have broken the traditional sales and promo cycle.”

retailers should leverage data to evaluate trends in mental health-related incidents, turnover rates and employee satisfaction. Key considerations for building capacity in the workforce include:

- a. Adopting evidence-based practice from scientific research, industry groups and global case studies.
- b. Developing a balanced approach of best practice paired with local consultation to tailor an offering that meets the needs of the organisation and its people.
- c. Training to equip people with the necessary skills to manage difficult customers and support team members is critical. Managers should have the skills to identify signs of excessive overtime work, encourage breaks in line with working hours and understand how to identify and provide support to those displaying anxiety or stress-related symptoms.

3 Sustainability. Employers have a significant and lasting impact on the mental health of their people. Retailers need to examine the environment they are creating for their teams and integrate best-practice initiatives, such as Employee Assistance Programs, flexible working arrangements, wellbeing programs and readily available mental health resources. A successful business model demands clear performance indicators comprised of quantitative and qualitative data to paint a holistic picture of progress.

Retail employees have become essential workers. Many are serving hundreds

of people every day, while others are packing online orders and keeping stores safe for customers. As we reopen the economy, more people will be shopping and working in retail, and the support needed to fortify the health and wellbeing of these employees is critical.

The COVID-19 pandemic and resulting isolation have increased mental health issues around the world. Those businesses that emerge successfully from the crisis will be ones that have properly designed and implemented employee wellbeing measures that provide adequate support, increase awareness, reduce stigma and create an open culture around mental health. By supporting the health and wellbeing of employees, retailers not only stand to benefit through reduced healthcare costs and less absenteeism, but they can also design an environment that supports the wellbeing of employees, thereby improving staff retention and morale. A prime opportunity exists for all retailers, big and small, to take a forward step in their approach and accelerate a change in the way Australia approaches workplace mental health.

As we reflect on 2020 and the impact of COVID-19 on the way we live, work and shop, many have revelled in the benefits from the blurred lines between home and office. For some, more time at home with family and pets, paired with casual work attire has been the silver lining in a disruptive year. The coronavirus has presented compelling evidence for a long-awaited acknowledgement that flexible working is feasible for both companies and their people, whilst also driving a deeper understanding and focus on employee mental health. ■

Hybrid digital experience: the next realm of retail

After putting digital basics in place to cope with the pandemic, retailers are ready to embrace digital's next chapter, bringing together experiences across the physical and virtual.

BY **FREDDIE ENGBERTS, Manager, Digital Delta, KPMG**

DIGITAL EXPERIENCES HAVE BEEN AT THE FACE OF THE pandemic. From work to school; from travel to weddings; from food to retail, consumers have had to embrace digital just to survive. Now that most retailers have the digital basics in place (online presence, e-commerce shopfront, social media, digital fulfilment, mobile payments), it's time to shift focus to what consumers expect from their digital experiences in this new normal.

Organisations need to ask themselves questions such as: Where are our customers physically? What are they doing differently? What is important to them now? And how do we reach them with no physical presence?

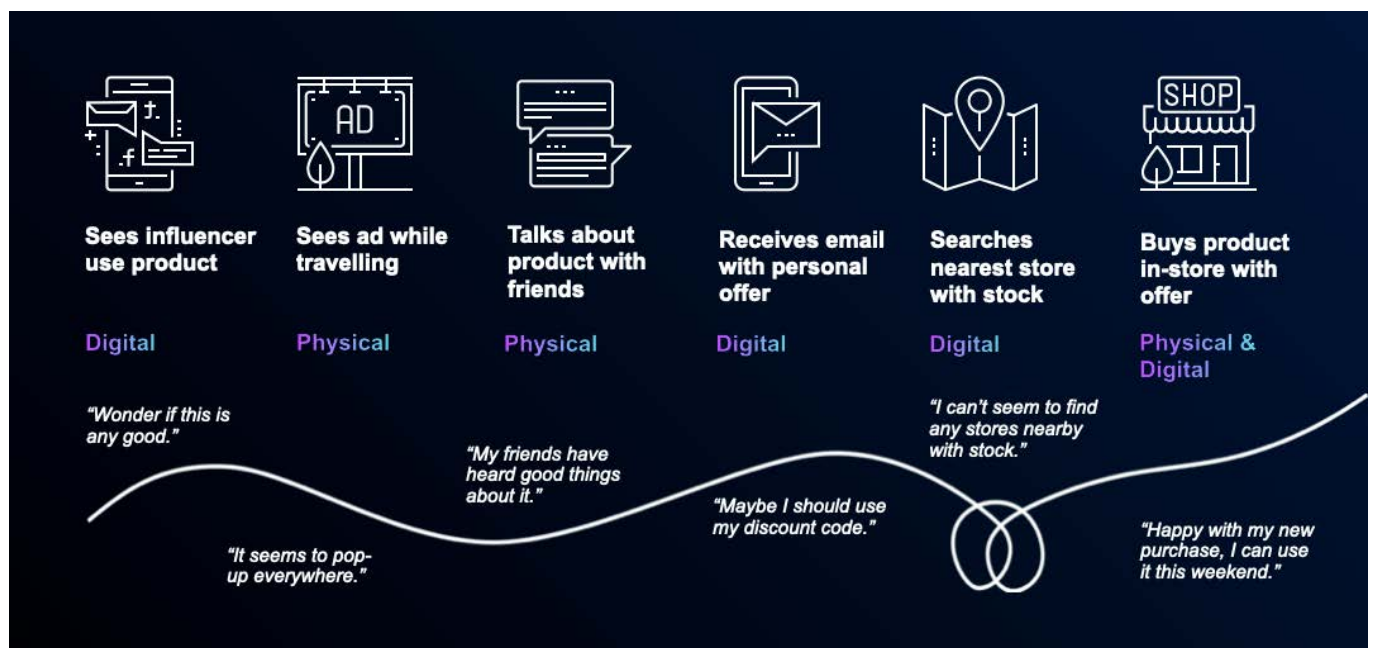
Competing in this saturated market, where alternatives are just a browser tab away, requires more than just incrementally changing features on a website. Retailers are now required to have a deep understanding of how their customers are behaving, and they must know how to respond. The

pandemic has accelerated the shift to digital, and businesses and customers alike have had no choice but to embrace it. The acceleration of digital has done three things:

- It has forced retailers to get their digital basics in place quickly, such as being able to deal with the increased traffic on digital channels, actively selling through social media or allowing curbside order fulfilment. Organisations that did this successfully, or already had this in place, reaped the benefits of strong uplifts in online sales and growth in NPS.
- It has raised customers' expectations of what is possible as they've had a taste of how quickly retailers can respond to their needs, placing the bar even higher. Meaning, organisations that have a dedicated focus on customer needs will be more resilient than those that don't.
- Customers' digital literacy has gone

up, meaning it is no longer only millennials or gen Z who expect great digital experiences, but the entire customer base. Providing digital services is no longer a differentiator; it's the baseline expectation and the cornerstone of customer engagement.

So where to from here? Well, that is entirely unknown, though the opportunities are immense. From micro innovations such as virtual beauty consultations over FaceTime to business model reinventions such as DIY homebrew kits (which saved breweries during the pandemic), retailers are setting up new service offerings in record time. Best Buy's curbside pickup, for example, was turned around in 48 hours; eGift card WooliesX took just six days. In this uncertain future, there is one constant: the digital experience. It is becoming the anchor point throughout the customers' buying journey, whether that's in-store or online.





1. Empathy

Understanding and recognising people's emotional state to build experiences that consider and embrace these emotions.



2. Ethics of Experience

Creating experiences and interactions that are in people's best interests, rather than against them.



3. Post-Mobile

Creating experiences which do not need a mobile screen to be delivered, but where digital is behind the scenes or invisible to the people engaging in them.



4. Machine Creativity

The design of experiences, or parts of, by machines (AI). Creation of artwork, graphics, templates or experience flows based on design patterns or customer data.

There are five key elements retailers need to focus on to be successful in creating these new hybrid experiences:

We see examples of organisations that have mastered these elements within and outside of retail. Qantas showed empathy when they listened to customers' new post-COVID preferences of digital interactions over face-to-face contact and it is now moving the entire flight journey to online self-service channels including check-in, excess baggage payments, baggage tracking technology (post-mobile) and baggage recovery solutions. Take Woolworths, which wanted to save its customers' time, effort and level of contact (empathy), so it is trialling a contactless robotic locker to dispense online grocery orders (post-mobile, pervasive in BAU). During

the pandemic, the company created an eGift card that enabled vulnerable people to shop online with priority without credit or debit card (empathy, ethics of experience).

It's essential to recognise that every company is different, and each one will respond to specific challenges differently. Every organisation has its own pathway to beating its competitors with a hybrid experience. The organisations that stand out understand that the pathway involves not just a great website or marketing automation tool, but also a holistic effort across its people, practices, (digital) products and platforms. The balance and mix of these five Ps become the compass for each organisation as it sets out to uplift its overall experience capability.

In the case of Woolworths' eGift card,

they had their digital arm of WooliesX dedicated (people), were able to stand it up in 6 days (practices), created a physical product that allowed online access (product) and utilised an existing technology platform with a simple driving data model to make it work (platform).

The key is to put progress over perfection and be comfortable with a non-linear game plan, one that considers blue-sky opportunities as well as brilliant digital basics. Keep the focus on the elements that create great hybrid experiences for your customers and use the five P compass to navigate how to get there. Your differentiator to winning in hybrid experiences is about selecting the right path for your organisation and focusing on the things that will deliver your desired outcomes. ■

COVID-19: a driving force or a forced transition to online for NZ retailers?

Up until recently, New Zealand retailers had lagged behind the global industry, but now that the pandemic has accelerated these trends, here's how retailers are adapting to the new normal.

BY LEON BOWKER, Partner, Deal Advisory, KPMG

GLOBALLY, THE RETAIL SECTOR HAS BEEN UNDERGOING A SIGNIFICANT TRANSFORMATION marked by a shift towards online commerce, evolving consumer habits and increased competition due to easy access to international retailers. New Zealand has not been immune to this transformation, although domestic trends have tended to adapt at a slower pace compared to other countries.

The COVID disruption has delivered a steep change in some of these trends. In April alone, online spend was up 56 per cent on the previous year, while in-store was down by 41 per cent. We can attribute this to restrictions on in-store shopping due to lockdowns, as well as to new demographics of consumers making purchases online (people aged 55 and over or people in rural or remote areas who would usually shop in-person, for example).

Changes in consumer behaviours, together with improvements in payment system security and better access to the internet nationwide, have supported continued growth for online revenue. (In the year to August 2020, 11.4 per cent of all retail spending was done online, compared to 8.8 per cent in the same period in 2019.)

