Inside Retail®

AUSTRALIAN RETAIL OUTLOOK® 2024

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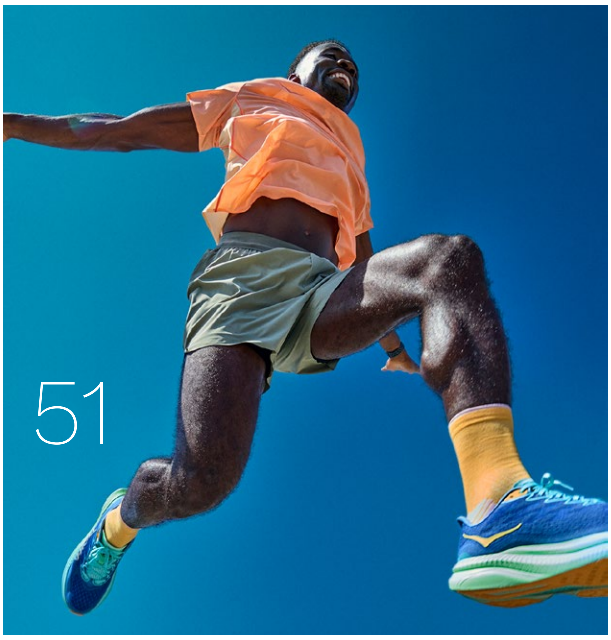

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In the spirit of reconciliation, the Australian Retail Outlook acknowledges the Traditional Custodians of country throughout Australia and their connections to land, sea and community. We pay our respect to their Elders past and present and extend thatrespect to all Aboriginal and Torres Strait Islander peoples today.

Inside Retail
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Editor's note

Based on my conversations with retail leaders over the past few months, most people in the industry were only too happy to bid 2023 adieu. A 'patchy' year would be putting it mildly, thanks to a lethal combination of inflation, rising interest rates, and cost-of-living concerns. The dip in discretionary spending was tough for many, and insurmountable for some, but the good news is that the worst is behind us, the experts say.

Yet, it could be a little while before we see that sense of optimism reflected in either consumer sentiment or business confidence. After the whiplash of the last few years, it's understandable that many retailers remain cautious, as we found in our annual survey, where we asked *Inside Retail* readers to share their expectations for the months ahead.

Just 12 per cent of respondents said they expect trading conditions to change significantly from last year, and most people believe that consumer confidence will be their biggest challenge in 2024, with price being a key sticking point.

Fortunately, this year's *Australian Retail Outlook* is jam-packed with advice from KPMG's team of industry experts and leading retailers – including Ikea, Lush, Outland Denim and Milligram – on how to approach 2024 with a growth mindset despite the lingering macroeconomic factors.

Whether by investing in staff training as a means of driving customer loyalty, reconsidering your price point to capture a more affluent customer base, or unleashing the power of artificial intelligence, there are countless ways to position yourself for success (as well as plenty of pitfalls to avoid).

So dive into this report and discover how to make the most out of the year ahead. If 2023 has taught us anything, it's that the good times won't last forever, and you need to be ready to hit the accelerator the moment an opportunity presents itself.

Wishing you all a strong start to 2024.

Heather McIlvaine
Managing editor, premium and features, *Inside Retail*

The blue sky is coming

What a difference a year makes. The year 2023 brought major changes in discretionary spending, as interest rate hikes started to bite, consumers reverted to hunting for a deal, AI became the 'new black', and technology transformation and cybersecurity became the next-level investment priority.

We believe we will see more of the same in 2024 as retailers become hyper-focused on cost to drive operating efficiencies, technology transformation to replace end-of-life systems and resetting their operating platforms and working capital optimisation for cash and liquidity. The Australian 'discounting holiday' will end, squeezing margin performance.

Sustainability objectives will remain top of mind for best-practice retailers; climate-related and geopolitical events provide a continuous reminder of how vulnerable our planet and communities are to man-made events and global disputes, which displace millions of people and highlight the growing gap between the haves and the have-nots.

In this year's *Australian Retail Outlook*, our expert KPMG team provides insights into the challenges and opportunities facing retailers. We cover topics such as cost and working capital optimisation, cyber and tech risk, supply-chain efficiency, the rise of retail media, growth strategies for a subdued market, and the rules for achieving retail turnarounds. We've also provided key insights from some of Australia's leading retail CEOs and bespoke insights into the New Zealand retail market.

Inside Retail's survey this year highlights a degree of pessimism about trading conditions in the retail community, with 75 per cent of respondents describing 2023 as ordinary, poor or the worst they have experienced. While expectations for 2024 are not worse than for 2023 (Could they be?), there is certainly a perspective from around 80 per cent of respondents that the tough times will remain for a while yet as the industry endures inflationary pressures, low consumer confidence and high labour costs.

In good news, the KPMG December Retail Health Index (RHI) from KPMG Chief Economist, Brendan Rynne, suggests that while retail spending is likely to remain subdued during most of 2024, a spending recovery is likely to happen quicker than expected and the RHI may return to positive territory as early as Christmas 2024.

In short, despite some serious anchors, population growth, slowing interest rate increases and the wealth effect of rising house prices are likely to tip the balance of retail spending drivers into positive territory sooner than expected. This suggests the blue sky is coming, just not yet. In the interim, we expect food and non-discretionary retail to weather the storm and discretionary retail to lack momentum and be vulnerable to a more cautious consumer.

In our experience, adversity often brings with it innovation and investment for the future. As we look forward into 2024, we believe there is no time like the present for retailers to differentiate themselves through investment in technology, product innovation and customer experience. ■

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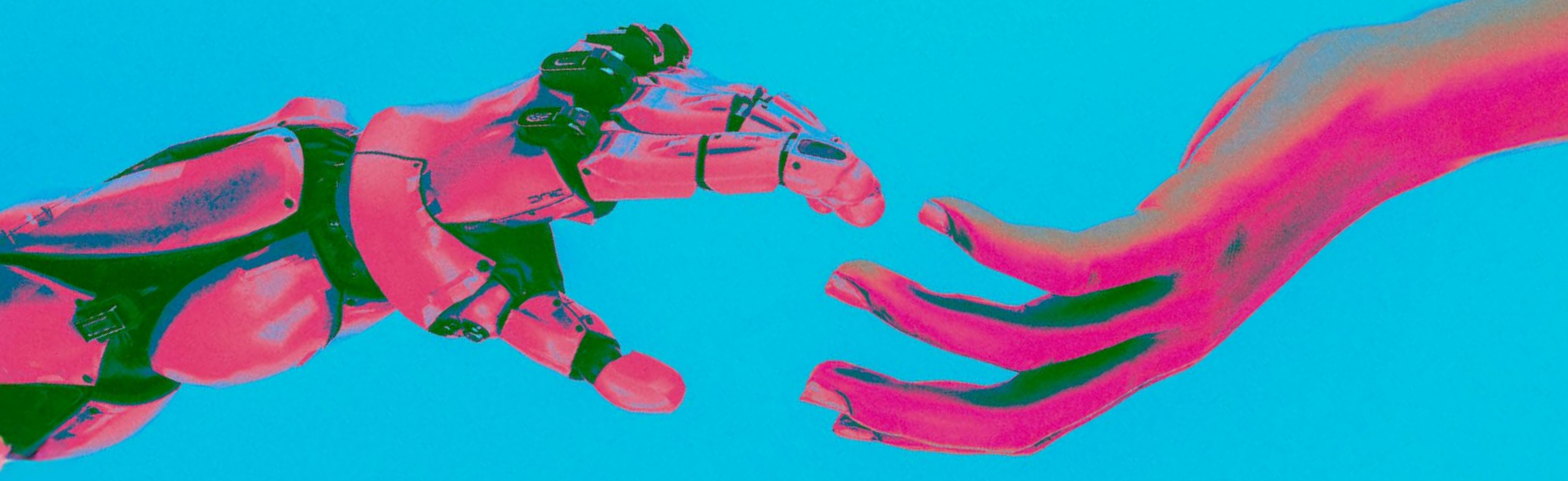


A year of contradictions and change

A review of retail in 2023 and some insights for 2024.

By Mark Fletcher

Did you find 2023 ordinary or even downright tough? If it's any comfort, you are not alone. We weren't sure just how tough things were until we conducted the *Australian Retail Outlook* survey and found that only 30 per cent of the retail executives described trading conditions as 'good'.

So, what made trading conditions for the rest either 'ordinary' or 'poor'? Every retailer knows to put the customer at the centre of their business, so we'll start with them.

Two-speed shoppers

It's become a cliché to say that consumers are struggling with the increased cost of living.

The Australian Bureau of Statistics reported that, in the first three quarters of 2023, household spending on services increased by 9.6 per cent but was flat for goods (-0.1 per cent). More importantly, non-discretionary spending rose 9.2 per cent, while discretionary spending barely increased (0.3 per cent). The net result is that finances in the average household went backwards all year, to the point where savings are now at near 16-year lows of just 1.1 per cent.

The impact was felt across all segments, with over 90 per cent adopting deal-seeking behaviour and reviewing their spending choices, CommBank found. But this didn't necessarily translate into reduced spending. Dr Jana Bowden, a professor at Macquarie University Business School, said it is important to understand the nuances of this new retail environment.

"The story around ongoing consumer spend in the face of an ongoing cost-of-living crisis isn't cut and dry. The data is murky, multifaceted and it's a moving feast. It's necessary to dig a little deeper to get a granular view of it," Bowden told *Inside Retail*.

In terms of saving money, the most common consumer strategies included using promotional codes, cashback offers and rewards (73 per cent), CommBank found, and more are shopping at sales events like Black Friday and Cyber Monday, a study by the Australian Consumer and Retail Studies (ACRS) unit of Monash Business School found. Nearly half (47 per cent) also shopped for lower-priced brands more than they did 12 months ago, the ACRS stated, which has helped drive the increase in sales of home brands.

Many consumers also took the longer view, however, with 47 per cent shopping only for known and trusted brands and 30 per cent choosing to purchase higher-quality items that would last longer, CommBank stated. Clearly bad news for the 'cheap and nasty' end of the market.

Alex Downie, associate director of Sydney-based private equity firm Glow Capital Partners, commented that the gap between the best Australian brands and the rest has grown wider in the last 12 months. "As consumers have tightened their wallets, they have become more selective. We've seen top-tier brands continue to perform while others with less customer buy-in have seen their sales drop off," Downie told *Inside Retail*.

The big and small of it

The changes in shopper spending appear to have had the most impact on small and medium-sized businesses, with 41 per cent of SMB retailers performing below or far below their FY23 forecasts and two-thirds of SMBs lacking business confidence and concerned or uncertain about the year ahead, per the Australian Retailers Association (ARA).

Part of the issue is that costs have increased by more than 10 per cent for one-in-three SMB retailers (32 per cent).

The story was very different at the top end of town, where *Inside Retail*'s annual report on Australia's Top 25 Retailers found that in FY23, all of the retailers in the top 10 made more than $5 billion and increased their revenue year on year.

Amid the stellar performance of the very largest retailers, Bunnings shone. Along with increasing revenue, Michele Levine, CEO of consumer research consultancy Roy Morgan, said Bunnings managed the single largest improvement in trust of any trusted brand in the last 12 months and is now the second most trusted brand in Australia.

"Bunnings has harnessed many of the foundational pillars of a trusted brand, including great customer service, communicating what it stands for and delivering, being an active part of the community, solving customers' problems and expertise and product knowledge," Levine said.

In fact, a massive consumer survey conducted by KPMG identified Bunnings as providing the best customer experience of any large retailer.

For the whole sector, things do appear to be looking up in the longer term. In its *December 2023 Retail Health Index* report, KPMG predicted that the retail sector would return to positive territory as early as Christmas 2024, driven by net population growth, slowing interest-rate hikes, and the wealth effect of higher property prices.

> " The opportunity for early movers to leverage AI and get ahead of their competitors is clear."

Big changes all around

The retail playing field also underwent major changes in 2023, with multiple acquisitions and mergers.

Among the largest of these was the reverse buyout of Sigma by Chemist Warehouse to consolidate the retail pharmacy sector into a two-horse race. Competition in the pet market may similarly decrease in 2024 with the ACCC permitting Woolworths to take over Pet Stock.

Other sectors were also busy.

In August, global private equity firm Advent International acquired a majority stake in designer dress label Zimmermann, reportedly for well over $1 billion. That same month, Japanese beauty giant Kao Corporation picked up the popular self-tanner and skincare brand Bondi Sands, in a deal estimated to be worth $450 million.

Prior to that, French cosmetics giant L'Oréal paid $3.7 billion for luxury skincare and beauty brand Aesop and the Michael Hill group purchased the Bevilles jewellery chain.

To top it off, both Pizza Hut and the Australian arm of 7-Eleven convenience stores changed hands in 2023.

Retail intelligence goes artificial

While automation has increased across the whole retail supply chain in the last four decades, there is no doubt that in the next few years, the use of artificial intelligence (AI) will transform every aspect of the business of selling.

In an interview with *Inside Retail*, data and digital expert Renaud Frisé listed just a few of these developments, describing how AI will sift through not only past sales data but also real-time analytics, customer behaviours, market trends, and even external factors like weather conditions or local events that might impact demand. This data will help retailers take stock optimisation to new levels, increasing both profitability and customer satisfaction.

Frisé also said that AI will directly impact customers, with AI-enabled smart trolleys that accurately tally products and also take payment, potentially saving customers time and reducing labour costs and retail theft. Customer satisfaction will also increase as AI-powered virtual try-on facilities evolve and finally meet customer expectations.

In the words of the ARA, AI could be the silver bullet that retailers are looking for: the ability to reduce costs and improve service.

Remarkably, the *Australian Retail Outlook* found that only 19 per cent of retailers nominate AI as a big driver of growth in 2024. The opportunity for early movers to leverage AI and get ahead of their competitors is clear.

Going in circles

At a more fundamental level, however, the circular economy challenges the basis of consumerism and the modern-day retail paradigm on which it is built.

For years now, consumer surveys have tracked shoppers' increasing commitment to sustainability, to the point where more than three-in-four (77 per cent) want brands to provide more information about their sustainability efforts, a survey by Human8 found.