In this article, we seek to explore how retailers in New Zealand responded to the COVID disruption and the challenges and opportunities that lie ahead for the sector.

COVID-19 RESPONSE

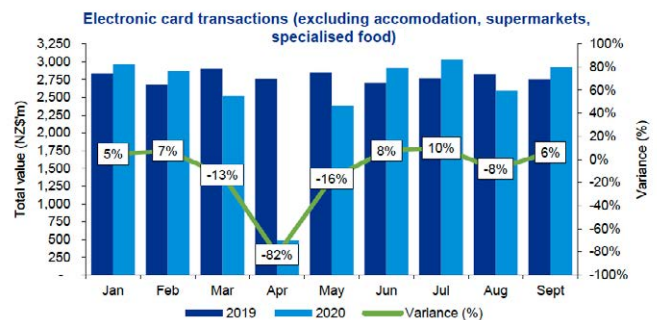
The COVID outbreak and subsequent lockdowns resulted in a steep sales decline in April in nearly all retail sub-sectors. Retail electronic card transactions declined 83.1 per cent that month compared to the year before, with significant decreases in food and drink services (-94.9 per cent), recreation goods (-80.2 per cent) and department store sales (-68.3 per cent).

Although retail spending has experienced a remarkable recovery since June, many retailers have not recovered the lost sales from this period. To manage the impact on their businesses, retailers have responded by drawing on government wage subsidies and looking for cost-reduction opportunities such as forced annual leave and salary sacrifices. Companies also used the post-lockdown period to review the way they operate by implementing restructuring plans or evaluating their store footprint.

During the lockdown, many retailers sought to negotiate rent relief from landlords or deferred their obligations to preserve cash. However, negotiations with landlords came with mixed success, with outcomes dependent on the terms of a lease, a tenant's relationship with their landlord, and their relative bargaining power.

As the government relaxed trading rules and lockdown levels, retailers had to shift their operating models to cope with new trading rules whereby most retailers could only operate contactless delivery or pick-up. This forced retailers to accelerate

their online presence and to consider a multi-channel retail strategy. For those who had invested in their online model and digital presence, this was an opportunity to connect with customers. However, it also exposed issues with infrastructure and fulfilment models and represented a missed opportunity for some retailers.



Source: Statistics New Zealand – monthly electronic card spending (2020 vs. 2019)

CHALLENGES AND OPPORTUNITIES

Coming out of lockdown, retailers have experienced an increase in consumer spending from the year before (June: 7.7 per cent, July: 9.8 per cent, August: -8.2 per cent (due to a second lockdown), September: 6.4 per cent). This growth has been partly driven by post-lockdown catch-up spend and increased consumer appetite for retail, especially in an environment of low-interest rates and limited options for discretionary spend due to border restrictions.

This positivity also created unexpected supply chain pressure, with many retailers facing stock shortages ahead of Black Friday and Christmas. Sourcing products from countries with limited production due to lockdowns (Europe, for example) was one of the significant challenges faced by retailers leading into the holiday period. This, combined with reductions in freight and port capacity and increased freightage costs, resulted in additional production costs for retailers and potentially lower discounts offered to end customers.

There remains a significant level of uncertainty going into 2021. The outlook for the sector is likely to be influenced by a few things: consumer confidence and the impact of fiscal support tailing off; an expected surge in unemployment; the ability to maintain levels of in-store and online demand; and the possibility of future lockdowns.

As with all disruption, there are challenges and opportunities. A retailers' ability to quickly adapt to the changes could mean the difference between success and failure. Trends that are critical for a retailers' success include strong online presence, improvement in customer experience through an omnichannel retail strategy, and robust infrastructure (such as inventory storage, order processing, shipping and returns processing) to ensure speed of delivery and customer satisfaction. ■



RETAIL PROFILES

RETAIL PROFILES

Ready, set, go:
**Accent Group
speeds up**



Omnichannel was the name of the game last year, as retailers relied on stores and digital to seamlessly work together to adapt to changing consumer behaviour. Accent Group CEO Daniel Agostinelli explains why the footwear retailer is moving faster than ever.

HOW WOULD YOU DESCRIBE THE PAST YEAR AT ACCENT GROUP?

The last year has been a year like no other for retail. The COVID-19 crisis was a difficult time and had widespread impacts on our team, customers and the broader community. We had to do three things; accept, adapt and accelerate, and in the event, it has driven us to innovate our customer offer at a faster pace than ever before. The support and loyalty we received from our team, landlords and our major distributed brands allowed the business to weather the crisis and emerge stronger than ever before.

WHAT WERE THE MAJOR CHALLENGES YOU FACED WHEN STANDING DOWN AND THEN BRINGING BACK YOUR ENTIRE WORKFORCE?

During lockdown, we acted quickly to convert our retail stores into “dark stores” which were fulfillment sites for online orders. This meant we were in a position to keep our staff stood up and receiving pay during a difficult time. Having staff stood up meant we were able to quickly re-open stores with COVID Safe practices, as soon as we were given the green light.

WHAT DID YOU LEARN ABOUT CONSUMER BEHAVIOUR DURING THE COVID-19 SHUT DOWNS AND REOPENING?

Consumers were being both more conscious of their spending during the COVID-19 shut downs, and, on the other hand, willing to make online purchases

that brought something new and exciting into their lives.

Online sales for Accent Group boomed as many Australians sought-out new activewear, particularly sneakers, to align with working from home and a more active lifestyle. Fifty per cent of customers who shopped with us online in Q4 FY20 had not shopped with us through any channel before. The Athlete’s Foot and Stylerunner in particular benefited from the trend to performance, lifestyle and activewear. In FY20, digital sales grew by 142 per cent in Q4.

AT THE BEGINNING OF THE YEAR, MANY ADVERTISERS HALTED THEIR AD CAMPAIGNS, BUT ACCENT GROUP RAN A LARGE TV CAMPAIGN. WHY?

During the COVID-19 lockdown we accelerated our marketing spend both in digital channels and TV. It was the first time we had run TV campaigns for Platypus and Stylerunner in particular with a focus on growing brand awareness and highlighting our online sites.

WHAT’S NEXT FOR ACCENT’S OMNICHANNEL STORE NETWORK STRATEGY?

Having an integrated digital capability and strong store network continues to be key to delivering innovative and high-quality customer experience. The clever connectivity between our stores enabled us to create “dark stores” and fulfil and dispatch online orders from any store in the country during the shutdown

period. Without this integrated network, we wouldn’t have been able to be so flexible. The importance of stores to drive our brands is clear. In new geographic locations where we open new stores, inevitably brand awareness increases as do our digital sales from those areas.

“ Having an integrated digital capability and strong store network continues to be key to delivering innovative and high-quality customer experience.”

THIS YEAR ACCENT GROUP ACQUIRED STYLERUNNER AND OPENED ITS FIRST PHYSICAL STORE. HOW WILL YOU CONTINUE TO GROW THAT BUSINESS?

Stylerunner is an impressive Australian brand that continues to see strong results. The launch of the first bricks-and-mortar store for Stylerunner in Armadale, Melbourne was extremely successful. The customer experience is on point and the strength of the Stylerunner brand is evident. We’re very proud of the store – it’s a modern destination for premium activewear and an active lifestyle. We plan to open up further stores for Stylerunner around the country, as well as continue to amplify its online capabilities.

WHAT ARE YOUR TOP PRIORITIES FOR THE BUSINESS IN THE NEXT 12 MONTHS?

We will continue to prioritise digital at Accent Group to enhance customer experience, engagement and satisfaction. Digital initiatives are at the core of our business, and in the coming 12 months we will launch new websites, customer loyalty programs and new, virtual sales capabilities to accelerate growth in this area.

Opening new stores will also remain a top priority, with the business primed to open around 80 new stores in FY21. The performance of our new stores is solid, and we plan to continue to adapt and improve our bricks and mortar offering to ensure we’re providing the best shopping experiences for customers.

We are very excited about our business formats Pivot and Stylerunner, with the early stores performing well and an opportunity for big roll-outs for both banners. ■





Glam Corner: Riding the wave of fashion rental

Last year, sustainable fashionistas in lockdown embraced rental options for all their Zoom-worthy ensembles. Here, Glam Corner CEO Dean Jones talks about the interesting consumer shifts he observed in 2020.

WHEN WEDDINGS, PARTIES AND OTHER EVENTS WERE cancelled at the peak of the pandemic, it may have seemed like a fashion rental business like Glam Corner could be in for strife, but 2020 brought on some very exciting moments for the business - including raising \$12 million in series

B funding, the largest amount ever received by a B Corp company.

"It's a priority for a lot of funds to invest more in businesses that combine profit with purpose and those two things don't have to be usually exclusive, in fact they're self-enforcing," says Glam Corner co-founder Dean Jones.

"Businesses like ourselves, Beyond Me and Tesla are great examples of that, where they've built a phenomenal product and brand and as they grow, the positive impact is magnified. That's amazing and that's what B Corp is all about."

Jones believes the rise of the conscious consumer is an opportunity for retailers to adjust their value propositions and help the planet.

"We have a lot of faith in how many customers have taken stock of their consumption habits during 2020 and are looking for new ways to shop more

consciously, ethically and sustainably," he says.

"This is a huge and positive opportunity for pretty much every retailer, big or small, and across all sectors to craft their offering to be more in tune with this significant shift. So we get excited about what this will bring in 2021 and beyond."

Glam Corner, which pioneered clothing rental and the reverse logistics model in Australia, is on a mission to accelerate the transition to a more sustainable and circular economy.

"Last year was very transformative for Glam Corner. While the onset of COVID-19 certainly affected the retail industry and supply chains around the globe, we've since seen some significant shifts in consumer behaviour towards rental and sustainable fashion solutions," Jones says.

While the evening wear category

suffered as weddings and other formal events were cancelled, the model of renting clothes has grown in popularity.

"The evening wear category was certainly affected initially however we saw a broader and longer lasting impact on customer behaviour and the adoption of rental as a more sustainable and affordable way to manage your wardrobe needs - especially when working from home," Jones says.

"It has never made less sense for our customer to own her entire wardrobe outright than this year."

While Glam Corner began in the most obvious category for rental fashion – evening wear and ballgowns – it has since expanded its product selection to cater for a range of occasions.

"We realised very early on that a key lever of the growth strategy of any retailer is its merchandising mix. So we continued to expand into more product lines such as day dresses for christenings

and the races through to more casual playsuits and kaftans for birthdays and engagement parties," Jones says.

"Interestingly, given the impact of working from home and video call meetings, we saw a surge in 'above the waist' products going out to customers - especially when thousands of physical retailers around the country were forced to close. Renting a never-ending stream of clothing without the burden of ownership has never made more sense to our customer."