What has been a big advancement, however, is that 67 per cent of Australians are now demanding that brands go beyond being sustainable and take responsibility for reversing the damage to the environment.

In practical terms, this translates into the three R's: Repair, Reuse, and Repurpose – strategies that innovative fashion retailers have already adopted.

Consumers have leaped into the circular economy, with three-quarters having bought second-hand clothes in the last year, and wardrobes now estimated to consist of pre-owned fashion items, Reluv said.

High-profile brands like Patagonia, R.M.Williams, Kathmandu and Balenciaga have already embraced resale and repair services and others are finding their own ways to participate in the circular economy.

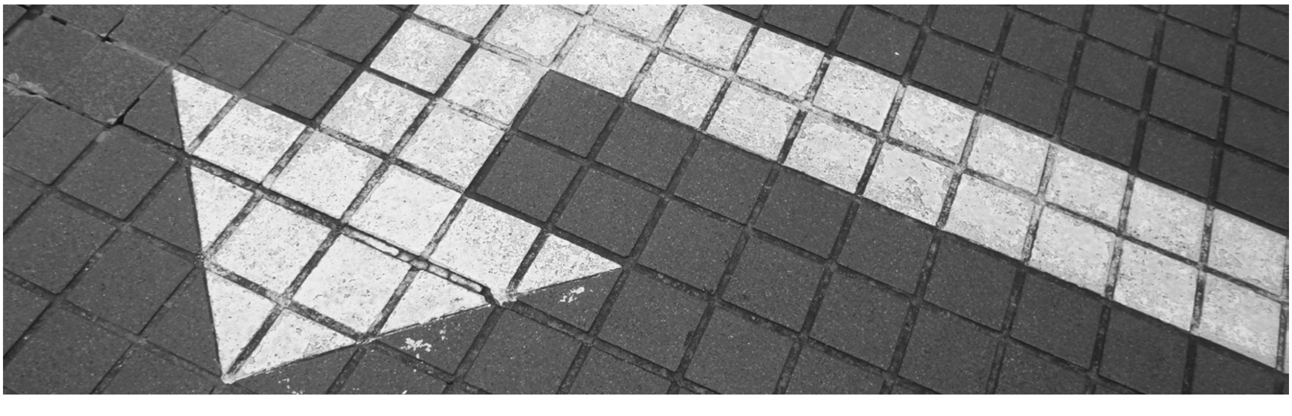
For example, the *Inside Retail* list of the *20 Coolest retailers* in 2023 included Frank Green – which has developed a cult following behind its reusable products – and Goodbyes, which is disrupting the resale market by making it desirable to shop second-hand. Scoop Wholefoods has long been a key player in minimising food waste and is now entering the beauty category.

Forward-looking retailers and brands will recognise that while the circular economy is now focused on the fashion sector; it is only a matter of time before consumers make similar decisions in all their purchasing.

Just like AI, the circular economy should be on the agenda for every retailer.

So, there you have it, the year 2023 has been one of excitement and evolution. And while you may feel that the word that best describes it is 'exhausted', in 2024 we think it will be 'energised'.

Best of luck! ■



Industry insights: executive voices

Retail leaders' perspectives on the year that was and the year that will be – as captured in our annual survey.

By Mark Fletcher

Everyone likes peeking over the fence and seeing what the neighbours are up to. And that's why every year we survey a broad cross-section of Australian retail executives, including many senior ones. Our goal is to give you a unique market overview to help you put your own organisation's performance in perspective. And of course, to get a heads-up on where the market's heading.

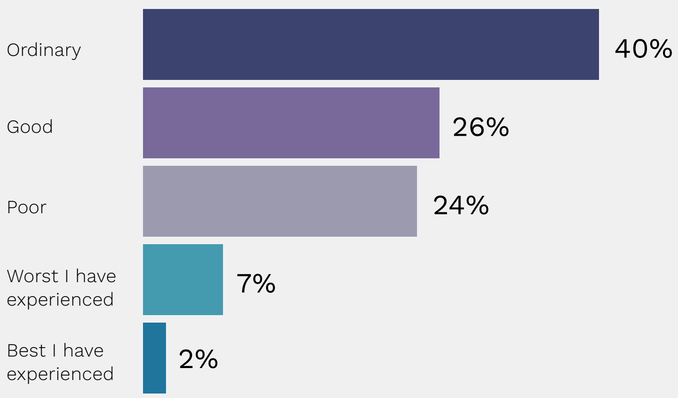
Maybe these insights will vindicate your choices, or maybe they'll shock you. Either way, they're important reading.

> "Service is expected to be a key choice criterion."

Q.1 How would you describe trading conditions in 2023?

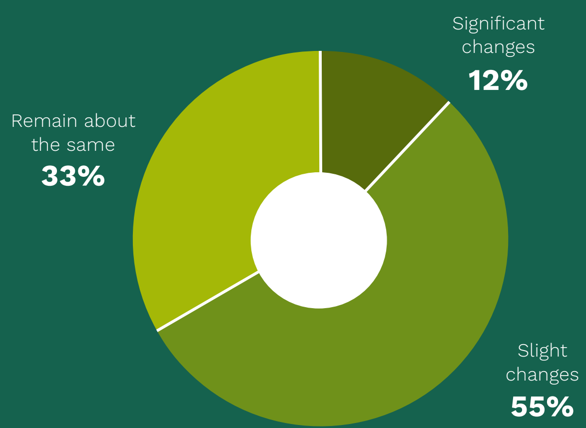
In a dramatic change from 2022, when 48 per cent of retailers said trading conditions had been 'good' and 8 per cent said they were the best they had ever experienced, in 2023 opinions on trading conditions diverged into rough thirds: poor/worst (31 per cent), ordinary (40 per cent), good/best (28 per cent).

Consistent with these figures, 58 per cent of retailers felt that trading conditions in 2023 were worse than they had experienced in 2022. Tough times indeed!

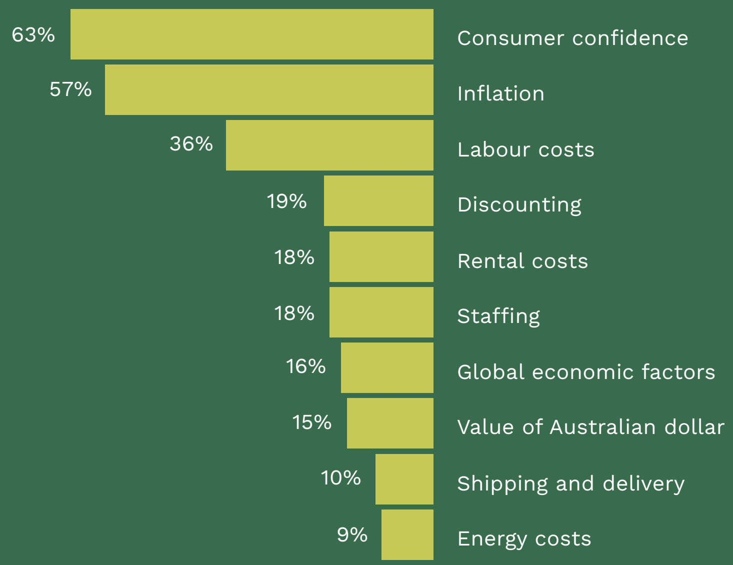


Q.2 How do you expect trading conditions to change in 2024?

Overall, seven out of 10 (71 per cent) of retailers described trading conditions in 2023 as ordinary or poor. Many of these must also be looking forward to a similarly gloomy 2024 as only 12 per cent see any significant change ahead.

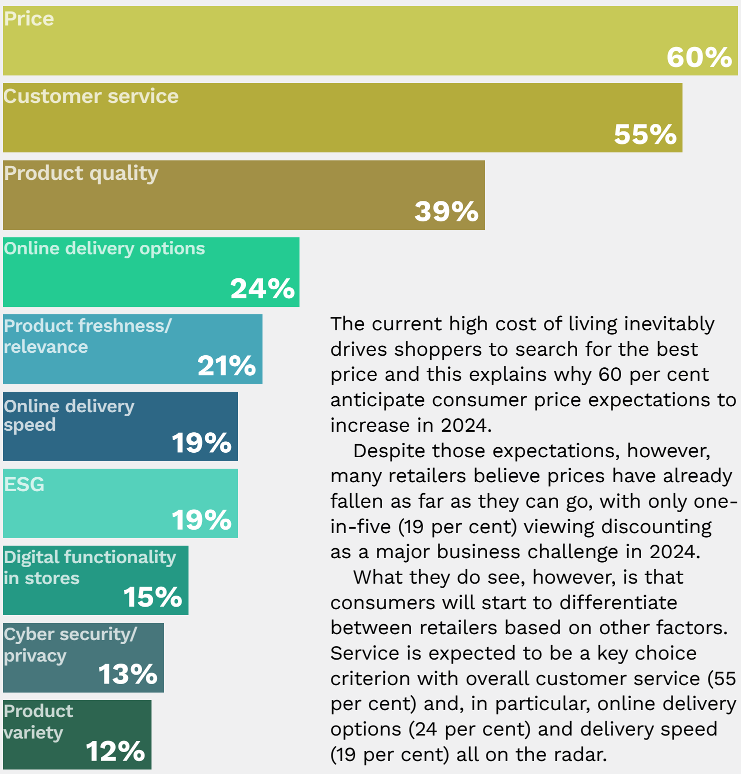


Q.3 What are the biggest challenges facing retailers in 2024?



Part of the reason for the lack of positive perspective on 2024 is that the overwhelming proportion of retailers feel that the challenges are out of their control (63 per cent citing consumer confidence and 57 per cent nominating inflation).

Q.4 Where will consumer expectations increase the most in 2024?



The current high cost of living inevitably drives shoppers to search for the best price and this explains why 60 per cent anticipate consumer price expectations to increase in 2024.

Despite those expectations, however, many retailers believe prices have already fallen as far as they can go, with only one-in-five (19 per cent) viewing discounting as a major business challenge in 2024.

What they do see, however, is that consumers will start to differentiate between retailers based on other factors. Service is expected to be a key choice criterion with overall customer service (55 per cent) and, in particular, online delivery options (24 per cent) and delivery speed (19 per cent) all on the radar.

Q.5 What will be the top priorities for your business in 2024?

In 2023, the cost of living continued its upward trend and consumers maintained tight control of their wallets. It's no surprise then that increasing margin is the most common goal amongst retailers (51 per cent), significantly ahead of increasing turnover (39 per cent).

The most dramatic change in priorities from the previous year, however, was retaining staff which fell from 39 per cent in 2022 down to 13 per cent in 2023. Unfortunately, this was not reflected in savings for retailers, with labour costs remaining a major challenge for 31 per cent, a level that had not significantly changed from 2022.

51%
Increasing margin

39%
Increasing turnover

31%
Growing online

28%
Expanding product range

19%
Entering new markets

18%
Omnichannel initiatives

16%
Improving CX

16%
Growing on social media

15%
Hiring and training staff

13%
Retaining staff

Q.6 What do you expect will be your biggest growth drivers in 2024?

New products were a top business priority for 28 per cent of retailers in 2023 and an even greater proportion (39 per cent) expect them to be important drivers of growth in the coming year. This focus probably contributes to the popularity of investment in marketing and advertising (42 per cent).

While most large retailers have already implemented sophisticated data analytics tools, their adoption is still growing amongst SMB retailers, and this is reflected in one-in-four (28 per cent) retailers citing them as a top driver of growth.

42%
Investment in marketing/advertising

39%
New products

31%
Improved economic environment

28%
Improved use of data analytics

27%
Domestic expansion

24%
Consumer trends

22%
Investment in digital/online

21%
Brand collaborations

19%
Efficiency gains via AI/automation

16%
Demographic changes

Q.7 Which technologies are you most interested in utilising right now?

The appeal of data analytics and big data has already been noted as a driver of growth, so its prominence as a technology of interest (51 per cent) is not surprising.

What is worth noting, however, is that despite generative AI not even featuring as a current business priority, one-in-three (34 per cent) retailers are exploring it. We predict that by 2025, this level of interest will translate into generative AI emerging as a top business priority for a significant proportion of retailers.

Data analytics and big data **51%**

Generative AI **34%**

Contactless payments **22%**

Robotics and automation **19%**

Augmented reality & virtual reality **18%**

Circular economy **18%**

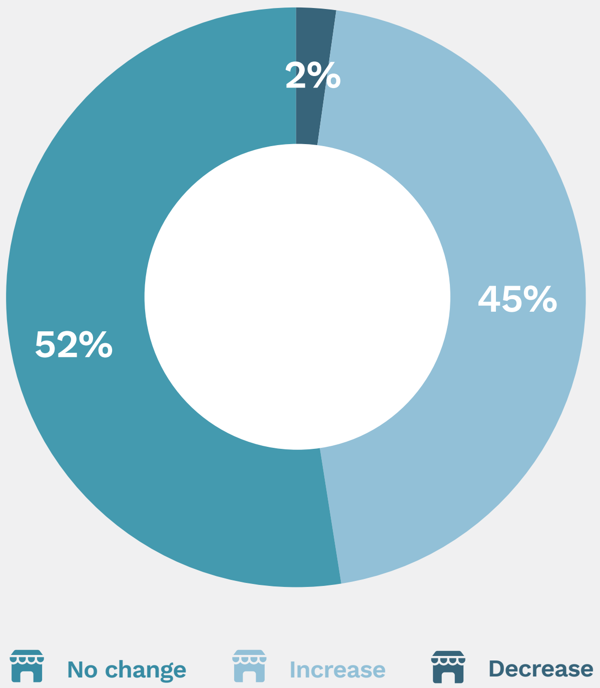
Subscription services **12%**

Smart carts & self-checkouts **10%**

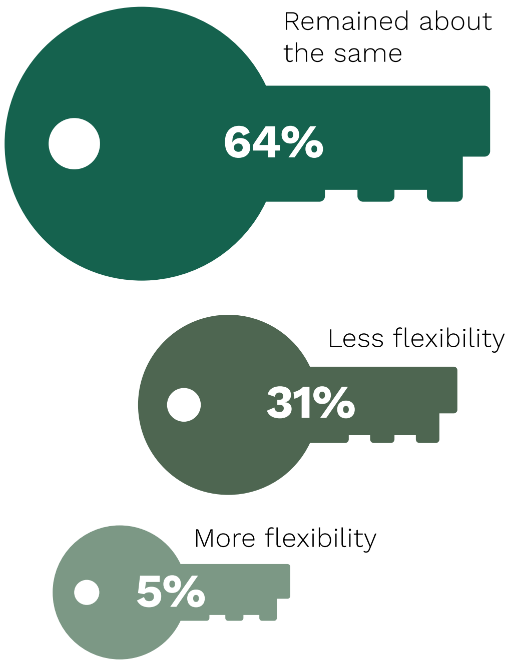
RFID **7%**

Q.8 Do you plan to change your number of stores in 2024?

Growing online is a business priority for 31 per cent of retailers but that is not at the expense of physical retail, with nearly half (45 per cent) of omnichannel and physical retailers planning to open more stores.

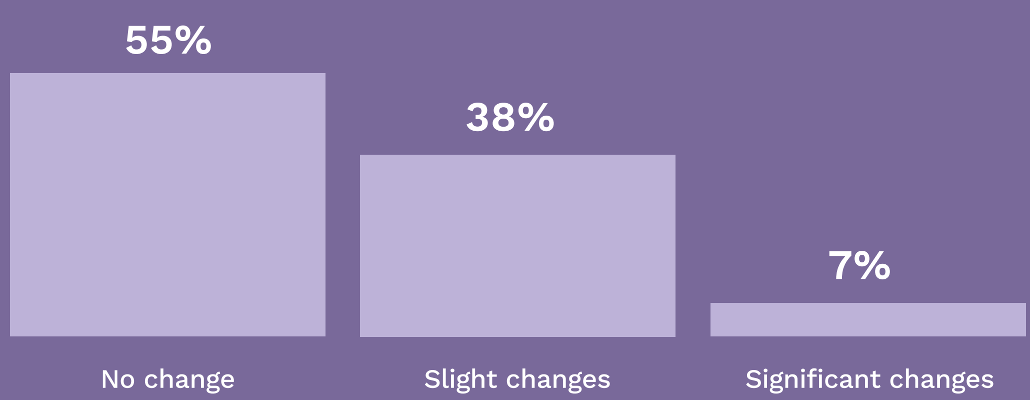


Q.9 Did you receive more flexibility and help from landlords in 2023 compared to the previous year?



Landlords are also obviously feeling the pinch, with 31 per cent offering less support to retailers compared with 2022. For 64 per cent, the level that has not significantly changed from 2022.

Q.10 How do you expect leasing terms to change in 2024?



While retailers have many changes and much uncertainty to deal with in 2024, it appears that at least leasing terms will not be one of them, with less than one-in-10 (7 per cent) expecting a significant change.

Q.11 How does your revenue from e-commerce in 2023 compare to the previous year?

Increased

No change

Decreased

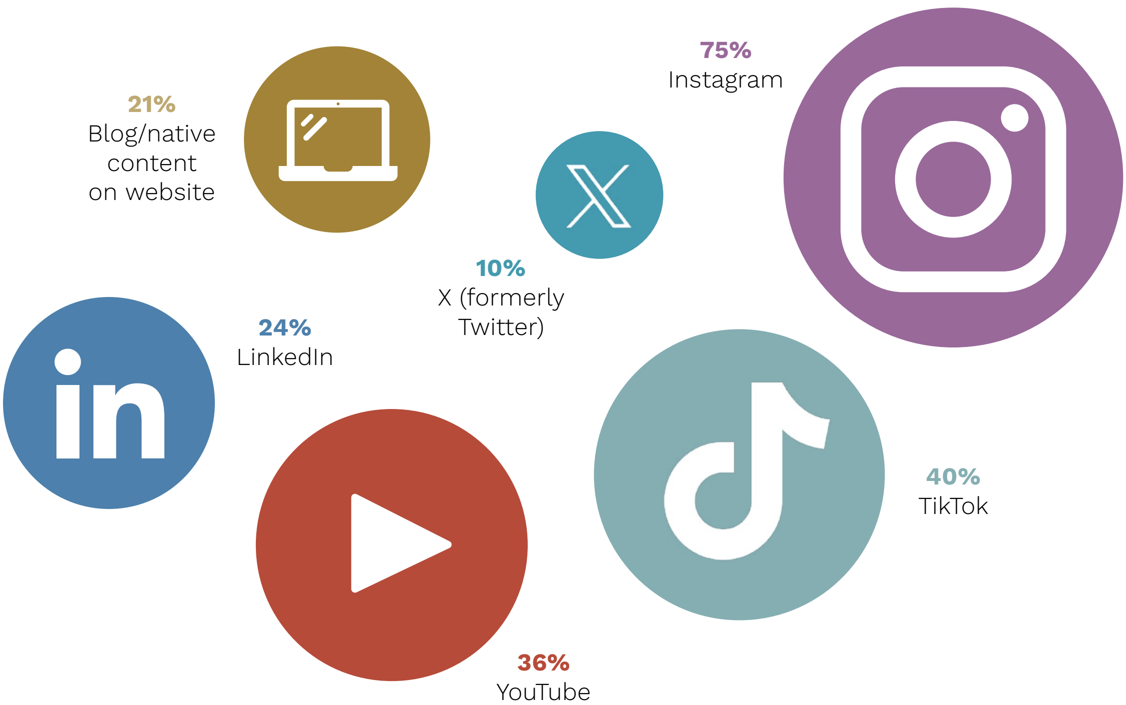
The widespread increase in e-commerce revenue (reported by 47 per cent of retailers) explains why 31 per cent have made growing online a priority for 2024. But online retailing has not been a universal success for retailers, with 20 per cent experiencing a decline in e-commerce revenue.

These figures support the view of many commentators that e-commerce has now matured from a high-growth channel with room for all to benefit to a largely level playing field on which retailers will have to battle each other for market share.

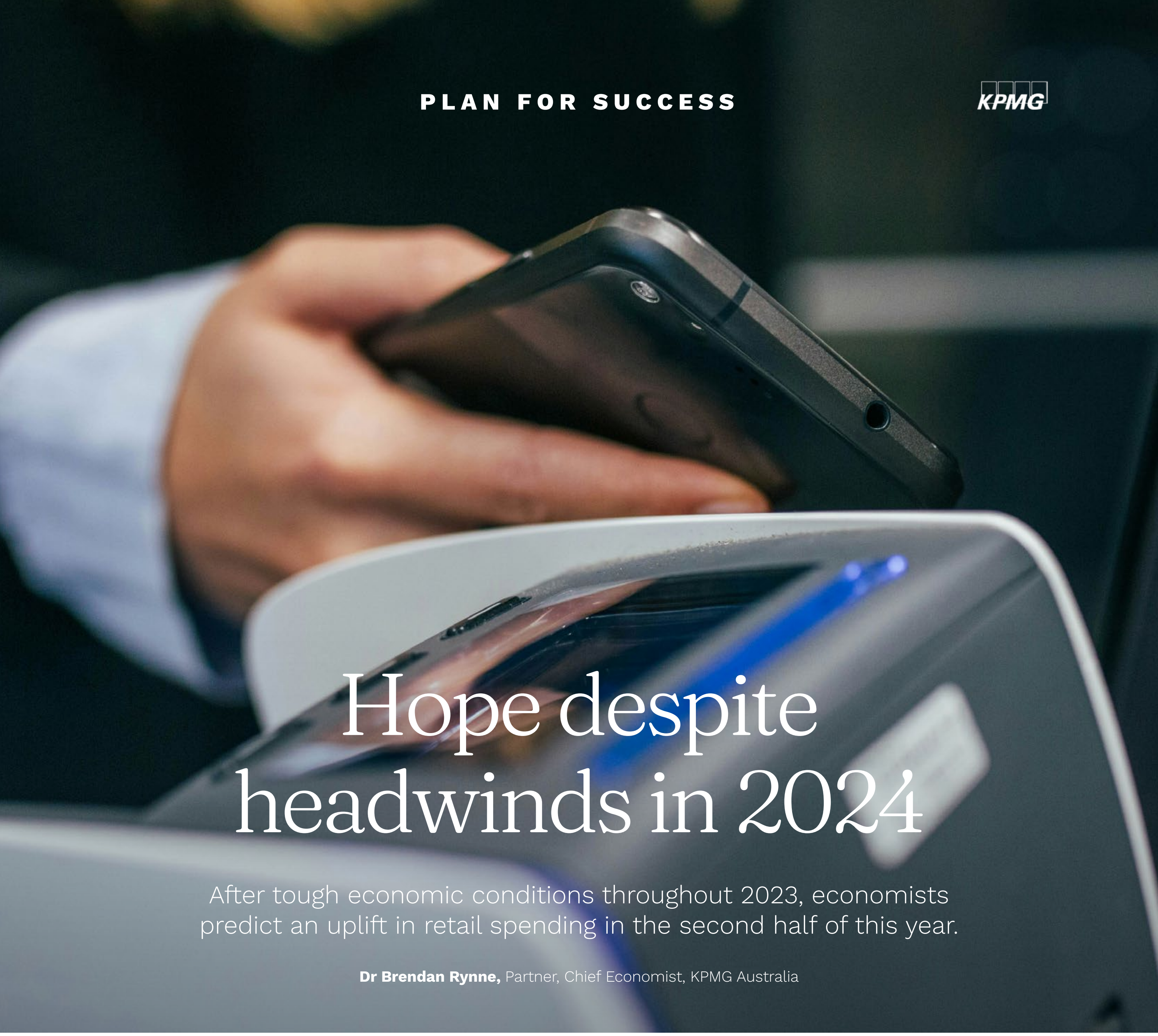
Q.12 What are the most effective social media channels for your retail business?

The media has reported that Gen Z has 'abandoned' Facebook, but it's clearly still working for retailers, and they are spending even more on it with the ACCC's statement that Facebook's Australian revenue increased in 2023.

The standout trend for retailers though was TikTok. The proportion of retailers who nominated it as one of their most effective social media channels tripled in just one year (14 per cent to 40 per cent). ■



Plan for **success**



Hope despite headwinds in 2024

After tough economic conditions throughout 2023, economists predict an uplift in retail spending in the second half of this year.

Dr Brendan Rynne, Partner, Chief Economist, KPMG Australia

There is finally a light at the end of the tunnel for global and domestic economies, after a period of price instability and low growth. Inflation is now largely under control in most countries, albeit still higher than where most central banks want it to be. Now, the discussion on interest rates has turned to when and how fast they will start to come down.

The domestic economy slowed to a snail's pace in the September quarter of 2023 and is expected to have experienced zero growth in the final quarter of last year. Higher interest rates and very low consumer confidence have finally bitten down hard on economic activity, with measures of real household disposable income, consumption and savings showing a noticeable pullback from where they were at the start of the year.

A prudent beginning to the year

Most economists expect the domestic economy to continue to experience tough conditions for the first half of 2024, with some sunlight appearing in the second half of the year as policy rates start to loosen. This open discussion, combined with a few other positive indicators (such as a recovery in house prices over the past six months), is likely to contribute to an improvement in consumer sentiment, which has started to lift off its historic lows but remains a long way from a neutral or positive setting.

The latest national accounts show that over the year, household consumption increased marginally, 0.4 per cent, with the strongest growth recorded by the purchase of vehicles (plus 18 per cent) amid strong demand and improved supply, as well as transport services (plus 14.8 per cent), which are returning to pre-Covid levels. Nonetheless, consumption growth was largely driven by the strong increase in population, as per capita consumption went backwards.

The household savings ratio declined to 1.1 per cent, the lowest level since 2007, due to the high cost of living, increased interest paid on home loans and the removal of the Low and Middle Income Tax Offset, leading to a higher income-tax bill for many households. Growth in household gross income (plus 1.8 per cent), from higher labour income (plus 2.5 per cent) and interest received on deposits (plus 8.4 per cent), partly cushioned the fall.

Businesses remain cautious, however, about the immediate economic outlook. Hiring and investment intentions weakened as the year closed out. Measures of business confidence, economic conditions and capacity use all deteriorated as 2023 progressed; the outlook for 2024 also looks weaker.

Government spending remains a strength within the economy, albeit a double-edged sword in terms of budget surplus and higher taxation receipts. Higher income-tax receipts from bracket creep (and more PAYG employees) are improving the budget outlook, but are simultaneously contributing to the fall in real household disposable income at a time when cost-of-living pressures are pervasive across the country. A pullback in public sector spending has been called for by domestic and international economic advisers to allow for fewer inflationary pressures and better budget management in the near term.

The Reserve Bank will be starting 2024 with a more optimistic outlook than it had at the start of last year. The November monthly CPI results showed headline CPI running at 4.3 per cent annually, down from 4.8 per cent in October and 7.4 per cent in November 2022. Of the 27 categories measured in the November CPI, four recorded deflation, 12 recorded disinflation and 11 still recorded growing prices.

The futures market (as at 15 January 2024) is pricing in two cuts of 25 basis points in the cash rate during 2024 – the first in August and the second in December – with a further reduction of 25 points by May 2025. This will take the cash rate down to 3.60 per cent by the middle of next year. For this to happen, inflation must first return to within (or close to) the 2-3 per cent target band. KPMG's forecasts suggest this is possible, as headline CPI is expected to be slightly over the upper end of the target band by the end of this year.

The slowing economy is already influencing the domestic labour market, with job vacancies falling and new employment slowing compared with where they were at the start of 2023. The combination of higher migration and strong labour market participation is pushing the unemployment rate steadily upwards. KPMG forecasts suggest it will reach 4.5 per cent by the middle of this year. Slowing employment demand and increased labour supply will also result in a moderation of wage growth as the year progresses; real wage growth is likely to surface during 2024 as inflation recedes.

From an external market perspective, the uncertainty surrounding the near-term performance of the Chinese economy is likely to be a drag on the contribution of net exports on GDP growth. Iron-ore prices, while still substantially higher than forecasts contained within the Commonwealth Budget, have been continuing to fall on the expectation of declining demand for steel products in China.