A BRICKS-AND-MORTAR DEBUT

In October 2020, Glam Corner unveiled a new partnership with department store David Jones, opening a location where shoppers can rent and return clothes from a David Jones store. The partnership will vastly expand Glam Corner's reach.

Customers can now book an appointment with a stylist and try on

David Jones' pieces for rental, while Glam Corner handles the rental logistics, bookings and fulfilment capabilities. Glam Corner also built a bespoke online section on the David Jones site so customers can rent items from the comfort of their own home.

"Since my wife Audrey and I founded this business over eight years ago, our vision has been to build an endless online wardrobe for the women of Australia," Jones says.

"The launch of our partnership with David Jones was such an exciting milestone for Glam Corner. To be working closely together with one of the most prominent names in Australian retail was a huge 'pinch me' moment for our company.

"Our vision has always been to be every Australian woman's endless wardrobe and this collaboration has achieved another big step in that direction. This partnership gives customers a more accessible and sustainable way to access a wide array of local Australian designer brands."

Jones says Glam Corner will continue to invest in its in-house capabilities to improve the customer experience.

"Our unique reverse-logistics fulfilment, garment care system and processes are actually the 'secret sauce' that makes Glam Corner special," Jones says.

"The entire Glam Corner fulfilment centre operates using customised software and hardware that was built in-house by the amazing Glam Corner software engineering and technology team.

"When the product team identifies an area to make our customer's experience better, we can jump into building and launching it, rather than spending time looking for ways it could integrate with third-party software. Having this technological capability at our fingertips has allowed us to move faster and continuously build better products and services for our customers."

The retailer is also introducing more and more brands to the rental platform, and expanding the supporting fulfilment and logistics infrastructure to process orders more quickly and on a larger scale.

"A lot of retail businesses have had a turbulent year that has seen the acceleration of a lot of incoming change," Jones says.

"While the speed of this change was more rapid and difficult than some would have liked, in the end it was always going to be better for the customer. And if it is good for the customer it is good for retailers." ■



“ It has never made less sense for our customer to own her entire wardrobe outright than this year.”



Beyond delivery: Marley Spoon

Online grocery sales have skyrocketed over the past year, and for major players like meal kit delivery business, Marley Spoon, this is just the beginning.

ROLF WEBER, CEO AND CO-FOUNDER OF MARLEY SPOON Australia, describes 2020 as a year of resilience and transformation.

“Between opening the year with fires and floods to now working through a global pandemic, 2020 certainly won’t be forgotten,” Weber says.

But 2020 will also be remembered as the year the business reached global profitability for the first time, achieved carbon neutrality and continued to expand globally and deepening its relationships with partners like Woolworths, all while experiencing unprecedented demand for its meal kits.

“It’s been a challenging year for retailers, particularly those in the grocery space, including dealing with impacts from drought, bushfires, floods, food shortages, and a global health crisis. All of these external factors have an effect on our supply chain and forces our team to adapt on the fly.”

In the process of navigating these challenges Marley Spoon strengthened its processes, teams and partner relationships, learning lessons along the way.

One of the most noticeable external impacts was the high demand for grocery delivery services as shoppings

chose to avoid busy supermarkets during COVID-19.

The demand is reflected in Marley Spoon’s numbers: just a few weeks into the year the business reached the growth target it had forecast for all of 2020. In the first few months of the year Marley Spoon hired more than 250 new team members and onboarded them without delays to meet customer demand.

Weber attributes the business’ impressive retention rates in part to the continued innovation of his team, including the launch of ready-to-heat meals earlier in 2020.

“The numbers are very strong and customer retention is extremely high, even as the impact of the pandemic has begun to decrease across Australia,” says Weber.

“Ready-to-heat meals had been in product development prior to the pandemic, however the launch was expedited by lockdowns and the demand from the influx of news customers. With many Australians returning to the office in recent months, the number of ready-to-heat meals sold continues to impress and opens future opportunities and streams to reach new customers.”

GROCERY TRENDS OF 2021

According to Weber, online grocery will continue to grow as a percentage of overall grocery sales, helped by investments from supermarkets and the hospitality sector.

“In 2020, the share doubled, which in our view just laid the foundation for future acceleration. We will continue to see investments by major retailers such as Woolworths and Coles as well of course ourselves which will increase service levels and convenience,” Weber says.

“The hospitality industry will continue to increasingly look at the direct to consumer channel to make up for physical revenue challenges as the pandemic continues to drive uncertainty and risks.”

Another trend Weber highlights is the tightening of household budgets following the economic impact of the pandemic, which Marley Spoon caters for with a second, affordable brand, Dinnerly.

“The economic impact of the pandemic means many customers are seeking to save, so Dinnerly has been growing quickly in both America and Australia. We’ve also been able to launch the brand into Germany and are seeing good initial traction,” says Weber.

Personalisation of products and

services based on customer data are also tipped to be a key differentiator for grocery delivery.

“While delivery will be a defining element of the industry, personalisation and flexibility will separate leaders of the market,” Weber says.

“We view choice as one of the most important elements to our success. The value of variety cannot be understated, particularly while some ingredients became hard to find in supermarkets. Being able to cater to all tastes and dietary needs gives us the ability to cater to more households and provide an elevated platform to capture data and continue to build a better meal kit.”

“ While delivery will be a defining element of the industry, personalisation and flexibility will separate leaders of the market.”

STATE OF ORIGIN

Weber said provenance and quality of ingredients will move up the ranks in importance for a growing number of customers, who are increasingly concerned about their personal impact on the planet.

Marley Spoon is working to provide customers more data and education about their personal impact and opportunities through food choices, e.g. by showing a meal based carbon footprint.

Marley Spoon is working to provide customers more data and education about their personal impact and opportunities through food choices, e.g. by showing a meal based carbon footprint.

Marley Spoon has established sustainability teams in all its businesses around the globe with a clear road map of actions to achieve a range of targets for 2021 and until 2025.

“We created this roadmap in line with Global Sustainable Development goals and will publish our first ESG report next year,” Weber says.

“We are working closely with all our suppliers on sustainability data collection, creating a baseline data set on which to measure our progress as we go forward.”

“A key goal of Marley Spoon was to become carbon neutral by 2025. After we looked at all the data, we decided to fast track this initiative and already achieved carbon neutral standard this year through focused effort on our carbon footprint reduction and mitigations.” ■



Fashion forward: Australian Brands Alliance

It was a tough year for fashion around the globe, as consumer behaviour changed and retailers considered their impact on the environment. Here, ABA founder Paul Elsibai provides a sneak peek into what's ahead for the fashion house.

WHAT WAS 2020 LIKE FOR AUSTRALIAN BRANDS ALLIANCE?

It was super-fast paced, and filled with lots of challenges. It's been a year that we learned lots about ourselves and our customers, and one that we'll look back on proudly.

Despite the challenges, our revenue remains higher than last year. We have proven our ability to face all the craziness that both COVID-19 and the bushfires brought to the fashion industry here in Australia, and we're proud to say we ended the year as a stronger business.

LOCKDOWNS HAD A BIG IMPACT ON CONSUMERS' FASHION CHOICES LAST YEAR. WHAT PATTERNS DID YOU OBSERVE ACROSS YOUR BUSINESS?

Initially we saw a drop in sales across all our brands. Following the initial drop, we then saw a shift to what we describe as 'casualisation'. As more and more people began working from home, customers were looking for more casual styles that kept them comfortable while still looking great.

As we approached spring and things started to get a little closer to 'normal' with lockdown restrictions lifted in many parts of the country, we noticed that our customers were returning back to more regular purchase patterns, including lots of dresses, and fewer casual and utility pieces.

Overall, though, there's been a definite shift away from styles that were 'occasion' focused, including bridesmaid and formalwear, and lots of demand for pieces that are multi-use. This was observed across all of our brands, and will be



something we continue to cater for moving forward to 2021.

IN ORDER TO MINIMISE WASTE, HOW DO YOU DETERMINE WHICH STYLES CUSTOMERS WILL BUY?

We invest heavily in developing software and technology to help us understand and predict customer demand. We have immensely detailed systems in place to track every single scrap of material we use, so that we can buy and plan to use only exactly what we need, and nothing more.

Our design, planning and merchandising teams then use these reports to ensure the optimal number of styles and stock is ordered. Almost everything we do is in-house, including fabric and patterns, so we're able to control supply and keep our wastage down as much as possible.

Waste reduction is one of the key pillars of our business, and was one of the main reasons why we were able to achieve our BCorp certification.

Plus, for the past 12 months, we've been working on a first-of-its-kind clothing waste reduction project that will be launched in early 2021. While we can't give too much away right now, it's set to be one of the most innovative consumer clothing projects in Australia – possibly even the world. Watch this space!

WHEN IT COMES TO SUSTAINABILITY, WHAT GRADE WOULD YOU GIVE THE WIDER FASHION INDUSTRY?

Across the board, it's clear than many players in the industry could do better. However, we don't believe in judging or 'grading' the industry, because sustainability means different things to different people. We are really pleased to see that there is lots happening in the sustainability space and the conversation is gaining a lot of momentum.

The path to sustainability isn't an easy road, and can often cost more initially. We believe that this is where smart business models and data comes in. At ABA Labels, our profit for purpose mentality has allowed us to simultaneously maintain a good profit while still preserving our ethical and sustainable credentials. We'd like to see more brands do the same. And consumers are increasingly demanding it.

“ We invest heavily in developing software and technology to help us understand and predict customer demand.”

WHAT ARE YOUR TOP PRIORITIES FOR THE BUSINESS IN THE NEXT 12 MONTHS?

We will continue to work hard, evolve, grow and keep responding to whatever

2021 brings. In the new year, we have plans to launch four new brands, and will be continuing to invest in our team and our technology.

Early next year, we're launching an innovative new platform to reduce clothing waste. It's set to revolutionise the way people think about and interact with fashion, and will have a huge impact on people, e-commerce, and the planet.

With innovative new sustainability projects planned for early 2021, we believe we're in the best position to respond to the growing consumer demand for sustainable, ethical fashion.

WHAT ARE YOUR THOUGHTS FOR THE AUSTRALIAN RETAIL MARKET IN 2021?

After the year we've had, it's hard to be completely certain about the outlook for 2021. That's why fashion retailers must ensure they're focussing a lot of energy on staying agile, putting processes in place to be able to pivot quickly, and making their online presence as strong as possible.

We also know that as consumer demand for transparency and sustainability grows, brands will be forced to step up their game and prove to their customers that they're doing everything they can in this area.