Hope on the horizon

Looking ahead specifically to the domestic retail sector, headwinds to household consumption are expected to persist in 2024. High interest rates and inflation are still projected to be above the RBA target band in the near term; positive factors such as the strength of population growth and labour market conditions will provide support for consumption in the near term but are expected to ease into 2024. Also, the risk of the so-called 'fixed rate mortgage cliff' hurting consumption seems lower than previously thought, largely because of the savings buffers that were built up during the pandemic.

> “This will take the cash rate down to 3.60 per cent by the middle of next year.”

Compared with last year, a number of new factors are likely to have a positive impact on households' propensity to spend, including the introduction of Stage 3 income tax cuts due in the middle of the year, continued improvements in nominal wage growth (with the outcome likely to be real wage growth for the first time since the March quarter 2021) and the expectation that as the year progresses, mortgage interest rates will be falling rather than rising.

Since the official end of the pandemic, there have been heightened levels of outbound international travel as Australians have reconnected with the rest of the world; however, this expenditure is likely to have already peaked (largely because planned holidays have now been taken and the capacity to pay for new holidays has been curtailed for some households), bringing some additional spending capacity back into the domestic retail sector.

These positive influences on the retail sector are not expected to be uniform across all households; rather, consistent with the expected impact of the Stage 3 tax cuts, most of the spending capacity increases expected for calendar year 2025 are likely to be centred around higher-income, higher-wealth households. ■

Lean and mean for FY24

As macroeconomic pressures increase, Australian retailers will need to focus their efforts on what matters and pick the right battles for maximum impact.

Tristan Butt, Partner, Customer & Operations, Consulting Retail Sector Lead, KPMG Australia
Shae MacDougall, Director, Customer and Operations Retail, KPMG Australia

Australia's retail sector finds itself in a precarious position as it is squeezed on two fronts – falling consumer confidence and spending, coupled with increasing costs.

The December 2023 Retail Health Index[1] states that the September 2023 quarter was the first with rising activity levels since Q3 2022, whereas consumer sentiment slumped to lows last seen at the height of uncertainty during 2020-22 pandemic times, lower than levels recorded during the 2008 Global Financial Crisis.

On the costs front, the Producer Price Index recorded an annualised growth rate of 3.8 per cent[2] in the September 2023 quarter, showing a rise in production costs, while margins were impacted by the Australian dollar's 5.1 per cent fall against the US dollar between January and August 2023, and annual wage growth remained strong at 4.2 per cent in the September quarter.[3]

That's not all. The sector's recent productivity measures (a ratio of output to a combined input of labour and capital) show just 0.1 per cent growth, year on year, for FY22, compared with both its historical performance, averaging 1.7 per cent growth over 10 years, and other market sectors in Australia.[4]

Challenges from these macroeconomic factors will be tough to address, and retailers need to prioritise their efforts towards unlocking value in areas under their control. Namely end-to-end cost reduction, revenue growth and improved returns on opex and capex, based on margins counted in totality – including all costs across the end-to-end lifecycle.

The right way to reduce costs

There is more than one way to reduce costs, but whether the means can help the company achieve its reduction targets while also enabling sustainable sales and margin growth is another question.

Retailers often mistakenly address costs by looking at markets and products, focusing on cost management, or carrying out channel and property optimisation. These cost-reduction levers are often too broad in their focus and do not bring immediate benefits to the organisation.

Instead, retailers need to review their operating model and balance sheet, organisational model, supplier and sourcing management, and consider technological optimisation to achieve operational efficiency.

These are much more focused on addressing the organisation's immediate needs and delivering cost savings quickly.

For example, companies can lower end-to-end costs by reviewing suppliers to see if the margins and quality justify the

product costs and inventory costs. In some cases, a more expensive supplier might result in a better product of higher quality and greater demand, with better margins.

From there, as the initial cost-reduction efforts bear fruit, retailers can find further improvements by considering transformation optimisation, organisational design and people, and tax and legal optimisation, such as increasing the ratio of full-time staff to contractors on ongoing long-term transformational projects, to cut down on hiring costs.

Shrinkage – a growing problem

Conversations with senior retail leaders across the country have also revealed an emerging focus on controllable costs and deep diving into shrinkage.

As economic pressures build, shrinkage rates have been getting the attention of major retailers such as Coles, which reported a 20 per cent rise[5] in "theft and wastage of fresh food" in FY23.

Shrinkage rates are reportedly up only 2 per cent on FY19 levels[6] and while that doesn't sound dire, it must be stressed that this rate of increase amidst the current economic challenges has a disproportionate impact on profitability, resulting in a significant financial loss across all retailers.

The Australian Retailers Association states that shrinkage will compromise 2-3 per cent of sales by the end of FY24,[7] which would cut retailers' profits by around 25 per cent.

That said, shrinkage is an addressable problem and taking it on from an inventory-management perspective can yield substantial cost reduction.

The key is to ensure shrinkage targets are achieved whilst at the same time enabling sales outcomes and seamless customer experience.

While most shrinkage is due to theft, a substantial amount (around 25 per cent)[8] is caused by process failures such as inventory errors and damaged merchandise.

This means that – without having to increase spending on security – a significant percentage of shrinkage can be fixed by reviewing processes integrating inventory-management systems, returning a tangible benefit to the retailers' operating margin.

> "While shrinkage is due to theft, a substantial amount (around 25 per cent) is caused by process failures."

Taking a whole-of-business approach

Navigating today's volatile macroeconomic environment doesn't have to be as ambitious as refining geographic presence or improving sales channels and consolidating real-estate costs.

Instead, taking a whole-of-business approach – by reviewing inventory from initiation to returns and assessing gaps in process and technology to cut down on process failure – can reveal huge opportunities to bolster margins and realise savings.

Optimising costs in the organisation, sourcing, tax and legal aren't big changes, but it all adds up.

A prime example of how small operational improvements can result in a sizeable positive outcome is addressing shrinkage. Some retailers reported a marginal 1 per cent reduction in shrinkage resulted in a 5-10 per cent growth in margins and a 2.5-5 per cent growth in top-line sales.

This is why when times are tough, best-practice retailers take a holistic end-to-end look at managing their costs and see the broader picture, which will bring efficiency and margin increases, delivering immediate results and setting them up for reaping higher future value. ■

[1] Source: KPMG Australia, "Retail Health Index" (December 2023); Consumer sentiment pg 5

[2] Source: KPMG Australia, "Retail Health Index" (December 2023); Producer Price Index pg 6

[3] Source: KPMG Australia, "Retail Health Index" (December 2023); Wages pg 6

[4] Source: KPMG Australia, "Retail Health Index" (December 2023); Productivity pg 8

[5] "How Coles got caught in the global retail theft epidemic" Source: Australian Financial Review, August 23, 2023

[6] "Australian Retail September 2023" Source: MST Marquee

[7] Source: Australian Retailers Association – Digital dashboard

[8] "The state of retail theft and shrinkage in Australia" Source: UST Australia, March 2023

Retail media: the new black?

Retail media is making waves, but is it worth the leap? We examine the opportunities, challenges and risks involved for retailers.

Lisa Bora, Partner in Charge, Clients, Growth & Markets, Consulting, KPMG Australia
Justin Gurney, Director, KPMG Australia

Recent estimates suggest that retail media represents a $180 billion global opportunity,[1] with $1.2 billion in revenue forecast to be generated for Australian retailers over the next five years.[2]

So what is 'retail media'? In essence, it is monteising physical, digital and data assets for advertising purposes sold to existing suppliers and adjacent categories to grow revenue opportunity.

The appeal behind retail media is its potential to become a revenue-driving ecosystem: a win-win for retailers and their brands that also exposes their suppliers and other brands to powerful audiences. No wonder some retail business leaders are calling this the sector's 'new black'.

In Australia, major retailers such as David Jones and Woolworths have seized on the opportunity and established their own stand-alone retail media businesses or partnered with specialists to enable this for them.

While the promises of incremental revenue streams are attractive, we believe retailers should adopt an 'eyes-wide-open' approach, considering not only the upside but also asking, 'Is this right for us, our business model and our core operations?' before carefully considering potential use cases.

Factors to consider

Retail media is typically advantageous to those retailers who have at least two of the following three critical factors:

- **Customer dwell time:** time in-store or online. Depending on your assets, ensuring that your audience has an environment that encourages a heightened receptivity will determine the effectiveness and value for potential suppliers and brands.
- **Audience reach:** put simply, high foot traffic in-store, or high audience reach online, equating to a greater number of eyeballs. The greater the eyeballs, the higher your potential rate card across various commercial models.
- **Frequency of engagement:** your brand needs a recurring engagement model that other brands can tap into. Repetition is critical to drive both brand and preference, which then leads to remarketing and conversion success.

The revenue opportunity in retail media also depends on:

- the investment required to operationalise a media network in practice, including internal capability, operations that allow for data/insights for suppliers, technical infrastructure, and compliance with privacy regulations
- whether the retailer takes a conservative approach, such extending trade marketing revenue through new or improved advertising formats and targeting the retailer's owned assets
- an ambitious omnichannel approach, expanding beyond trade marketing revenue through new formats, targeting on- and off-network, and really driving new revenue streams beyond trade media and into brand awareness-building marketing budgets.

Then there is the expertise and business and technology infrastructure needed to establish a retail media operation, which is vastly different from most existing retail operating models. Retailers need to be able to deliver like publishers.

In our experience, to build a scalable retail media business, a base roadmap of what needs to be done includes:

1. Uplifting existing reporting capability to ensure internal stakeholders and external paying customers can track and optimise their investments. Clear ROI analytics on audience reach and engagement are critical.
2. Auditing current assets to identify value and opportunities to digitise the delivery of creative assets.
3. Optimising existing assets to improve yield and performance.
4. If appropriate, expanding retail media proposition through an outsourced partner for core functions like sales and/or data management platform access. Partnerships are recommended to accelerate speed to market.
5. Building retail media product, ad tech, data, sales, and campaign ops and analytics capabilities.
6. Uplifting trade marketing accounting practices to establish an accurate baseline to ensure there is no cannibalisation because of these new revenue streams. Dilutions can happen.

A key challenge traditional retailers often find difficult to control with is the potential for the technological evolution of retail media to outpace their ability to invest, creating a gap between the promise of retail media and the delivery capability of the retail organisation itself.

Short-term technology gaps can potentially be resolved through partnerships, alliances and outsourcing, while leveraging 'back-office' synergies across multiple brands can be done to drive economies of scale.

With first-party user data a key asset for retail media operations, retailers also need to follow the latest developments in regulatory requirements and changes pertaining to customer data management closely, as reputations and customer experience are well and truly in play if things go wrong. Indeed, it is crucial for those retailers keen on getting into retail media to conduct a data compliance audit and seek advice early to ensure ongoing compliance.

There are active considerations to be mindful of in the regulatory environment regarding the definitions of 'personal information' that will have a bearing on what counts as 'targeting' vs 'trading' as you evolve your plans.

In our experience, retailers should also consider if a retail media proposition would result in cannibalisation of trade marketing spending or if it would bring new suppliers and brands to your audiences.

We believe that the retail media opportunity needs to be looked at like any other business decision, factoring in the potential risk and reward of the investment decision. If you have a high-reach, high-volume retail business with strong data protection protocols in place, this could be for you. The opportunity is real, no doubt; but as discussed, it comes with an investment and natural business risks. ■

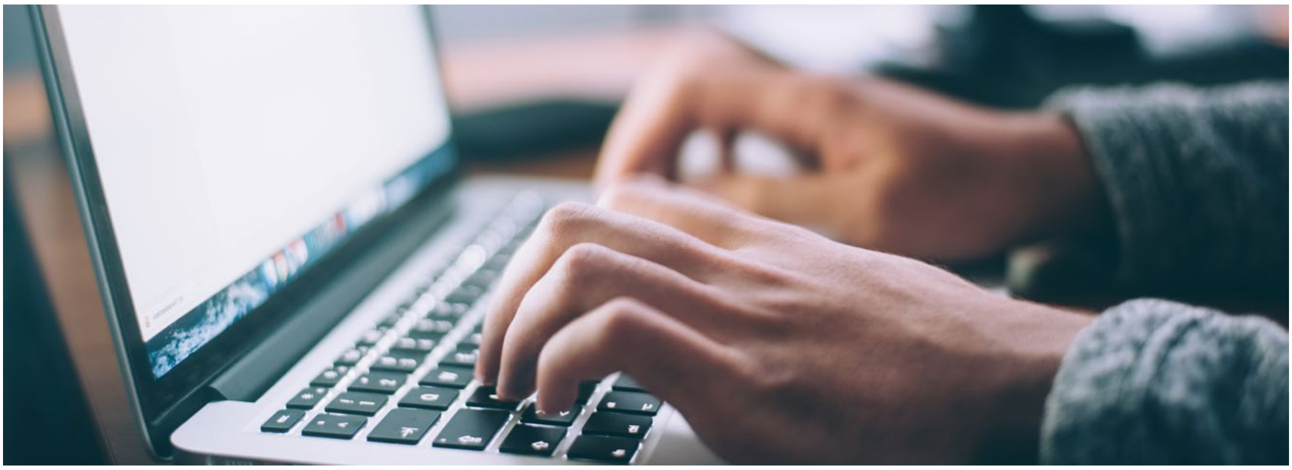
[1] "How to unlock the power of retail media to boost ad revenue and sales" Source: *Inside Retail* May 22, 2023

[2] "PwC Media 2022 – Retailer media about to lift off in Australia" Source: AdNews, July 18, 2023

Business on (the) line – building cyber resilience

Cyber-attacks and fraud are on the rise, and retailers are in their sights. How can companies protect their customers and business value from this new threat?

Deepak Pillai, Partner, Forensic, KPMG Australia
Ross Widdows, Partner, Cyber Security, Corporates, KPMG Australia



From e-commerce platforms adopting artificial intelligence (AI) to generate personalised shopping experiences, to 'just walk out' stores using contactless paymentse and smart shelves, the retail sector is undergoing a digital metamorphosis.