Lip service and well-written copy aren't enough: brands need to be putting in the hard work behind the scenes to make their operations as sustainable as possible. If not, customers will simply move to those competitors who are making a real, tangible positive impact on the planet. ■



The blueprint for growth in 2021

There's no question that every recession is different and forecasts for the Australian economy range widely in 2021. There are key levers that brands need to pull to unlock their growth potential. As we work to manage costs and adjust to changing consumer demand and revenue mixes; investment in capital expenditure, marketing, research and innovation wanes. Yet, those that viewed a recession as an opportunity were able to successfully gain a competitive advantage and outperform those that didn't. This underpins IRI's blueprint for growth so brands can truly realise growth in 2021.

Prioritise pricing, promotions, assortment and innovation

The right range matters

No matter whether physical or digital, pre-store customer touchpoints are ineffective if products aren't available – support your shoppers to quickly find what they want or need. This increases the opportunity to add additional items through the process of de-selection and allows for collaboration to maximise physical availability, deliver the right range and optimise 'findability' at shelf. Agile retailers and suppliers will drive value growth by meeting different shopper needs through innovation and premiumisation; and larger, value packs or smaller, lower-priced offerings for budget-conscious shoppers.

Put your shopper at the centre

Retailers and suppliers must collaborate to mine and leverage complementary datasets to improve the shopping experience as single sources alone will not suffice in tailoring category ranges and optimising shelf layouts to meet shopper expectations in store or online. Leveraging Robust POS datasets combined with rich product level attributes can put the shopper at the centre of your strategy.

Leverage price and promotion to activate shoppers at shelf

Australians are more value conscious and price sensitive than ever but also highly loyal; yet three in four are actively looking for promotions to make additional and planned purchases. It is critical to formulate the right trade strategy to reinforce marketing and ranging strategies, support shared objectives and enhance the value proposition. While some decisions are unconscious, those about brand and price generally are not. Value-seeking behaviours will likely increase as will the temptation to discount more frequently and at lower price points. The right price and promotion strategy should benefit the shopper, retailer, supplier and the category.

Know shopper reactions

Planning for 2021 requires intimate and detailed understanding of shopper reactions to price to drive brand and category growth through:

- the right price points on key value items
- effectively managing price gaps and discount depths to drive trade-up and trade-down
- the right offer of premium-priced products for shoppers willing to redirect discretionary income.

With the right trade plan in place, consistent ongoing tracking of promotional execution and effectiveness will enable retailer and supplier agility to adapt better direct investments and revenue management as the market continues to shift and change to meet evolving shopper needs.

Amplify your brand with increased marketing investment

Keep the lights on

It is critical to resist the temptation to go dark in this period of uncertainty. To authentically communicate with shoppers, leverage your understanding of the product attributes that are most important to key shopper groups. Remember, what's important to potential new brand buyers might not be the same as what's important to those who recently stopped buying.

Get to really know your customers

The most successful brands and retailers invest in understanding their customers to segment and prioritise initiatives. Utilising granular POS information, shopper panel and retailer customer data provides multiple ways to segment shoppers, understand what's most important to them for effective communication and deliver the right product, in the right place, at the right price and at the right time.

Balance short-term sales activation messaging with longer-term brand building

Although a challenge, it's critical to provide shoppers with relevant information and tone the appropriate reassurance. But remember, the impact of media investments will continue to change across channels as we saw at the height of the pandemic, but don't always translate into greater media effectiveness.

Have clear insight on media spend optimisation

Marketing mix models deliver clear guidance on campaign effectiveness, channel ROIs and media saturation, but granular store level datasets provide quick and cost-effective ways to test the impact of smaller targeted campaigns prior to a broader launch. Bolstering mental availability will continue to be a marathon throughout the economic crisis. Uncovering how and where along the path to purchase to engage with shoppers is an ongoing effort that must continue through periods of uncertainty. Different shopper groups will continue to evolve the way they engage with media, just as they continue to leverage and adopt new and emerging social media platforms in different ways.

Move at market speed with IRI

Whether it's analysing how to make your assortment, pricing and promotions more profitable, tailoring your shopper engagement strategies to target likely purchasers of your brand, or guiding you through new product or market planning, we ensure that your business can better leverage data and insights to help you grow.

IRI are the leading market intelligence firm for FMCG retailers and manufacturers. We partner with our clients to unlock insights using data and our industry leading technology, to access deeper shopper insights and identify opportunities to support business growth.

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A close-up photograph of two young women with their eyes closed, smiling and laughing as they apply makeup. The woman on the left is applying red lipstick with a gold and black tube. The woman on the right is applying white powder to her cheek with a large, fluffy brush. They are both wearing light-colored, possibly pink or beige, tops. The background is a soft, out-of-focus indoor setting.

Beauty goes boom

2020 was a memorable year for online retailer Adore Beauty, notching up record sales and making its public debut on the ASX. Newly appointed CEO Tennealle O'Shannessy reflects on her first six months in the job and what's in store for the year ahead.

HOW WOULD YOU DESCRIBE THE LAST 12 MONTHS FOR ADORE BEAUTY?

2020 has been a pivotal year for Adore Beauty and it was certainly anything but business as usual. COVID-19 showed us that our operating environment can change incredibly quickly. Our business had to pivot and adapt to changes in our customers' shopping habits that arose due to stay-at-home requirements, where we saw increases in purchases of candles, in-home devices and skincare products in particular, reinforcing our belief that beauty is about self-care and personal nourishment.

Further to this, with our warehouse being based in Melbourne we were able to successfully navigate changes in our business operations while experiencing a significant surge in demand from new and existing customers. Throughout this, our two priorities have been keeping our team safe and keeping our customers happy. We've worked really hard to put every safeguard we can around our operating environment so that we could keep delivering to our customers - it's clear they needed us throughout this period.

YOU STEPPED INTO THE ROLE OF CEO EARLIER THIS YEAR. WHAT WERE YOUR FIRST PRIORITIES?

I have long-admired Adore Beauty – a genuine Australian start-up success story. Kate Morris, as a student at the age of 21, and her co-founder James Height started Adore as Australia's first beauty e-commerce site in 1999 from a garage in Melbourne. They started with just \$12,000, and two cosmetic companies on board.

Adore Beauty has since grown to more than 230 brands, 11,000 products, and hundreds of thousands of customers. I was impressed with what they have achieved, but even more impressive for me was how they have achieved this – taking a very values-led approach that puts customers at the very centre of how the business operates.

My first priority was to listen and seek to understand what our customer is looking for when she shops for premium beauty. Beyond that, I am privileged to have joined a business with strong foundations in terms of its people, its culture and its business model, so my focus during these early stages has been on deepening my knowledge to determine how I can further support the business to scale and drive to the next level of growth.

THROUGHOUT 2020 ADORE BEAUTY ATTRACTED A LARGE

NUMBER OF NEW CUSTOMERS, WHAT DOES YOUR DATA TELL US ABOUT FIRST TIME E-COMMERCE SHOPPERS? ARE THEY LOYAL?

The movement restrictions associated with COVID definitely brought new customers to online shopping, and as beauty is a high-frequency purchase, we believe these behaviours are habit forming and have created new cohorts of loyal customers. Based on the behaviours we have seen on our platform, especially in those states in Australia where restrictions have eased, we are confident that the shift to e-commerce throughout COVID has simply accelerated a structural trend. Even with a strong increase in sales volume across our platform, we have maintained our high levels of customer satisfaction and retention, which gives us confidence in the stickiness of customers who are new to online shopping.



“ We are confident the shift to e-commerce throughout COVID has simply accelerated a structural trend.”

AFTER LAUNCHING THE BEAUTY IQ PODCAST AND YOUTUBE CHANNEL, WHAT PLANS DO YOU HAVE FOR CONTENT IN 2021?

Content is a really important part of the experience we offer our customers, the chance to discover new products and brands. Through our content, we aim to empower our shoppers by offering objective, unbiased, real and authentic information, and this has really resonated with our customers. We launched our podcast Beauty IQ in August 2019 and we have since passed 1 million downloads and ranked the number one fashion and beauty podcast in Australia. Similarly, we launched our Youtube channel in March last year, which has had 1.5 million views.

Content will continue to play a really important role in the value we deliver to our customers, and we will expand the topics we cover and the channels we use to connect with our customers – for example we have recently launched TikTok.

ADORE BEAUTY IS PLANNING TO LAUNCH A MOBILE APP AND A CUSTOMER LOYALTY PROGRAM. WHAT NEW CAPABILITIES WITH THESE CHANNELS ADD TO THE BUSINESS?

Our app will have a content-first focus, and with this we aim to build a deep, ongoing, relationship with our customers so we can engage with them and add value to their lives on a daily and weekly basis, not just when they are shopping. Our loyalty program is another really important initiative for us, where we aim to build a personalised, tailored program that recognises and rewards our customers at all stages of their journey with us.

WHAT ARE YOUR TOP PRIORITIES FOR THE BUSINESS IN THE NEXT 12 MONTHS?

We are focused on continuing to build an exceptional customer experience, through building out our brand and product portfolio including expanding into related categories. We will also focus on delivering a leading digital shopping experience, increasing the personalisation of all of our content, product and recommendations, as well as growing customer engagement and retention through initiatives like our mobile app and loyalty programs. We believe that by staying true to our customers, brands, values and vision, we can solve the potential challenges, and take advantage of all the opportunities that time may bring. ■

A woman with long brown hair, wearing a bright yellow halter-neck top and light blue wide-leg jeans, is captured in a dynamic, joyful pose. She is balancing on one leg, with her other leg kicked high and bent at the knee. Her arms are raised, and she has a wide smile. The background is a vibrant blue brick wall with a window above her that has some broken glass. The overall mood is energetic and fresh.

Hush Puppies strides into 2021

Gone are the days that Hush Puppies was associated with your grandpa's daggy old shoes. Its major transformation into a fresh, modern brand is well underway, and the retailer is looking forward to an exciting 2021. Here, general manager Charlene Perera reveals what to expect in the year ahead.

HOW WOULD YOU DESCRIBE THE LAST 12 MONTHS FOR HUSH PUPPIES?

The last 12 months have been an experience to say the least. If I could summarise it in a word it would be 'pace'. The pace in which we needed to operate shifted at a rate we have never experienced. The way in which we communicated with our consumers and the messages that we sent them shifted daily. Previously we set a clear comms plan for the season and navigate change ever so slightly. Over the last 12 months we were discussing changes daily and producing content from our houses to ensure that we were still reaching our consumers with emotionally relevant content.

Further to communicating with consumers we needed to and work closer than ever with all our factory partners, ensuring that we were doing the right thing by both our businesses. It's great to feel at the end of this 12 months that we have never been so engaged with our consumers and never so close to our factory partners.