At the forefront of this revolution are technology and cyber teams that often find themselves balancing expectations of keeping pace with the rate of change and the need to constantly adapt the technology to meet the strategic vision.

The challenge of keeping up with ever-changing customer demands sometimes results in businesses circumventing approved practices, which risks them being exposed to malicious hackers and scammers, who are more agile with technology and eager to find exploits for their gain.

With reams of personal customer data (including identity and credit-card information) on hand – the essential enabler behind nearly every e-commerce operation – retailers have become irresistible targets for hackers.

Already there have been several high-profile data breaches involving prominent Australian companies, which have resulted in the private information of millions of customers being compromised.[1]

Unfortunately, many businesses mistakenly believe that cybersecurity is a technology issue, when in fact it spans the whole business, goes down to an operational level, and in many respects is first and foremost a people issue – as the low-hanging fruit for a would-be hacker is human behaviour.

High-tech hacks emerge

It is not just online hackers finding exploits in the cybersecurity infrastructure; scammers have been buying compromised data from hackers and using generative AI to produce convincing emails and even clone voices to mimic customers and employees and manipulate others for their own purposes.

A recent global study by cybersecurity provider McAfee found that one in four respondents had experienced an AI voice-cloning scam or knew someone who had experienced such a scam.

The fact that generative AI is in its relative infancy means that it is likely that these scams will become more sophisticated and even harder to discern as the technology improves.

Cyber-attacks happen daily, and in their thousands, and it takes only one to have a long-lasting impact on a retail business, such as:

- direct financial loss from fraudulent transactions, ransom payments, or sensitive financial information theft
- reputation damage that leads to a loss of consumer trust and potentially a decrease in sales and customer retention
- operational disruptions of online and in-store sales platforms, inventory and supply-chain management systems, and other essential operations
- legal repercussions in the form of lawsuits from affected customers or penalties for non-compliance with data protection regulations
- increased operational costs from post-breach investments in better cybersecurity measures, forensic investigations and system repairs
- loss of intellectual property such as stolen proprietary designs, marketing strategies, or other essential information
- loss of competitive advantage from downtime during peak shopping periods can lead to potential market share loss
- decline in stock value due to decreased investor confidence.

What makes cyber-attacks so nefarious is that the perpetrators rarely get caught or even identified. This means legal protection or prosecution often leads nowhere.

So how can retailers protect themselves from hackers and scammers trying to access their data?

How to build cyber resilience

We believe retailers need to start with an operational mindset and treat their cybersecurity operations as a marathon rather than a sprint, where consistent and measured steps become part of cybersecurity business as usual.

The critical questions to ask are:

- What is it I am trying to protect?
- Who am I trying to protect it from and what are their motives?
- What potential attacks could be carried out and what assets would be affected?
- What controls do I need to protect against these types of attacks?
- What data (internal and external) can I use to help identify threats?
- How do I respond once a data breach has been detected, or if hackers are selling the business' data on the dark web?
- What actions can I undertake with my existing team and where do I need help?

If a business suspects a breach, it is crucial to act quickly to identify the root cause and minimise the data hackers can extract. This will help limit subsequent attacks or scams targeted towards the business' customers, which could otherwise lead to further reputational damage.

By taking this approach, retail businesses can build specific controls necessary to manage immediate threats, allocate funding, and dynamically adapt it with investment based on a threat-risk rationale.

With the right goals and mindset, retailers can deliver what customers and executives want in their online dealings – cyber resilience. ■

[1] Source: McAfee, "Beware the Artificial Impostor" (May 2023); Topic Two: AI Voice scams and their impact

PLAN FOR SUCCESS

Supply-chain resilience: automation and AI

As consumer confidence drops and ESG compliance and geopolitical uncertainty increase, building supply-chain resilience should become a priority for retailers.

Peter Liddell, Partner in Charge, Global Operations Centre of Excellence, KPMG Australia
Tristan Butt, Partner, Customer & Operations, Consulting Retail Sector Lead, KPMG Australia

Many supply-chain leaders are breathing a sigh of relief as the volatility of recent years subsides, allowing them to focus on what lies ahead.

Their relief is tempered, however, by the recent downturn in market conditions. Amid falling consumer confidence,[1] margins are also being put under pressure. The Australian dollar slipped 5.1 per cent over 2023, and there are rising labour costs from the highest wage growth in a decade.[2] Several listed retailers are taking a hit in their valuations.[3]

With the momentum of the post-pandemic boom evaporating and gloomy economic forecasts abound, supply-chain leaders are now under pressure to find cost savings.

On top of that, they also find themselves under greater scrutiny of how they invest in their supply-chain capabilities, with enterprises showing more interest in collaboration to enhance their ESG ratings.[4]

While these new interests are a great catalyst for driving operational improvements, businesses need to tread carefully, as they risk going too lean and leaving themselves prone to market changes and disruptions, such as geopolitical instability.[5]

From what we have seen, and what we are still seeing unfold in the world today, planning for resilience is the critical next step.

The risk of going too lean

Building supply-chain resilience doesn't mean focusing on costs alone.

Taking an old-school cost-out approach would leave you too lean and exposed to respond to or weather any disruption to your supply chain.

Cutting costs is more of a short-term, money-saving band-aid solution, which may leave you stuck with inefficient and costly processes that disadvantage you in responding to emerging customer trends.

An example of changing trends is the growing consumer expectation for service and flexibility – such as personalisation[6] – even as consumer spending is slowing down.

By solely focusing on cost-cutting, you'll risk being left on the back foot without the resources to muster when things start to pick up again, while resolute competitors would be able to capitalise and take the lead.

KPMG's Global Head of Supply Chain, Peter Liddell, puts it bluntly: "Businesses must seize the day by investing to become future-ready. The biggest risk to supply chains in Australia right now is to do nothing."

Rather than chasing every trend, however, businesses need to be selective in where to invest, understand their supply-chain strategy and the capabilities they need, and focus on pursuing those plans to achieve their goals.

With that in mind, we have identified two key trends that point the way forward for supply chains – automation and artificial intelligence (AI).

Where to invest to be future-ready

Automation is already a feature in many warehouses across Australia, but it is no longer used only by big players such as the major supermarkets.

Instead, we are seeing a democratisation of automation, with many successful projects being implemented at the mid-market level, and retailers across the apparel, electronics and grocery sectors investing in automating their supply chains.

A common misconception is that supply-chain automation is merely warehouse infrastructure.

Not so nowadays, as there is a focus on software automation and automation of manual tasks, which has the potential to eliminate many inefficiencies and non-value-added activities, from order processing to fulfilment, warehousing and transport management.

As for AI, we still see it as an emerging trend in retail supply-chain management, one that holds great opportunity for early adopters to get ahead of the competition.

Key areas that we have identified where AI can make an impact are in distribution, particularly last-mile logistics, and supply-chain planning, where its potential to analyse data from myriad ever-changing factors can support advanced forecasting and scenario modelling.

While solutions in this space have been around for some time, further developments in AI will allow for even greater data processing, which can potentially produce better and more accurate decision-making. ■

[1] Source: KPMG Australia, "Retail Health Index" (December 2023); Consumer sentiment pg 5

[2] Source: Australian Bureau of Statistics, "Wage Price Index – September quarter 2023" (November 11, 2023)

[3] "Retail sales to slide after year of surprising resilience" Source: *Australian Financial Review*, August 16, 2023

[4] "Cost Savings Is No Longer A Top Priority—A Deloitte Study Shows" Source: *Forbes*, August 1, 2023

[5] Article title: "Geopolitics, China and Russia: Why Supply Chain Managers Should Care" Source: *Supply Chain Management Review*, October 1, 2023

Consumers are demanding more information than ever before

FACT: 80% of Australian shoppers consider sustainability when making decisions about the products they buy*

Shopping habits are evolving, and so are we

We know your consumers are looking for more. More information. More personalisation. More experience. Extending well beyond a transaction. Beyond QR Codes with a single link that leads to outdated or irrelevant information - if it scans at all.

Introducing GS1 powered QR Codes

By updating to GS1 powered QR Codes your consumers gain access to incredible amounts of product & brand information. Things like material composition, production origin and sustainability, care instructions, recycling methods and much more, easily accessible from a single on-pack symbol, scanned using their phone.

Transform the way you engage with your consumers

GS1 powered QR Codes deliver tailored, accurate links to multiple information sources, in real-time. And still go beep at the checkout.

Speak to us about updating your QR Codes today
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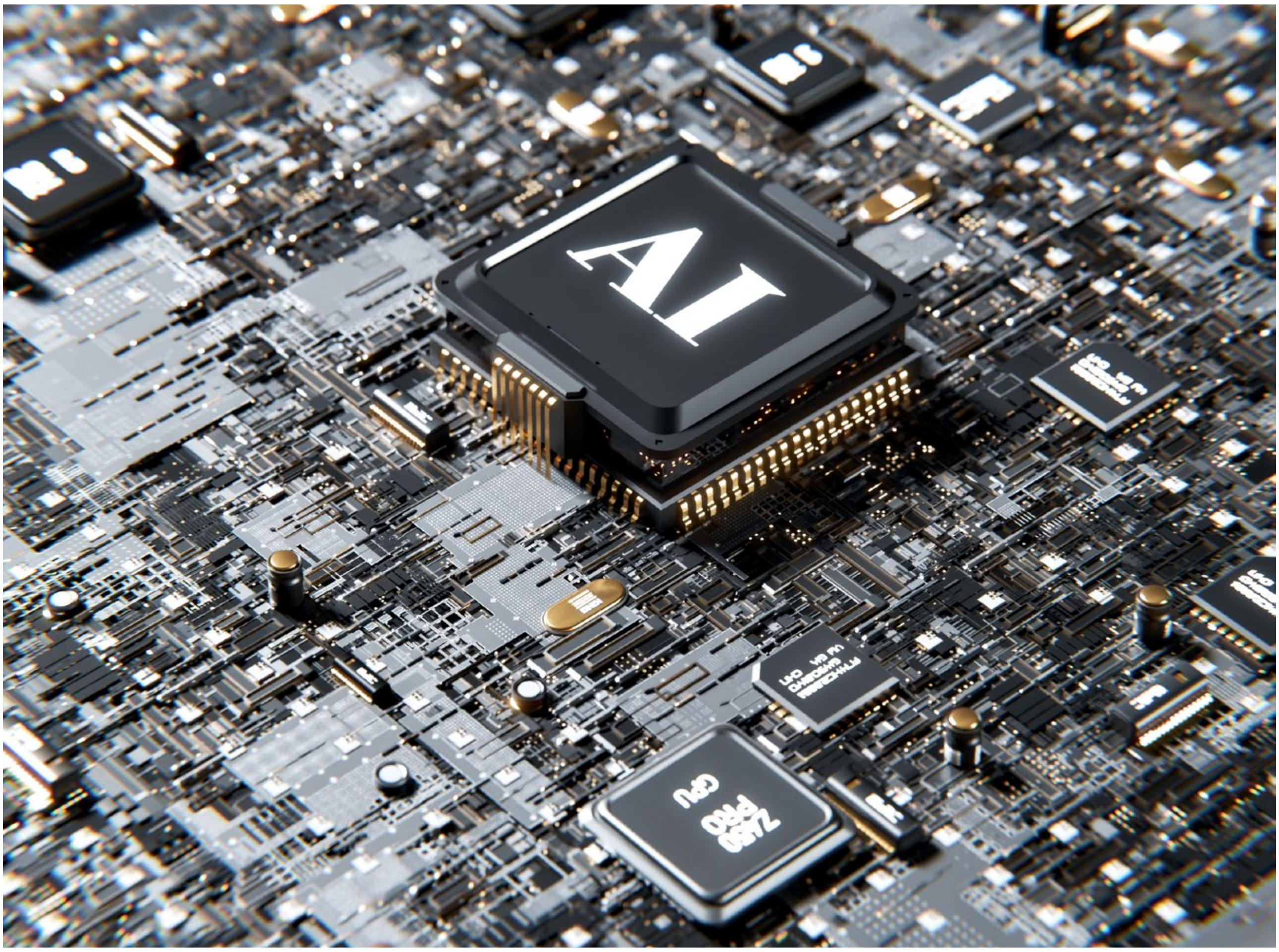
*Data source: Statista 2022

Unleashing the power of AI



The age of artificial intelligence is upon us, and it is changing the world. The question is, how can retailers thrive in this new technological epoch?

Brad Daffy, Partner, Powered Data & AI, KPMG Australia

Not only did the troubles of 2020-22 feel well and truly behind us, with retail and travel booming, but we got our first taste of ChatGPT and spent the holidays putting it to the test by writing greeting card messages, composing music and, more recently, creating new artwork.

Those who have been keeping up with the latest developments in technology sector have long known of the game-changing potential of artificial intelligence (AI) tools like ChatGPT, but rarely has it been so front-and-center in our lives.

AI has huge potential in the consumer and retail sector, with its ability to drive better business outcomes, including in customer experience, commercial effectiveness, operational efficiency, and cost optimisation.

Several retailers are already having success using AI chatbots with human-level responses to better serve customers by supporting omnichannel interactions or augmenting agents.

Within operations, AI can be applied to inventory functions by optimising product ranges based on customer preferences and available space, whereas the ordering and replenishment process can be automated based on thresholds, lead/lag indicators and demand.

Data and machine learning can help

generate more accurate forecasts of site performance, product demand or sales margin.

ChatGPT's impressive comprehension capabilities stretch the imagination of what these technologies can achieve within the retail sector, especially as a realisation of the vision of automation being able to handle tasks that require human judgement.

Despite AI's early success, however, many organisations are still unsure of how to leverage it to deliver business value and are seeking to build their understanding rapidly.

What executives think about AI

In March 2023, KPMG fielded a survey of 300 executives across multiple industries to gauge how receptive and prepared they were for the adoption of generative AI (the technology behind ChatGPT and many other AI-powered tools).

Among survey respondents,[1] 77 per cent told us they believe generative AI will have the biggest impact on their business over the next 3-5 years.

Among consumer and retail sector[2] respondents, 66 per cent said their organisations were most likely to apply generative AI in analysing customer data and creating personalised recommendations; 64 per cent will use it for trend analysis/predictive analysis for inventory management; and 40 per cent envision it helping them set competitive prices.

Despite the known potential AI has for positively impacting the consumer and retail sector, only 23 per cent of surveyed consumer and retail organisations[3] have appointed a central person or team to organise the response to the emergence of generative AI (as compared with 31 per cent of organisations across all sectors).

So, while many in leadership are keen, there isn't much impetus to adopt the technology yet.

Nevertheless, the race to adopt AI in the retail sector has begun, and to make the most of this emerging technology, businesses need to start by laying the groundwork for the effective and productive use of AI.

A sample of AI use cases that could deliver value across customer service, supply chain, inventory, and buying and forecasting include:

Customer service

- Agent assist – bringing together all data on a customer to reduce call handling times
- Omnichannel support – complete customer journeys via each channel of communication
- Customer support and logistics – proactively monitoring carriers and notifying customers of delivery times with automated rescheduling or re-routing
- In-store monitoring – real-time monitoring of processes and shopping habits of customers to identify bottlenecks and generate process efficiencies

Supply chain

- Supply-chain resilience – forecast demand variability, monitor and predict potential disruptions, and support warehousing, labour, and space management
- Inbound/outbound freight optimisation – optimise transport routes (including returns), real-time in-transit inventory allocation

Inventory

- Space management – optimisation of range based on customer preferences and available space
- Real-time inventory management – visibility of re-stocking time frame to anticipate changes
- Automated ordering and replenishing – auto restocking based on thresholds, lead/lag indicators and demand
- Automated competitor price sourcing and matching – processing competitor pricing data and dynamic updating of prices

Buying and forecasting

- Demand forecasting – forecast site performance and product demand
- New product introduction – manage forecasts and planning of new products, analyse sales and non-sales related demographic data

How to jump-start your AI agenda

Across the organisation, AI can complement experienced retail team members by providing personalised recommendations on next actions for customers based on predicted outcomes and transform the team-scheduling process to focus on having the right team member in the right location at the right time.

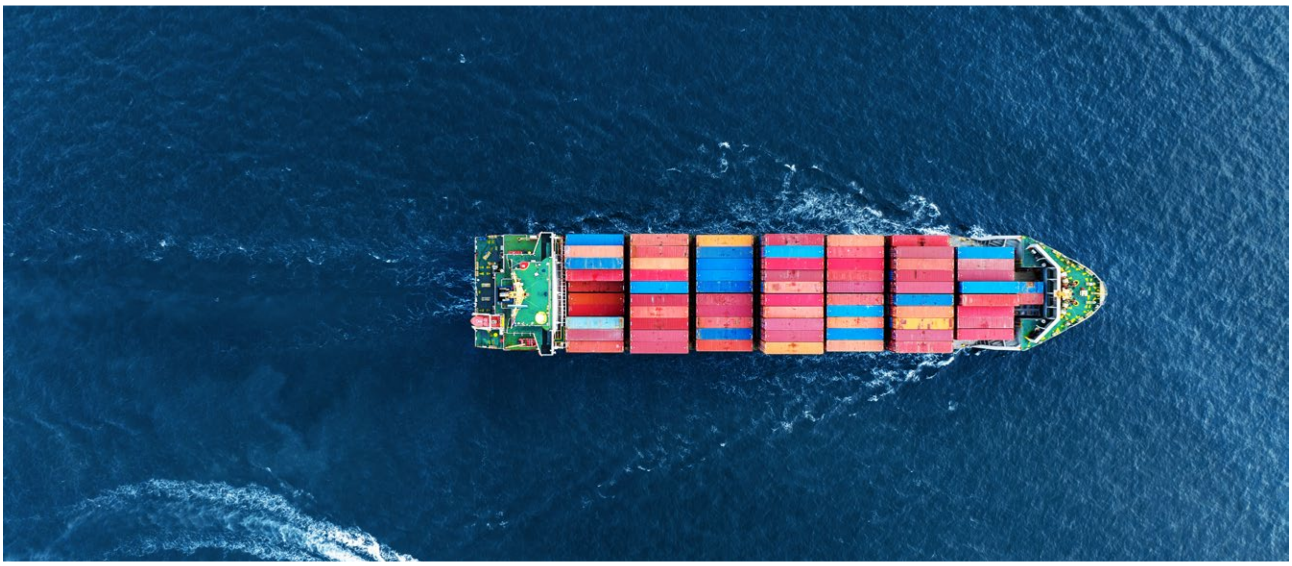
To jump-start your AI agenda, there are four key actions you can consider now:

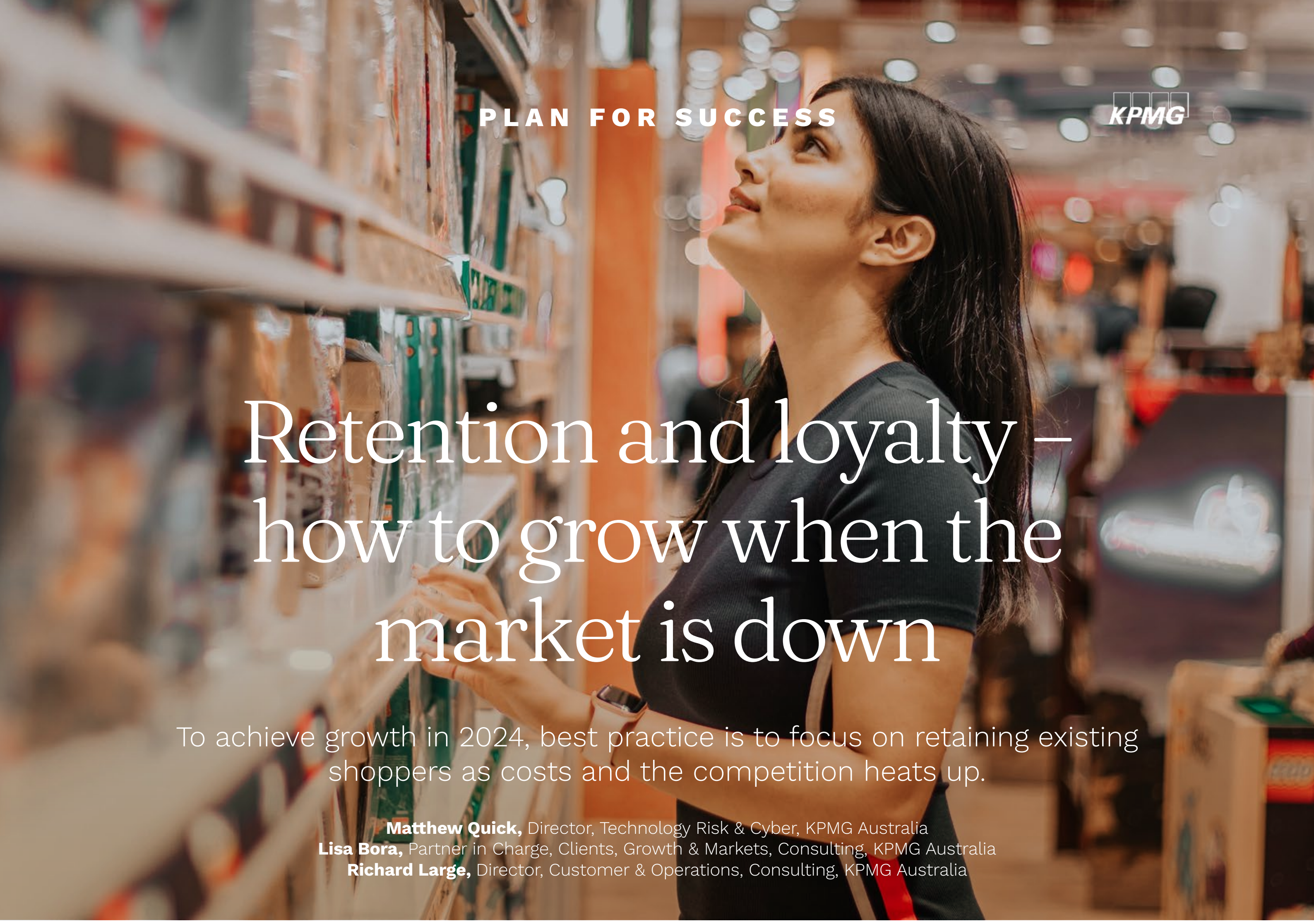
1. Assemble and organise your data to get a robust foundation for AI now and into the future.
2. Develop a responsible AI framework to govern your use cases and consider the ethical implications.
3. Create a backlog of use cases to experiment and accelerate.
4. Identify and acquire the right talent across business and technical roles. ■

[1] Source: KPMG US, "Generative AI: From buzz to business value" pg 4 (May 2023)

[2] Source: KPMG US, "Generative AI: From buzz to business value" pg 7 (May 2023)

[3] Source: KPMG US, "Driving business success with generative AI in consumer and retail" pg 2 (June 2023)





Retention and loyalty – how to grow when the market is down

To achieve growth in 2024, best practice is to focus on retaining existing shoppers as costs and the competition heats up.

Matthew Quick, Director, Technology Risk & Cyber, KPMG Australia
Lisa Bora, Partner in Charge, Clients, Growth & Markets, Consulting, KPMG Australia
Richard Large, Director, Customer & Operations, Consulting, KPMG Australia

It will come as no surprise to anybody in retail that achieving growth in 2024 is going to be challenging, as increased costs of living, higher mortgage interest repayments and unemployment risks negatively affect discretionary income and non-grocery retail spending.

This view is supported by KPMG's December 2023 Retail Health Index,[1] which suggested that a recovery in retail spending might not occur until late in 2024.

Retailers have also been hit with rising input costs eroding margins, leaving many merchandise, marketing and commerce functions wondering how they are going to achieve more with less. With tightening budgets looming, best-practice retailers will plan to make every dollar count and double down on generating growth from their existing shopper base through increased retention and loyalty.

Why retention and loyalty are smart for the retailer

- Customer acquisition costs have increased by as much as 60 per cent in the last 5 years.[2]
- Higher retention means a lower new-acquisition cost to maintain or grow the customer base. Investments can focus on the appropriate customer segments for greater ROI.
- You know much more about your existing customer base, allowing for better targeting and personalisation.
- Loyal shoppers drive word-of-mouth engagement when marketing budgets are constrained.

Why retention and loyalty are appealing to the customer

- Existing customers already have familiarity and affinity with your brand.
- Existing customers are more likely to have a higher spend and frequency than newly acquired shoppers.
- Loyal customers are more likely to stick with a known brand when cost is constrained.
- Loyal customers can provide invaluable feedback to help fine-tune retail offerings.

The term 'customer loyalty' is commonly confused with 'loyalty programs'.

As a retailer, you can achieve customer loyalty without having a loyalty program, and conversely, you can have a loyalty program without improving customer loyalty. Customer loyalty is an ongoing relationship with your shopper, ultimately demonstrated by how willing they are to engage with and repeatedly purchase from you versus your competitors.

> "Given current economic conditions impacting both shoppers and retailers, focusing increasingly on customer retention over acquisition is key to driving better outcomes and returns."

Whereas a loyalty program is a structured approach to rewarding existing shoppers for their purchases through incentives.

Although loyalty programs are often the default, studies do not paint a universally encouraging picture, with reports that 80 percent of loyalty programs fail during the first two years,[2] and two-thirds of established loyalty programs fail to deliver value, with many actually eroding value.[4]

For those retailers with existing loyalty programs, there are several key internal and shopper-driven actions you can take to maximise ROI.

Key retailer considerations when running loyalty programs

- Don't treat all loyalty members the same – use available data to design reward structures at detailed customer levels, to avoid giving rewards away 'for free' or rewarding behaviour that would have occurred anyway.
- Uplift measurement capability – establish and refine processes for A/B testing and audience segregation to understand the performance of rewards and activity.
- Be flexible – action real-time data to adapt campaigns and offerings across segments.
- Isolate loyalty costs from broader marketing spend to create transparency on true operating costs and ROI.
- Plan for loyalty 'liabilities' – unredeemed rewards can overstate a program's performance and are increasingly accessed in times of hardship.

Why retention and loyalty are appealing to the customer

- Explore different ways to create and articulate customer value, such as express checkouts, free delivery and/or returns, access to exclusive content and events, and even member pricing.
- Explore partnerships with other organisations to expand options for rewards outside of your own category, which may provide greater utility.
- Clearly communicate the value your program provides and how this can be maximised.
- Personalise rewards to align with behavioural drivers at a segment level and show you recognise members as individuals.
- Be empathetic in customer interactions and communications (e.g. don't bombard recent members with messaging that is not in line with their consumption patterns).

For those retailers who do not have an established loyalty program, don't worry; there are other ways to achieve loyalty and retain shoppers without a formalised program.

An alternative approach is to focus on delivering an overall Customer Experience (CX) specifically designed to drive consistent and co-ordinated interactions across all touchpoints along the shopper journey.

Key retailer considerations

- Be clear about the vision and objectives you want to achieve and establish what 'good looks like' to align the business.
- Know your customers – identify and quantify current pain points and drivers of value for your key customer segments.
- Focus CX initiatives and spending on the critical moments of churn and conversion.
- Ensure your operating model supports the delivery of desired customer journeys, including technology, data and governance.
- Set and operationalise the right behavioural and operational metrics at a relationship, journey and touchpoint level, to facilitate analysis of the root cause and corrective actions.

Key customer considerations

- Focus on delivering value through product quality, different purchase sizes/ quantities and price point options.
- Reduce and eliminate causes of friction across the purchase journey (e.g. e-commerce search functionality, available payment options, or stock availability).
- Tailor elements of the shopping experience to customer segment behaviour, such as price sensitivity, to meet value needs without 'giving away' margin and profitability.
- Demonstrate integrity through your values and causes, including ESG initiatives and data security.
- Show empathy towards your shoppers' economic circumstances in how you interact and engage with them.

Given current economic conditions impacting both shoppers and retailers, focusing increasingly on customer retention over acquisition is key to driving better outcomes and returns. A greater emphasis on value is core, but this does not have to be delivered directly through price or discounts and should recognise differences in your shoppers' attitudes and behaviour.