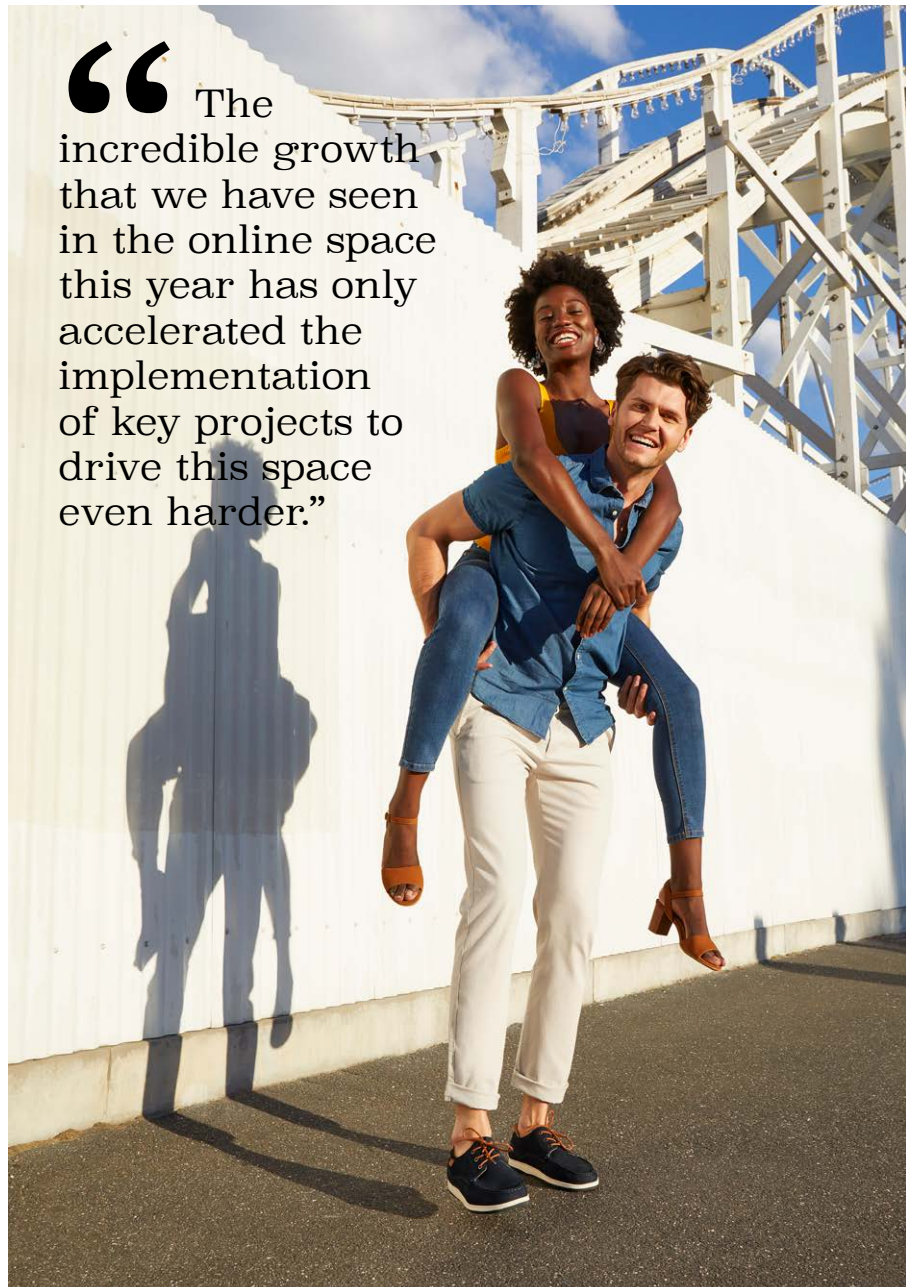
LOOKING AT THE WHOLESALE SIDE OF THE BUSINESS, WHAT WAS YOUR RELATIONSHIP WITH RETAILERS LIKE AS THEY DEALT WITH STORE CLOSURES AND STRONG ECOMMERCE DEMAND?

The partnerships with our key wholesale partners were just that: a partnership. They have never needed to be stronger. We work very closely with our customers in partnership because we don't win unless they do. Navigating stock movements, delivery cancellations and then with all the port challenges delays has made open communication and collaboration key to the success. Given we operate our own retail business we could completely relate to the challenges that were being faced and that allowed us to be so open to navigating the ever moving terrain together.

IN TERMS OF CHANGING CONSUMERS' PERCEPTION OF THE BRAND, WHICH MARKETING, ADVERTISING OR CUSTOMER SERVICE TACTICS HAVE BEEN THE MOST SUCCESSFUL?

Over 18 months ago, Hush Puppies globally executed a new brand design – we took this brand design and ensured that we overlaid it into everything that we did. This brand design gave us a clear tone of voice and while we already had this based on the way in which culture within the brand has been built, this design gave a clear framework to work within, ensuring that we were clearly speaking the language of our

“ The incredible growth that we have seen in the online space this year has only accelerated the implementation of key projects to drive this space even harder.”



consumer. From here it has been much easier to execute marketing campaigns and create content, after all we are a brand that thrives on optimism so brand messaging to the consumer is fun, light and sometimes a little tongue in cheek! But like most brands today social media marketing and search engine marketing have been incredibly successful in ensuring reach.

WHAT ARE YOUR TOP PRIORITIES FOR THE BUSINESS IN THE NEXT 12 MONTHS?

We have big goals in the social responsibility space and we intend to keep learning and pushing those boundaries over the next 12 months.

New product launches based on the lessons of the past 12 months and how our consumers have reprioritised their life values. Our internal team has done an incredible job in lockdown, innovating

and reimagining what things can look like, so I'm so excited to see these launch in the market and then learn from their performance.

And, furthering digital acceleration into new features and integrations – not only for our own online store but for marketplaces.

WHAT'S THE OUTLOOK FOR THE AUSTRALIAN RETAIL MARKET IN 2021?

2021 is going to be an interesting and challenging time for the Australian retail market. No doubt, we will see some brands depart from the space, but the brands that I feel will excel are the ones with strong brand stories to engage loyal consumers and innovate, not just through product and marketing, but through every length of the value chain and those that accelerate their growth and learnings in the digital arena. ■

The great accelerator: how **The Iconic** navigated 2020

The rise of online shopping in 2020 was a double-edged sword, with some retailers struggling to meet the surge in digital demand. Here's how The Iconic came out on top.



THE ICONIC HAS LONG BEEN ONE OF AUSTRALIA'S LEADING online retailers, so it should come as no surprise that it was more prepared than most to adapt quickly to the new normal during COVID-19. But the fact that 2020 turned out to be one of The Iconic's best years? That comes down to strong leadership, which kept the business focused on its core values even in the middle of a pandemic.

"As a pure play online retailer, agility has always been core to The Iconic's operating rhythm, and if 2020 has taught us anything it's that those organisations that can be agile and pivot quickly will lead the future growth and direction of our industry," says Erica Berchtold, The Iconic's chief executive officer.

"We had a strategic plan in place pre-COVID, and instead of putting our 'foot on the brake' in the face of uncertainty, we chose to hit the accelerator. Key customer and partner initiatives, ideas and iterations that would have previously taken 6 to 12 months have

been executed in as little as three months in 2020."

The Iconic created a COVID Task Force in February 2020 to prepare for the impacts of COVID-19 should it reach Australian shores. This meant the business was ready to act in March when the virus began to surge in Australia. New safety protocols were introduced at warehouses and key business units moved to work entirely from home.

Throughout 2020 the online retailer opened The Iconic Outlet, launched new dedicated beauty and toy destinations, received official endorsement for its first Reconciliation Action Plan and transitioned to 100 per cent recycled delivery satchels.

"These are big milestones for a 'normal' year, let alone one where we're in the midst of a global pandemic," Berchtold says.

"Ultimately, as a pure-play online retailer, we've been fortunate in having a nine year head start when it comes to

e-commerce. Home to over 16 million onsite visits a month, we were lucky in being able to tap into our existing infrastructure, operational processes and systems to ensure we were in the best position to respond to the surge in online shopping across 2020."

DIVERSIFICATION

The Iconic has added beauty, wellness, kids toys, and accessories to its range, to be a "true one-stop-shop".

Berchtold says the new launches are a natural evolution of The Iconic's product assortment, offering customers more choice online and had been in the works pre-COVID.

The retailer also fast-tracked the opening of a new standalone storefront, The Iconic Outlet, with savings starting at 50 per cent off or more on an assortment of quality discounted and end-of-season looks from The Iconic's main catalogue.

"With the surge of online shopping, and people spending even more ►



time at home, we saw there being an even greater need to accelerate the introduction of these new categories and further enhance our onsite experience," Berchtold says.

"Plans to create The Iconic Outlet had always been on the cards, however to meet the changing needs of both our consumer and partner brands, we knew it was an initiative we had to fast track during COVID."

"The key customer drivers for us in this launch included being able to fully segregate off-season stock from in-season items on The Iconic's main catalogue, tailoring our experience across both offerings and delivering a bespoke environment for discount driven shoppers. While for our brands, it offers a unique business model to sell off-season stock in an elevated way."

“Times of disruption offer unique opportunities to rethink the way you do what you do and really lean into innovation.”

LOOKING AHEAD

On the sustainability front, the business continues to make progress on its 2020-2025 sustainability and diversity, inclusion and body-positivity objectives which were outlined in The Iconic's inaugural Annual Progress Report in November 2019.

"Despite the challenges that were navigated throughout 2020, The Iconic has remained fully committed to genuine and ongoing change to help push for a more progressive fashion and retail landscape," Berchtold says.

"Looking to 2021, our focuses as a business will continue to be working towards the goals set out in our Annual Progress Report - which, pending the objectives and complexities involved, are scheduled to be delivered either in 2022 or 2025."

Key goals to achieve by 2022 include:

- 10 per cent of shipping packaging made of recycled content.
- 80 per cent of energy from green sources and warehouse solar operational.
- 80 per cent of waste diverted from landfill across all sites and 100



per cent of waste diverted at the fulfilment centre.

- 100 per cent of our private brands have incorporated size extensions.

In 2021 adaptability and speed will continue to be necessary to meet customer expectations which have been reset higher throughout the pandemic.

"History shows that society shifts and new things are born when crises hit, and while complete with its challenges, times of disruption offer unique opportunities to rethink the way you do what you do and really lean into innovation," says Berchtold.

"Also, a conversation I would like

to see shaping discourse on the retail landscape moving into 2021 is what is at the heart of retail success in our new normal. 2020 has been testament to the idea that retail success is not only about 'online vs. offline'. Rather, COVID-19 has highlighted the importance of customer relevance and has accelerated the need to be more relevant than ever before.