Many loyalty programs are ineffective and their returns are unknown at best, and margin erosive at worst. Many retailers fall foul of the common mistakes below in failing to leverage the full value of their program.

88%	of organisations run as an "earn & burn" loyalty program
56%	see this program for contact capture for promotions
40%	collect data but don't perform regular analysis
12%	results integrated into channel divisionality only
6%	actively leverage program to drive sales objectives

Source: "Making the connection: rethinking the role of loyalty management", KPMG International, August 2014

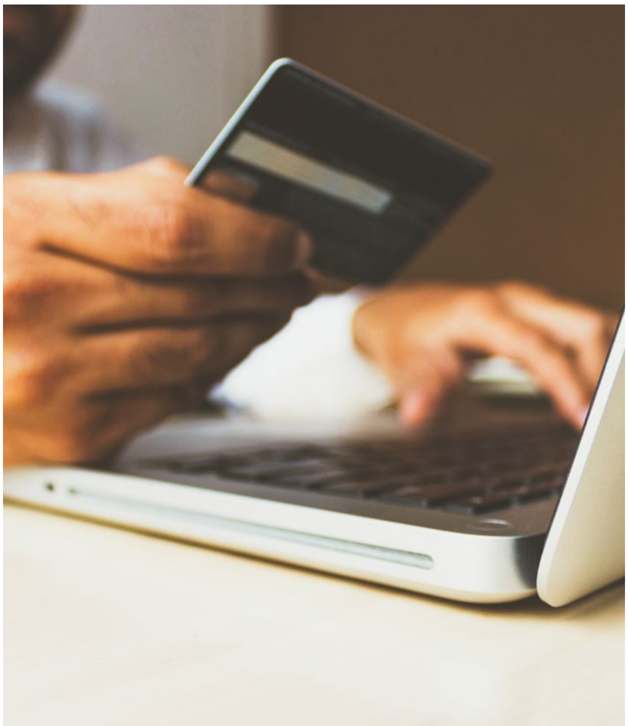
Any loyalty strategy should consider different drivers of value across customer segments and the delivery of an overarching CX designed to eliminate points of friction and promote ease of shopping. ■

[1] Source: KPMG Australia, "Retail Health Index" (December 2023); pg 4

[2] "Brands Losing a Record $29 for Each New Customer Acquired" Source: SimplicityDX, July 19, 2022

[3] "Next in loyalty: Eight levers to turn customers into fans" Source: McKinset & Company, October 12, 2021

[4] Source: Alejandra Remolina, "Why do most loyalty programs fail?"



Working capital – manage it before it manages you

A perfect storm of high costs and failing consumer demand will place additional challenges on retailers' cash and working capital management.

Vince Dimasi, Partner & Australian Lead, Working Capital Advisory, KPMG Australia

It is amazing how retailers in Australia managed to pull through the pandemic shutdowns, supply-chain disruptions, shifts in consumer spending and demand, rising inflation and interest rates.

Though the brunt of the economic volatility has passed, many retailers aren't out of the woods, as sticky inflation and uncertain consumer sentiment still weigh heavily on their working capital.

Cash flow and working capital are likely to be a key issue for many retailers throughout 2023-25, as the effects of the pandemic on the balance sheets of retailers continue to weigh heavily on their prospects.

In the years ahead, retailers will have to contend with inflation putting pressure on profits, higher cost bases on key inputs such as freight and utilities, and dampened consumer demands due to interest rates.

As cash flow is the effect of working capital in a business, it is now more important than ever for retailers to focus on their working capital, which will be key to helping them not just survive but thrive.

As the old saying goes, 'Revenue is vanity, profit is sanity, but cash is reality'.

To manage their working capital effectively, best-practice retailers are focused on navigating three issues on the horizon, which are:

- inventory management
- government regulation
- rising inflation

Inventory management

The 'just in case' ethos of the pandemic era –where businesses focused on sourcing and their supply chains to amass inventory amidst the pandemic uncertainties – worked well when consumer demand was strong, and

well before inflation and interest rates started to rise.

These conditions changed quickly over the last 12 months, however, as consumer demand weakened in the current macroeconomic environment of high inflation and interest rates, leaving many retailers with inventory backlogs.

It is unlikely that retailers will see another post-pandemic boom, and the challenge now is balancing their stock levels against uncertain demand curves as the economic pressures continue to weigh on consumers.

Government regulation

In 2020, the Australian Government introduced the Payment Times Reporting Act 2020 (Clth), which is designed to encourage big businesses to pay their suppliers quickly.

This legislative regime requires large companies to submit their small-business payment metrics to a regulator every six months. They are then made publicly available, thereby introducing a reputational risk for any large business with slow supplier payment performance.

This means the once-common tactic of 'stretching supplier terms' is no longer as attractive, as business owners now need to protect the reputation of their payment conduct, forcing retailers to reduce payment terms, which puts greater pressure on their working capital. As a result, it is now more important than ever to look widely at a business to identify all areas of working capital and cash flow improvement.

Rising inflation

The year 2023 will be remembered by retailers in Australia as one that was rocked by high and persistent inflation, driving up costs across everything from freight, packaging and utilities, to insurance, interest bills, and labour costs.

The resulting higher cost base, coupled with lower consumer demand, will place continued pressure on profits over the next few years, which will translate to more pressure on cash flow and working capital management.

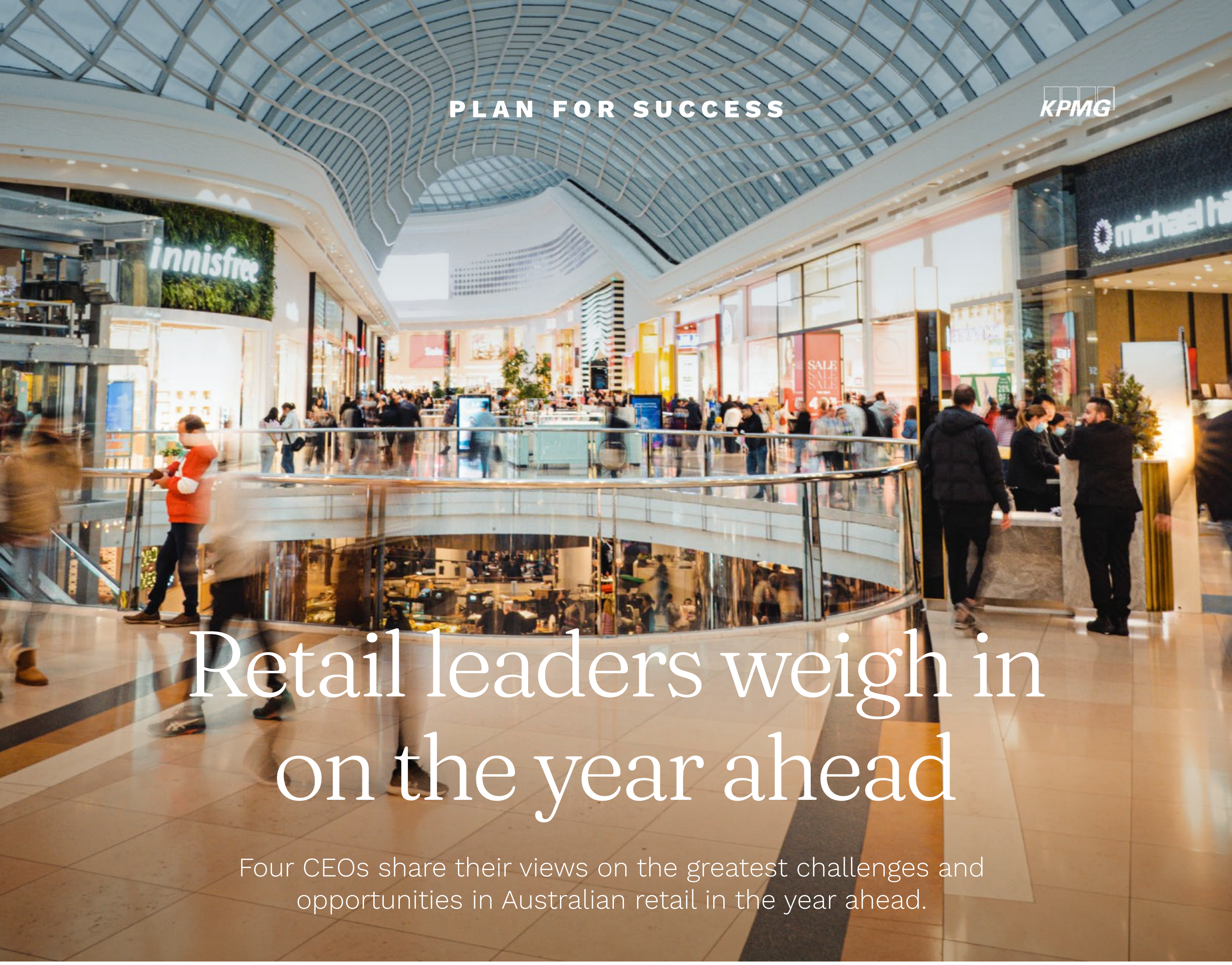
What to do

These three factors are coalescing to form a perfect storm, but they can be managed through prudent cash and working capital management.

Based on our wide range of experience helping a variety of consumer and retail businesses successfully navigate these challenges, here are a few tips worth sharing on managing working capital:

- **Leave no stone unturned:** Having a good broad look at the entire business' working capital allows you to find opportunities to improve cash flow and working capital.
- **Focus on momentum:** Implementing change in a business is never easy, but businesses just need to get moving to build momentum that leads to more momentum and change.
- **Watch your cash flows:** Far too often, businesses struggle to achieve a reliable view of what future cash flows will look like. Having a well-built and reliable view of future cash flow is essential to make business decisions with confidence.
- **Have a plan:** Talk is cheap, so it's better to get all your thoughts down and formulate a solid plan.
- **Get some help:** Getting an independent and credible adviser to assess your business' health and verify your working capital management plans may make the difference.
- **Keep it simple:** An effective plan focuses on a single attainable goal. Don't overcomplicate it or nothing will get done.

While there is no single magic lever that can sort out your working capital, in our experience, successfully managing working capital is a journey that takes continued and consistent effort to accomplish. ■



Retail leaders weigh in on the year ahead

Four CEOs share their views on the greatest challenges and opportunities in Australian retail in the year ahead.

Angus McKay
CEO & managing director
7-Eleven

KPMG: What do you see as the greatest challenge to Australian retail in the year ahead? Is this a new challenge vs prior years?
Angus McKay: One of the challenges that will continue into next year is being able to demonstrate value to our customers. There's no doubt customers are becoming more price sensitive, so as a retailer, we have to make sure that our customers see that we are providing value.

That can come in the form of special offers, co-buy promotions or rewards for loyalty. The search for value is no better demonstrated than by the uptake of the Fuel Price Lock feature of our My 7-Eleven app, which has just had a 27 percent year-on-year increase of users. In this case, the extra value for the customer comes when they link the app to Velocity Frequent Flyer rewards.

KPMG: What is a key investment area or opportunity for retail to thrive in over the next two to five years?
AM: There are two areas where we will continue to invest over the medium term – digital enablement and sustainability.

On digital, we want to make things easier for our customers to play with us. We don't want to create clutter and noise, we aim for quality over quantity. This means we must be smart about how we interact with our customers. The key will be to use data with precision so what you offer them matches customer needs and wants.

In the sustainability space, work will continue around packaging and recycling, along with the sustainability of some ingredients in our own branded products.

John Gualtieri
CEO
Kmart and Target ANZ

KPMG: What do you see as the greatest challenge to Australian retail in the year ahead? Is this a new challenge vs prior years?
John Gualtieri: In the current economic climate, with its high cost-of-living pressures, many Australian households are feeling significant pressures on their income. Value imperative is a growing influence on customer behaviour and will continue to be a driver in our industry for some time.

Retail has always needed to adapt to the evolving needs of consumers. While value is of increasing importance, it's also becoming apparent that consumers expect retail to deliver access to great products at great prices.

This shift in consumer mindset expectations presents a significant opportunity and challenge for retail brands in Australia. For Kmart and Target, this trend aligns naturally with our ethos as a business.

As an Australian, design-based product development company of our size and scale of operations, we deliver the lowest-cost product development, production and distribution model, which means we can continue to consistently deliver better products at lower prices.

With our size also comes a responsibility to make a positive contribution towards a sustainable future. The retail industry's focus on sustainability will continue to be a key priority that we take on collectively.

Waste is a huge challenge, and one that we need to develop a collective and sustainable response towards as an entire industry. This next phase will require an unparalleled level of partnership within the retail sector – from suppliers to customers as well as peer retailers, global sustainability partners and governments – to develop a solution at scale that is fit for purpose and delivers sustainable solutions to the problem.

KPMG: What is a key investment area or opportunity for retail to thrive in over the next two to five years?
JG: Data will continue to be a key investment for retail and will help us unlock new levels of value creation – that will ultimately benefit consumers.

Data can deliver efficiencies in operations, but the real value is in using it carefully to drive growth and deliver an augmented customer experience through things like enhanced design capability, product availability and personalisation, as well as automation that drives better efficiencies, and ultimately a better customer experience as a result.

The recent establishment of our distribution centre in New Zealand with automated product sorters and an automated inventory management system highlights the efficiency gains that are possible. These advancements liberate our team members from time-consuming manual tasks.

AI stands before us as another seismic shift for our sector, the potential of which we are only beginning to understand. The introduction of our AI-powered live Chatterbot marks the beginning of a new journey in this space. This tool is engineered to engage in end-to-end conversations with our customers, leading to an enhanced customer experience. ►

Daniel Bracken
CEO
Michael Hill

KPMG: What do you see as the greatest challenge to Australian retail in the year ahead? Is this a new challenge vs prior years?
Daniel Bracken: For the next six to 12 months, the biggest challenge for retail will no doubt be a low level of consumer confidence, driven by high interest rates and economic concerns. Add to this the challenge of increasing operating costs from labour, occupancy and COGS.