"It is no longer simply a matter of the experience you offer online or in-store, it is about 'showing up' for your customers - offering a product assortment, customer experience and channels of engagement that resonates with them and their evolving values and needs." ■

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Who Gives A Crap rolls into 2021

When toilet paper unexpectedly became a hot commodity in 2020, Who Gives A Crap acted quickly. Co-founder and CEO, Simon Griffith, explains how the business reacted and what's next.

THE SIGHT OF SHELVES STRIPPED BARE BY PANIC BUYERS WAS AN early indication that 2020 was not going to be a normal year for retailers. For awhile, toilet paper shortages became the norm as people prepared for the possibility of a lockdown to control the spread of the coronavirus.

"It's been a wild time to be in the toilet paper business," says Simon Griffith, co-founder and CEO of direct to consumer toilet paper business Who Gives A Crap.

To recap: The team has nearly doubled in size, launched a brand new product the Dream Cloth and donated \$5.85 million across six different charity partners.

"We've done it all with our incredibly nimble team who was working through some pretty unprecedented circumstances," says Griffiths.

The largest challenge was fulfilling the skyrocketing demand for toilet paper. Who Gives A Crap saw its orders spike in March, at its peak selling 28 rolls of toilet paper every second.

The retailer changed its website to 'sold out' and turned on an email sign-up so that people could be notified when the product was back in stock.

"In the middle of March we had an 1,100 per cent increase in our daily sales and sold out globally," Griffiths says.

"We thought we would get a few

thousand sign ups, but got a bit of a shock when more than half a million people signed up! Immediately, we rolled up our sleeves to figure out how we could get TP to as many people as possible."

The business came up with a creative solution to manage the unprecedented level of demand: it repacked rolls from its 48-roll boxes into 24-roll boxes to ship twice as many orders.

"We found and trained 25 freelancers in less than a week to help us with triple the number of customer enquiries. And then we slowly started sending emails to what ended up being a 600,000 person waitlist to let people know they could buy from us again," Griffiths says.

"By the end of May, we'd moved through the whole waiting list thanks to an incredible amount of hard work from our team and partners, many quick pivots and one broken inventory management software."

Each year, Who Gives A Crap donates 50 per cent of its profits to help build toilets, and the sales spike enabled it to make its largest ever donation.

"From the very beginning, our mission has been to ensure everyone in the world has access to a toilet, but we never thought our impact could be this great," explains Griffiths.

"To put it into perspective, our very first donation was just \$2,500 to WaterAid Australia, but this year we donated \$5.8 million between six amazing partner organisations. Really, it's a milestone that's unbelievably exciting, but also incredibly humbling."

“ We had an 1,100 per cent increase in our daily sales and sold out globally.”

The total donation amount was five times greater than in 2019 and it more than doubled the total amount Who Gives A Crap has donated to date, now over \$8.3 million.

These donations funded a variety of water, sanitation and hygiene projects, like building toilets, advancing disability inclusion, and providing soap and handwashing stations in countries like Papua New Guinea, Timor Leste, Kenya and India.

When asked if he has a prediction for the size of next year's donation, Griffiths says they hope to be able to expand the number of charity partners they work with.

"We didn't see 2020 coming, so who knows what 2021 will look like! We're happy so many new people have become customers because our donations grow when our business does too. We hope to bring on even more charity partners and expand our continued impact around the world," Griffiths says.

"In everything we do, our priority is to help as many people as possible get access to proper toilets and sanitation. We've seen how toilets really change the landscape of communities, from education to local business and beyond! As a mission driven business, we make sure our company goals always ladder up to our purpose – toilets for everyone." ■



Puppy love: Pet Circle

With pet ownership at record levels, the pet supply category is predicted to continue to grow. Michael Frizell, CEO of Pet Circle, reflects on the year that was.

WHAT ARE SOME OF THE TRENDS YOU'RE SEEING IN THE PET OWNERSHIP MARKET?

During the COVID-19, lockdown people were spending more time at home and, happily, getting to spend more time with their pets. We are seeing a commensurate increase in searches for 'fun' products – ball throwers, leads, and treats. The increased attention also appears to be focusing people on nutrition and quality in their pets' food so we are noticing some increased transitions to higher quality products. We have the best and biggest range here so we are receiving a lot of new customers that way. Of course, we are also seeing a cost focus with people not wanting to spend more than they need. With our range and price guarantee we are well positioned for this.

Overall though, the main trends are the humanisation of pets, the switch towards premium quality foods, and an increased focus on natural diets. More and more, pet trends just follow human trends!

HOW DID PET CIRCLE'S RANGE AND CATEGORY SHIFT AS A RESULT OF COVID-19?

Demand has increased not just in overall unit volume, but also in terms of the range that consumers are buying. As a result, Pet Circle increased its range by over 25 per cent this year. As an example of changing demand, we've sold 2.5 times more grooming items as people are cleaning and caring for their pets at home. We've sold 6.5 times more beds [as people are] providing more comfortable spaces for pets. We've sold 3.8 times more collars and leads as people are exercising locally alongside their pets. We've sold 1.8 times more health supplements as pet parents are more in tune with their pets' behaviours and health.

WHAT INVESTMENTS HAS PET CIRCLE MADE TO IMPROVE ITS DELIVERY SERVICE? WHY DO YOU BELIEVE IT'S IMPORTANT TO OWN THE LAST MILE?

COVID-19 pushed a lot of demand online which in turn caused congestion across all of the major courier networks, including Australia Post. We are committed to



providing the best customer experience and when listening to customers we believed the lack of reliability in these networks was causing friction. As such right in the middle of COVID we decided to roll out our own dedicated network of delivery vans and drivers.

“ More and more, pet trends just follow human trends.”

WHAT ROLE DO VETS PLAY IN YOUR BUSINESS?

We believe we have a role to play in educating pet parents across nutritional, lifestyle and behavioural topics. As such we have grown our team of vets from four to 23 over this the last three months so that we can provide lots of helpful advice across a range of touch points. This includes reviewing all products that go on site, writing the product description and content, Facebook live Q&A, always on vet chat support and our Vet Pet Plan service which is a free customised plan across nutritional, lifestyle and behavioural topics written by one of our vets. With the growth in telehealth services this has also provided a foundation to pilot an appointment based phone or video calls to our most valuable customers.

WHAT'S THE OUTLOOK FOR THE AUSTRALIAN RETAIL MARKET IN 2021?

Our data sources suggest we will see the pet supply category grow by around 6 per cent however this will be almost exclusively driven by online, which we project to grow by 30 per cent and premium food which will grow by 13 per cent.

WHAT ARE YOUR TOP PRIORITIES FOR THE BUSINESS IN THE NEXT 12 MONTHS?

Our top priorities all revolve around making our customers and their pets happier, and delivering on our mission of building the largest community of pet families in ANZ by being their specialist in everything pet. This focus on the customer experience is taking the following key tracks:

- Improvement in the last mile: by the end 2020 over 75 per cent of all orders being delivered by our dedicated network.
- We want to offer the best possible customer service that is equipped and prepared to go the extra mile for our customers. We are therefore investing substantially in our improved CS team and training.
- The continued roll out of our Vet Squad and the ability to access them directly or indirectly via the content that they produce at all consumer touch points.
- Significant expansion of our range so we can service any pet need - we already have the largest range of pet products in Australia.
- Investment and focus in a data team and data warehouse so we can begin to use the vast amounts of data that we have on customers to provide more valuable, contextual, meaningful experiences.
- The continual evolution and improvement of our digital assets.
- And, finally and critically we are investing in our people, in training and development and the culture, because we need to equip the great team we have with the tools they need to continue to deliver amazing experiences for our customers. ■

Honey Birdette forges ahead with global expansion plans

Last year may have seen e-commerce sales skyrocket, but there's still a place for an excellent in-store experience and Honey Birdette isn't letting a pandemic slow down the growth of its international store network.

IT'S NO SECRET THAT ACTIVEWEAR AND LOUNGEWEAR WERE THE BIG winners in fashion last year during lockdown, but lingerie sales also enjoyed a big spike in sales and in 2021, luxury retailer Honey Birdette is getting ready to ramp its growing network of international locations.

According to Honey Birdette CEO Kim Kidd, the retailer will continue to focus on growth and expanding its international footprint, while staying true to its glamorous brand and culture.

"We have no plans to slow down right now. We are a young, ambitious company and so we are pushing along our global growth strategy," she says.

Honey Birdette opened its first US store in Westfield Century City, Los Angeles in late 2018. At the end of 2020, the company had six stores in the US, including two which opened during the pandemic, and three in the UK.

"We continue to see exceptional levels of growth in the US. It has been hard with the constant opening and closing of stores due to government restrictions, however, our Century City store continues to be our best performing store in the portfolio and our online numbers are doubling year-on-year," explains Kidd.

Another location is set to open in Las Vegas in early 2021 and the retailer is also pursuing a number of other opportunities in the US as well as Europe.

After the uncertainty of last year, Kidd has had some time to consider the lessons learnt during that time.

"A total rollercoaster! [Last year was] like nothing ever seen in the retail world and it has been so unpredictable," she reflects.

"It has been an incredible learning experience. We always knew as a company that we were agile and dynamic but the last few months have really tested this. You have to be ready to respond so quickly to customers

changing needs and behaviors as well as different government restrictions."

"As a global business, we've had a number of territories to consider with a range of different rules and restrictions so we've had to be on the ball constantly."



“ We have no plans to slow down right now. We are a young, ambitious company, so we are pushing along our global growth strategy.”

ONLINE TO OFFLINE

Across Honey Birdette, Kidd says sales have been "incredible" during the year, thanks to a combination of the brand's

physical store and online capabilities.

"We have really focused on our company mantra of 'digital first' which means that we offer our customers the same great experience online as we do in store. This has opened up such a wide market, as well as catering for our existing customers who perhaps don't want to, or can't get into their local shopping centres. We have a great returns policy and customer service team so there's really no risk to buying online," she says.

"We've also seen exceptionally strong performance from our stores. There is the other type of customer who wants the personalised service approach which our in-store Honey's are excellent at."

Since lockdown, savvy retailers like Honey Birdette have embraced the challenge of social distancing restrictions by offering customers more personalised appointment-based visits. During the peak of the pandemic, only two customers were allowed in the stores per appointment and the doors were closed to prevent others from entering.

These bespoke experiences have paid off for Honey Birdette. According to the brand, the average transaction value from the sales through booked appointments is 57 per cent higher than the usual benchmark. It's now a permanent part of the Honey Birdette store experience, which has since evolved in the past year.

"We now offer our customers a range of appointment options and we will be rolling out a VIP offering very soon where customers will be able to book out the store exclusively and have a tailored-made experience, say for a date night or a special occasion," explains Kidd.

"Whilst travel is off the cards, people are looking for other ways to feel good and have some escapism. Retailers who can be dynamic in this changing environment and offer customers an experience, not just a product, I believe we will really thrive in 2021." ■



EXPERT FORECASTS

KPMG

The year of retailing bravely

For many retailers who have survived COVID, 2021 may yet be the year of retailing bravely.

BY **JAMES STEWART**, Partner, National Leader, Restructuring Services, KPMG
GAYLE DICKERSON, Partner, Restructuring Services, KPMG
DAVID HARDY, Partner, Restructuring Services, KPMG

FOR THE MOST PART, RETAIL STORES ACROSS THE NATION are open and trading under a new normal. However, the residual impacts of COVID-19 will still test many of them as people’s euphoria from being released from lockdown starts to wane, and the government measures that have temporarily shielded the Australian consumer from the worst of the economic consequences of COVID decrease.

As we all now know, there was a step change in consumer behaviour towards digital and online in 2020. In many respects, the pandemic has rapidly accelerated five years of disruption into a few months. While many retailers have benefited from the tailwinds of this acceleration of trends, others will need to act quickly and repurpose their business to adapt to the new retail world.

In theory, 2020 should have been a painful year for retailers. Instead, retail collapses hit record lows and the wave of insolvencies many predicted never occurred.

What’s driving this?

The government introduced four stimulus measures that supported retailers and softened the pain of the pandemic. We like to call these measures economic morphine.

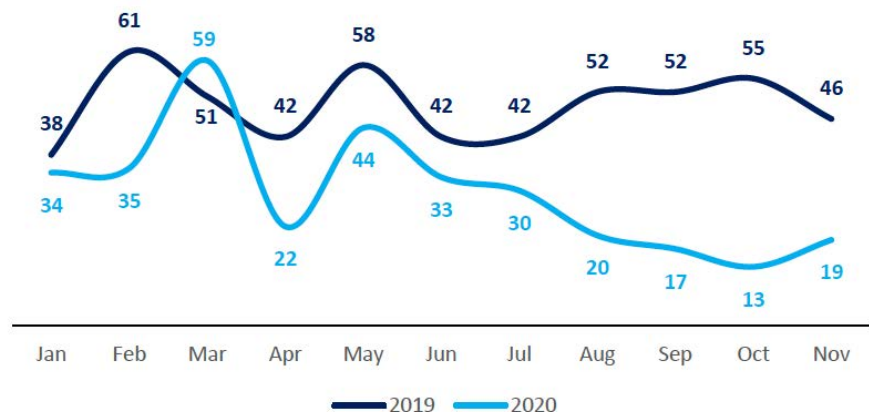
ECONOMIC MORPHINE

1. The first was the move to suspend insolvent trading laws in March, which provided relief for directors at risk of personal liability for insolvent trading.

The government initially put the laws in place for six months, but at the time of writing, they had been extended until the end of the year. This temporarily enabled retail boards to weather the storm during the peak of the pandemic without fear of being personally liable to pay the debts of their businesses if they were forced into liquidation. While this provided peace of mind for many directors, their usual obligations continued to apply, including the duty to act honestly and in the interests of stakeholders. Practically speaking, the suspension of the obligation on directors to prevent insolvent trading took away the burning platform that drives many directors to appoint voluntary administrators.

2. Retail trade creates more than 1.3 million jobs across Australia, making it our second-largest employer. While the rise of online continues, most of these jobs are reliant on bricks-and-mortar stores. As retailers shut their doors during the lockdown, the government’s highly publicised JobKeeper program was pivotal to the survival of many traditional retail models and keeping staff employed (or at least paid). This program was set to run until the end of September 2020, later extended to the end of March 2021, albeit with changes to eligibility and rates. As costs of doing business revert to normal, retailers will feel the pinch if trading revenue remains subdued or they are unable to recapture market share lost during

Retailers Entering External Administration Total



Source: Australian Securities & Investments Commission

the pandemic due to new consumer preferences.

3. The third is the government's COVID-19 Superannuation Early Release Scheme, which provided Australians with access to up to \$10,000 of their superannuation in both FY20 and FY21. At November 15, 2020, more than \$35 billion had been made or approved. This, somewhat unexpectedly, created a sugar-hit for retailers, with estimates that nearly two-thirds of these payments were spent on discretionary purchases. While this injected much needed to many retailers, the scheme also garnered some adverse media attention as liquor and online gambling spend soared.

4. The government announced a mandatory code of conduct for commercial tenancies to support SME's affected by COVID-19, applied across the period the JobKeeper program is operational. Simply put, the objective is for landlords and tenants to share the financial risk and cash-flow impact of COVID-19 in a proportionate, measured manner. This code of conduct was enshrined in some state laws and created a platform for commercial discussions between landlords and tenants that would have otherwise sent many retailers to the wall.

DRY SUPPLY

The economic morphine is set to run off in the middle of the year, and retailers will come back to reality as the supply runs dry.

Retailers will have to deal with this while other stakeholders also wind back their support. Lenders provided repayment deferrals, and there was access to fresh capital with record capital raisings to support retailers through the thick of the pandemic. As trading hits its new normal, lender support will likely continue, but there will be an increasing obligation to work together to manage appropriate facility limits.

Support from creditors will also look very different this year. The relaxation of insolvency laws slashed the number of winding up proceedings, and the ATO took a softened approach to debtor collections during the pandemic. As trading normalises, we expect this will change and there will be increasing pressure on debtors to arrange repayment of funds. Likewise, suppliers who have been supportive of retail customers will be looking to recover cash as they address their financial affairs. Landlords face a very different challenge. The pandemic thrust retail

rents into the spotlight with retailers are seeking more sustainable rents or rent based on turnover. This will mean negotiating an outcome that is palatable for both retail tenants and landlords, which is easier said than done.

What does this all mean for retailers? As business normalises and traditional behaviours return, retailers will again be navigating an uncertain environment, which will require a focus on managing cash flow and working capital. Retailers will need enough cash to manage uncertain trading conditions and the winding back of support. Product and range planning will be even more challenging due to shifting consumer trends as retailers look to create the right product mix to produce targeted sales and margin outcomes. Retailers will need to decide on which trends will stick and place their bets. All the while, retailers will also need to juggle health and regulatory issues to meet compliance requirements and instil trust in their customers.

It certainly won't be an easy year. While we have seen few insolvencies and restructures here in Australia, overseas, a different story is playing out. Across the globe, insolvency regimes are being used by retailers to restructure their businesses, reduce costs and allow a greater focus on online, digital and the consumer. According to S&P Global Market Intelligence, retail bankruptcy filings in the US reached the highest level in a decade in 2020. Similarly, in the UK, retail insolvencies hit a five-year

high and included the likes of Arcadia Group, the owner of Topshop, filing for insolvency in late 2020.

Is this a proxy for what will happen in Australia?

The reality is that consumers are currently cashed up. Savings rates hit historic highs across the country in 2020 as the economic morphine washed through the economy and people were forced to stay home. As the supply runs dry, retailers uncertain of their future will need to consider whether a restructuring option is appropriate to recalibrate the business and create a sustainable model for the post-COVID environment. While directors remain reluctant to do so, the administration process has proven to be a valuable restructuring tool to reset the boundaries for retailers.

FORGING ON

We believe 2021 will be the most unpredictable year we'll have had for generations and will challenge many retailers who survived COVID. Retailers will be navigating an uncertain environment due to shifts in consumer behaviour and the winding back of support, which will place increased pressure on cash flow and working capital. With uncertainty comes risk, and those who make the right bets will come out on top. Of course, there are retailers that will need to reset the boundaries to survive, and there are a range of tools available to do so. The key is to ask for help and to do it early. ■



An economic update

Let's take a look back at how Australia's economy fared last year and consider what lies ahead.

BY DR BRENDAN RYNNE, Partner and Chief Economist, KPMG

WELL, WHO KNEW 2020 WOULD BE SUCH A DIFFICULT YEAR? KPMG Australia's expectations were for a tough year in the retail sector, driven mainly by stagnant wage growth, slowly employment growth and tighter credit conditions following the Hayne Royal Commission into banking misconduct.

But no-one foresaw the calamity that befell on the world because of the coronavirus pandemic.

The global economy contracted at its fastest rate since the Great Depression as governments everywhere enacted policy measures aimed at minimising the effect of the health crisis. As the provision of services, including accommodation, food services and recreation, generally relies on interpersonal contact, it has been these sectors that have primarily borne the direct brunt of the economic fallout.

While we anticipated a weak year for the retail sector, it has shown remarkable resilience and has recorded annual growth to October 2020 of nearly five per cent.

While the overall growth rate is much better than we had anticipated, as we progressed through the year, the wheel of fortune turned at a different pace for different retail sectors. Sub-sectors such as food and household goods recorded double-digit growth of about 10 per cent and 14 per cent respectively. At the same time, clothing, footwear and sales in department stores experienced a fall in turnover of about 11 per cent and one per cent respectively.

Government policies, including JobKeeper and JobSeeker, helped cushion the initial economic fallout associated with health interventions aimed at curbing the spread of the coronavirus. These policies helped maintain spending in non-discretionary retail sectors. However, they could not stop consumers adopting a cautionary approach to their discretionary spending. Consequently, we have seen the household savings rate skyrocket to levels not seen since the early 1970s, when bank lending standards required lower loan-to-value ratios.

MORE THAN JUST A VACCINE

At the time of writing, the Pfizer developed

genetic vaccine had just been approved for widespread use in several countries. A similar technology-based vaccine developed by Moderna is in late-stage approval. Other vaccines, including the Astra-Zeneca/University of Oxford viral-vector technology-based vaccine, are showing promising results, but further trials are planned to confirm optimal dosage protocols.

The implications of the scientific progress in developing a vaccine go beyond the immediate health benefits to the world's population. A vaccine provides a direct pathway for the return of 'normalcy' in communities and economies, and we've seen consumer confidence lift from all-time lows in the middle of 2020 to near historic highs by the end.

While the positivity surrounding the development and roll-out of a vaccine is immense, it is crucial to understand that there is some way to go before normalcy returns. 2020 was all about a vaccine; 2021 (and possibly beyond) will be all about vaccine distribution and supply chains. This is important because activity in society will necessarily remain limited (by varying degrees depending on the health policies adopted with each jurisdiction) until a large proportion of its population is either vaccinated or become naturally immune to the coronavirus.

The new genetic technology needs to be kept at very cold temperatures for the mRNA-based vaccines to remain stable. This should be possible within developed economies and within cities but is more problematic in those countries with poorer health systems and inefficient supply chains. This means there is likely to be a two-tier vaccine system rolled out globally, with mRNA vaccines given in those countries and locations that can (1) afford the vaccine, and (2) support the specialised logistics required to keep the vaccine stable in transit. Other vaccines will be given in those countries that are unable to meet those two criteria.

The global economy will recover at a pace dependent on the roll-out of the vaccine. It is likely developed economies will bounce back first, with the developing and emerging economies following. It is

therefore likely that global GDP won't reach the same levels of economic activity that were achieved at the end of 2019 until the middle of 2022.

THE LUCKY COUNTRY?

A mixture of good management, good fortune and a (broadly) compliant population has enabled coronavirus to be contained, and in some places eliminated, in Australia, which has meant its health and economic impact has been relatively minor when compared to other countries such as the US. The fall in economic activity and employment has been, so far, lower than the level forecast at the start of the pandemic.

Having said that, there were still 250,000 fewer people employed at the end of 2020 than at the beginning, and there are about 300,000 more people who are underemployed compared with a year ago. This overhang in the labour market is likely to take some time to be absorbed, which will mean the unemployment rate will be higher, wages growth softer (or even negative in real terms for a period), and consumer spending weaker, all for longer.

KPMG Australia anticipated a bounce in discretionary consumer spending during the lead up to Christmas '20 and into the early part of 2021, reflecting the satisfaction of pent-up demand by consumers either unwilling or unable to shop. Spending associated with experiences, whether it be dining out, attending events, or travelling to destinations, is likely to be pumped up in the early recovery period. What will be interesting to see is whether the pattern of consumption will permanently change, especially around conspicuous consumption, as individuals take a simpler view on life and lifestyle than they did before coronavirus.

We expect that 2021 will see a strong return to economic activity and consumer spending as the world transitions out of this coronavirus pandemic environment. Australia should see its level of economic activity return to pre-covid levels by the middle of 2021, with growth likely to be above average for financial years 2021 and 2022. ■

M&A refocuses in the time of coronavirus

COVID-19 may have presented its challenges, but e-commerce is the bright light for M&A.

BY JAMES HINDLE, Partner, Mergers & Acquisitions, KPMG

IN THE PAST FEW YEARS, TRADING CONDITIONS HAVE BEEN HARSH for the retailing landscape, and 2020 certainly added extra pressure for most. The impact of COVID-19 has left many consumers with fewer reasons to shop and even fewer ways of doing so. With the onset of the global pandemic, many retailers have struggled to reach their customers due to a lack of ecommerce capability, logistics infrastructure or facing irrelevancy of their products and services in the current environment.

Those that continued to trade throughout the lockdowns faced additional costs for keeping staff and customers safe and had to adapt to comply with government restrictions. These extra challenges caught many businesses flat-footed.

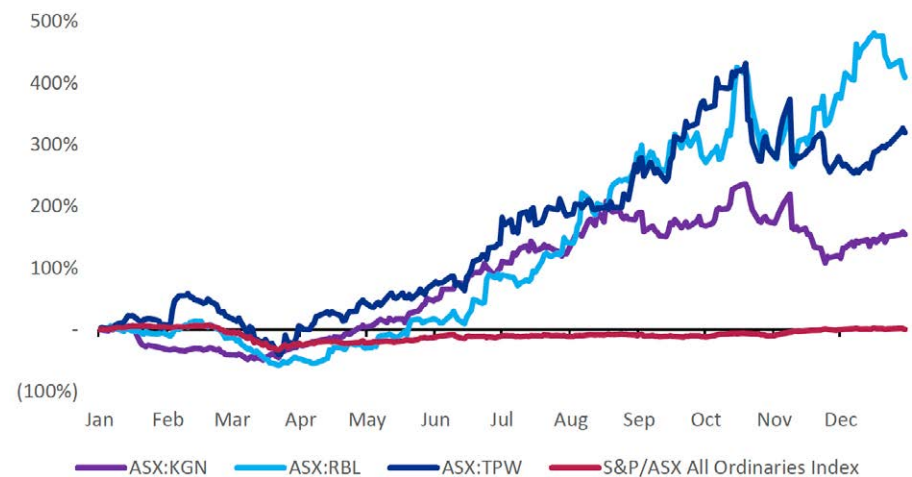
While potentially fatal for many, COVID-19 has also been a creator of opportunity, shining a light on businesses with strong digital DNA and e-commerce capability. If companies could invest in working capital, they were able to capture market opportunities and acquire customers faster than ever before.

The impact of COVID-19 has left investors scurrying to businesses that have captured the accelerated structural shift to online. Revenue growth and amplified customer acquisition, coupled with data and technological DNA have formed scalable business models and compelling investor propositions. This has led to recent valuations skyrocketing due to both revenue growth and trading multiple expansion to benefactors including Kogan, Redbubble and Temple & Webster.

The increased pricing attractiveness has incentivised many able retailers to pursue ASX listings rather than private market transactions. Businesses such as MyDeal and Vinomofu have strong e-commerce characteristics and are rumoured to be considering a listing in the first half of FY21.

While pureplay e-commerce companies have gained significant traction, several traditional and omnichannel retailers have also been beneficiaries of COVID-19 structural tailwinds. These include working-from-home investments

2020 relative share price performance



Source: Standard & Poor's Capital IQ

and panic buying, as well as those that benefited from rent relief and the government's JobKeeper program as stores reopened for trade.

Mergers and Acquisitions (M&A) activity in the broader retail sector has remained cautious, given the level of government stimulus in the market. Most investors are seeking to understand what level of growth is due to government intervention and potential changes in consumer behaviour post-pandemic. Insolvency-driven M&A has been minimal, given the level of banking and government support measures in place, including a temporary director's duty relief on trading while insolvent. Most of the insolvency-driven transactions in the market since the onset of COVID-19 were most likely destined to occur anyway. Insolvency-driven M&A activity is expected to increase significantly in 2021 once retailers have a clear view on the success, or otherwise, of Christmas trading and as government stimulus packages fall away.

For businesses thriving in the current environment, now is the time to get the house in order and investor-ready to seek strategic capital or listing. The ability to demonstrate sustained market demand, growth and the predictability in revenue will go a long way to successfully

navigating investor scrutiny. These are, in part, driven by the existing technology stack and an ability to reach new customers through the accumulation of historic transaction and customer-level data. This level of information will enable most investors to see through the noise of the current environment.

For businesses considering next steps and what their post-pandemic normal will look like, a few strategies include:

- Bringing e-commerce capability forward as it's unlikely the online customer will be leaving any time soon, if it all
- Investing in technology or services to capture relevant data to help better understand your customer
- Revisiting the business' customer value proposition and its relevance in the current environment.

Businesses looking at IPO opportunities in the near term should seek advice from their legal and accounting advisers to ensure financials are audited and compliant with accounting standards. Otherwise, there can be delays in the stock market listing process which can lead to missing that all-important IPO window of opportunity. ■

Payment Times Reporting: are you really ready for the new regime?

Payments Times Reporting is here, and businesses need to think about what they need to do now. Here's our advice.

BY VINCE DIMASI, Partner and Australian Lead, Working Capital Advisory, KPMG
NATALIE BRAND, Executive, Working Capital Advisory, KPMG

THE PAYMENT TIMES REPORTING ACT (PTR) COMMENCED ON January 1, 2021, and affected large Australian businesses and some government entities.

The legislation is estimated to impact more than 12,000 PTR Reporting Entities (RE) from large business groups. If examples of other similar regimes across the globe are anything to go by, reporting could have ramifications across your business.

The Act requires reporting entities to publicly report on their payment terms and times with small suppliers, which means that customers, suppliers, investors, and more importantly, the media, will have access to your reports.

IDENTIFYING WHO NEEDS TO REPORT

By now, more than 4,000 large business groups will have received an early invitation to self-register for PTR or will have subsequently gone to the PTR website to investigate the registration processes.

However, if you have missed this or think you might have recently met the requirements to report, we have covered the necessary tests to satisfy the PTR regime and report.

A 'constitutionally covered entity' becomes a reporting entity at the start of its income tax year if:

- It carries on an enterprise in Australia
- Satisfies a total income threshold of \$100 million for the most recent income tax year
- Is not registered with the Australian Charities and Not-for-profits.

Alternatively, if an entity gives appropriate notice to the regulator, it may be elected into the regime.

HOW TO IDENTIFY YOUR SMALL BUSINESSES

In December 2020, the government released the Payment Times Small Business Identification Tool (SBI), which

identifies your small business suppliers. The SBI Tool will identify all Australian small businesses with an annual turnover of less than \$10 million for the most recent income year.

If you haven't yet used the SBI tool, we advise you to upload your supplier data into the tool to identify your small business suppliers as soon as possible.

PAYMENT TIMES REPORTING CONTENT

The Act requires reporting entities to prepare and disclose a wide range of information about their payment practices to those suppliers identified as small business suppliers on a bi-annual basis.

From our work with clients to date, we have found this to be much more than just a report, as it will have multiple touch-points across your business, from supplier onboarding right through to your board.

Key information includes:

- The shortest and longest standard supplier payment periods
- The proportion, by total number and value, of small business invoices paid by the entity during the reporting period within certain date ranges
- Whether supply chain finance or early settlement discounts are offered.

THE PAYMENT TIMES REGULATOR

The newly appointed Payment Times Regulator has significant powers to monitor, investigate, appoint external auditors and impose infringement penalties up to 0.6 per cent of annual income.

While penalties will not come into effect for the first 12 months, the public reporting will commence immediately, and it is this element of the regime that is causing most concern for reporting entities.

PUBLIC REPORTING AND THE MEDIA

The relationship between large retailers and their small suppliers has featured in numerous Australian newspaper headlines in recent years. We saw this

increase from May 2020 when the House of Representatives first tabled Payment Times Reporting.

Previously, reporting was presumably based upon information obtained from suppliers. However, once reporting goes live from July 1, we anticipate this to increase significantly as the media receive supplier payment information for free.

This was certainly the case in the UK, where a similar reporting regime was implemented in 2017. Following the first wave of reporting, we saw an increase in media attention with leaderboards generated for easy comparison within sectors and certain reporting entities over time.

TOP CONCERNS AND ISSUES FOR RETAILERS

From our work with retail clients, we believe retailers will find the reporting requirements challenging due to:

- Numerous complex definitional aspects of the legislation and rules that have made determining who needs to report difficult for retailing groups
- Supplier data issues
- ERP systems not capturing the relevant data
- Increased workloads for reduced finance teams
- Potential impacts of media scrutiny.

HOW OUR RETAILING CLIENTS ARE SETTING THEMSELVES UP FOR SUCCESS

With these changes comes the inevitability of impacts further down the line, including how business structure entities manage their data and working capital moving forward.

Through our work with clients, we have found that knowing how to navigate these changes and setting yourself up for success can be complex. We have been supporting clients through the Payment Times Reporting to help them understand what's expected, prepare for the changes and ensure they comply into the future. ■



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