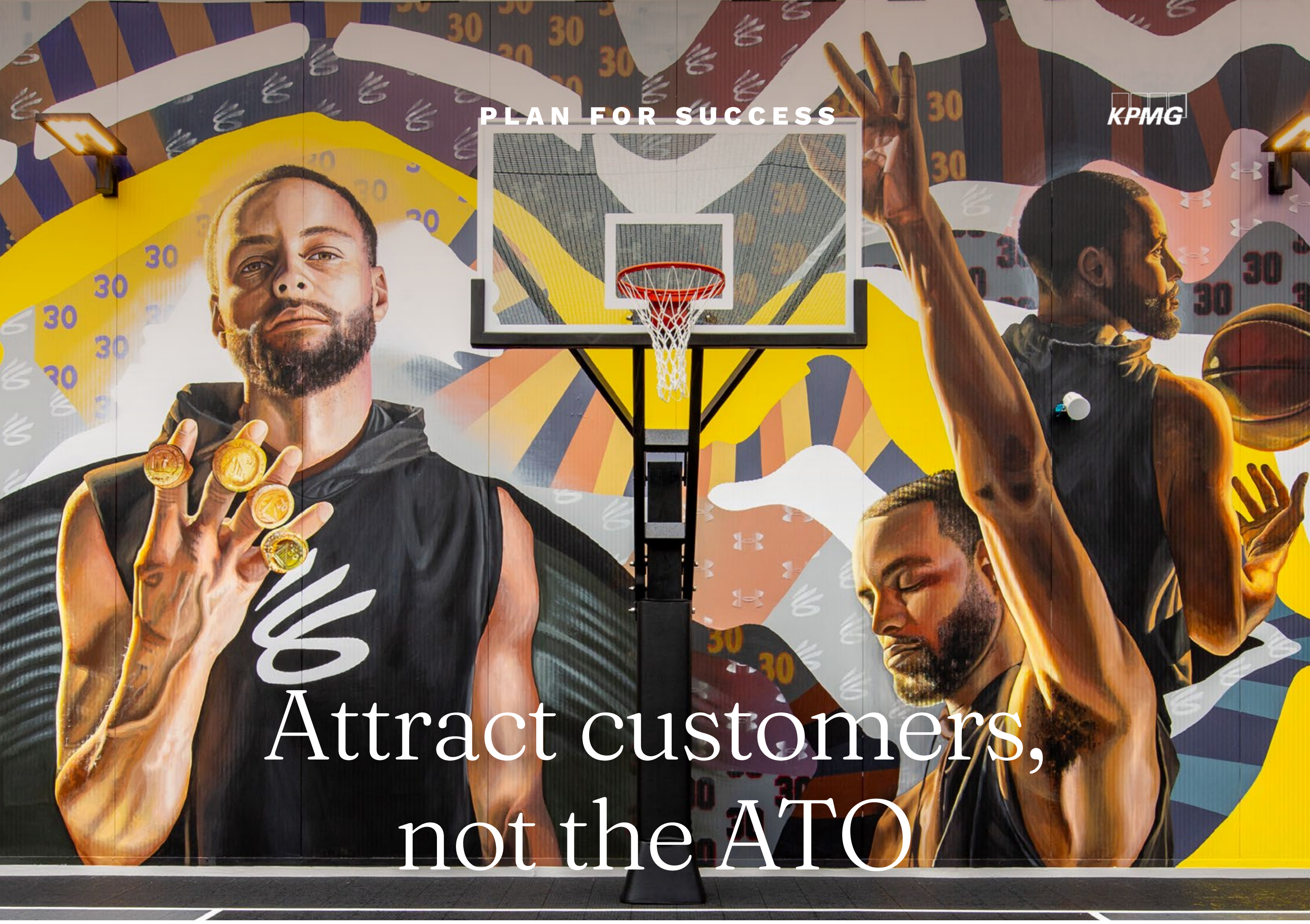
> "Retailers need to continue to invest in digital."

KPMG: What is a key investment area or opportunity for retail to thrive in over the next two to five years?
DB: Retailers need to continue to invest in digital, data and customer insights. But also physical in-store environments need to keep pace with the expectations of customers.

Scott Fyfe
CEO
David Jones

KPMG: What do you see as the greatest challenge to Australian retail in the year ahead? Is this a new challenge vs prior years?
Scott Fyfe: In 2024, the economic headwinds facing Australian retail are likely to be onerous. Inflationary pressures will continue to impact consumer behaviours and whilst these challenges aren't entirely new, their interconnected nature demands a heightened level of strategic agility and innovation from retailers to propel them forward.

KPMG: What is a key investment area or opportunity for retail to thrive in over the next two to five years?
SF: Seamlessly integrating innovation across the value chain and crafting unforgettable customer journeys will be the currency of success. This will propel retail businesses beyond transactional exchanges, into a future of lasting connections and sustainable growth. ■



Attract customers, not the ATO

Fit-outs and online platforms can attract customers' attention and drive higher sales, but are they also reducing after-tax benefits and attracting the attention of the ATO?

Steve Plant, Partner, Corporate Tax, KPMG Australia
James Macky, Partner, Corporate Tax, KPMG Australia

In Autralia's highly competitive retail market, it is increasingly common to use unique store fit-outs and digital platforms to improve the customer experience and boost sales.

We are seeing retailers invest towards enhancing digital platforms and developing or updating physical stores – with fit-out costs going into the millions for a flagship store. This is seen as a way to differentiate and improve the omnichannel experience.

However, consumers aren't the only ones paying attention to retailers' big spends. Experiences with more recent Australian Taxation Office (ATO) reviews have shown an enhanced focus on the tax treatment of fit-outs and technology spend by retailers. A common takeaway has been that the tax treatment of this expenditure has not been fully considered and supported, which can result in a drag on after-tax results, either due to tax adjustments or cost in responding to the reviews.

Why retailers can expect more attention from the ATO

Historically, limited attention has been given to the appropriateness of tax claims for fit-outs or digital spend. A regular approach was to align the tax treatment with accounting, so that all (or most) fit-out costs were claimed over the life of the tenancy, and digital costs were deducted up-front.

This approach will need to change given the frequency of reviews, and the focus of the reviews, from the ATO, reflected in the Tax Avoidance Taskforce on Australia's top 6,000 taxpayers receiving $1.7 billion in funding since 2016[1] and a further $200 million earmarked a year, through to 2026, to continue undertaking reviews. This funding, and our recent experiences, means that retailers can expect more attention from the ATO, with increasing challenges around both the governance of claims and the granular details of claims, including challenging the common approaches to such spend.

These challenges can cause delays and costs, either spent reconsidering and documenting the historic approaches taken to satisfy the ATO or in adjustments that increase tax payable over the historic period.

Considering the ATO's increased scrutiny and enforcement, the potential negative impacts for retailers failing to optimise their treatment and support the approach include:

- elements of the fit-out not being claimable over 40 years as capital works. Much shorter periods typically claimed (for example, leases shorter than 10 years). From the ATO's perspective, capital works can include non-structural items like painting walls, non-structural partitioning/ ceilings and many types of flooring installation. Where care hasn't been taken to determine this aspect up front, it can be difficult to justify the fit-out elements at a later date
- lack of deductions on termination ▶

of a lease where structural items are left for the lessor for re-use or destruction
- digital spend needing to be capitalised rather than immediately claimed
- significant cost and time dealing with the ATO, with increased focus if you can't respond effectively to queries
- impacts on the ATO's assessment of your governance, leading to increased focus across all areas.

> "We are seeing retailers invest towards enhancing digital platforms and physical stores."

How to optimise your approach

As the retail sector is expected to enter a lower growth environment, where recovery in retail spending may not occur until Christmas 2024,[2] the after-tax impact of failing to manage these issues could have a material impact.

While some of the outcomes will arise under the tax law regardless of the work done, an adjustment to earlier tax liabilities, and the resources needed to respond to ATO requests, will come as an unwanted surprise for any business.

There are real benefits for retailers that adapt their approach to optimise their outcomes, with relatively minor upfront costs. To do so, retailers can:

- as part of a governance-focused approach, create a template tax analysis of the typical fit-out, which can be applied across each store to categorise spend, and ensure contractor documents reflect this categorisation where appropriate
- use software development tools to optimise any software spend that may be deductible over time
- implement a disciplined approach to leasing arrangements, including considering the impact of incentives on after-tax cash flows and the treatment of assets at the end of the lease.

These steps will ensure the best after-tax result is achieved, limit the time and cost spent managing ATO enquiries, and ensure that the main attention gained is from customers, not the ATO. ■

[1] "About the Tax Avoidance Taskforce" Source: Australian Taxation Office, July 13, 2023

[2] Source: KPMG Australia, "Retail Health Index" (December 2023); pg 4

The retail turnaround rules

When trading gets tough, here are some guidelines that will help businesses, management and board members survive.

James Stewart, National Leader, Consumer and Retail, KPMG Australia
Gayle Dickerson, Partner, Deals, Tax & Legal, KPMG Australia
David Hardy, Partner, KPMG Australia

A perfect storm of the rising cost of doing business and falling consumer spending is likely to weigh on the fortunes of some discretionary retailers in 2024.

Sometimes, sales and margin underperformance happen quickly; on other occasions, it takes a while for management to realise they are trending downward.

Rule 1: 'Houston, we have a problem'
When a business is financially challenged, time is of the essence.

The first rule for managing a turnaround is acknowledging the performance problems early enough, rather than at the 11th hour, when there are few cards left in the deck to play.

Owners, boards and management teams too often struggle to step back to look at the bigger picture of what is going on and remain stuck in the day-to-day business operations, or remain attached to a strategy that isn't working.

That is why it is essential to do a hard reality check as early as possible and have a realistic and current assessment of the business' actual financial position (cash flow, P&L, balance sheet) and its forecast performance looking forward.

Rule 2: Taking the lead, winning confidence
The second turnaround rule lies in genuinely understanding the management team's capability because it doesn't matter how good the plan is if you simply don't have the right people to get the job done.

The challenge here is that leading any business through a turnaround requires the confidence of key stakeholders that the board and management team are up to the task.

Initially, the most important stakeholders are your employees. And in a crisis, the best talent will always leave unless they have confidence in the business leadership and believe the turnaround can be achieved.

After that, it's all about building trust with your external stakeholders, who may be inherently sceptical about the prospects of success.

Rule 3: Hope is not a plan
Retail turnarounds don't just happen. They demand a diligent approach to the strategic and tactical initiatives that will drive the future performance of the business. This includes understanding the customer, challenging the relevance of the business core value proposition, and identifying the operational levers to improve profitability, cash flow, and enterprise value over time.

The guiding principles of turnaround planning are:

- **Define success:** All turnarounds are different, and success is always contextual. Be realistic about what is achievable, over what time frame, with the working capital available. Also, understand clearly what your stakeholders want. Their interests and yours may not be the same.
- **Leave no stone unturned:** No one has a monopoly on good ideas. Often the best ideas (and the easiest to execute) come from the shop floor. You just don't know until you ask.
- **Keep it simple and be ready to pivot:** Make and keep promises that are simple and realistic. Don't develop a plan A without a credible plan B, C, or D.
- **Managing stakeholders is hard to do:** Sometimes you will need to hire an independent, credible adviser who can verify that your turnaround plan is realistic and that the business can execute it.
- **Other people's money is expensive:** Cutting costs, improving margins, and releasing cash from working capital are always cheaper than distressed debt/equity. However, sometimes a distressed debt investor is a smart play to fund a turnaround plan when other options don't exist.
- **Don't let 'perfect' get in the way of 'good':** Few businesses achieve 100 per cent of their turnaround targets. It's often about demonstrating positive momentum to build stakeholder confidence and create shareholder optionality.

Rule 4: Know when to fold 'em
Unfortunately, the best-laid turnaround plans don't always work.

Australian corporate law places directors at risk of personal liability for insolvent trading if the business ultimately collapses into liquidation. This means directors should remain contextually aware of the business performance and the viability of the turnaround plan at any given point.

Australian Safe Harbour laws offer some protection to directors undertaking a turnaround, provided the plan is independently assessed as more likely to result in a better outcome for creditors than a liquidation. ■

Kiwi Corner: How to win in 2024

Competition is soaring in New Zealand retail, as big international brands move in while economic conditions become challenging. What can local retailers do to thrive?

Leon Bowker, Partner, KPMG New Zealand
Greg Burton, Manager, KPMG New Zealand

New Zealand seems like a land far away when looked upon across the ditch, but recent conversations with senior leaders have revealed its retail industry is facing similar challenges to Australia's.

Over the past few years, New Zealand's retail industry has faced competitive threats locally and abroad, with the arrival of Costco, the planned entry of Ikea, and the emergence of local competitors diversifying and offering new products.

In addition to the competitive threats, business leaders are also struggling to keep up with the pace of change, weighed down by projects that aren't yet delivering the expected return on investment. And many retailers continue to face challenges in effectively using data to make informed decisions.

For New Zealand's retailers, the solution is to focus on refining their core product offering and finding ways to reduce procurement and store costs, while improving distribution and working-capital performance.

> "Excess inventory becomes a problem when the cost of capital increases."

Addressing the core product offering in 2024 means assessing the existing range architecture, understanding what percentage of sales come from segments across the range and making informed decisions, based on data, about what needs to be kept, discontinued or consolidated.

By doing so, retailers can help keep themselves relevant in today's changing marketplace with profitable and in-demand core products, which in turn will improve their business' revenue and drive growth in 2024.

This leads to the second key metric: margins. With a refined core product offering in place, retailers can set about improving procurement costs through better price negotiations from suppliers, deepening their supplier relationships, and optimising the end procurement process.

Not only will this lead to cost savings and better margins, it will also maintain a retailer's competitiveness.

With the growing importance of e-commerce with customers, thanks to the pandemic-accelerated shift towards online shopping, we are seeing a key theme emerging from retailers, which is staffing a dynamic omnichannel workforce. This means staff members who can switch seamlessly between picking click-and-collect orders or replenishment, to serving customers at the till.

Recent data has shown a 22 per cent year-on-year drop in online spending in the first quarter of 2023, with customer demographics still demanding a wholly separate bricks-and-mortar and online shopping experience. This means retailers can no longer isolate their channels,as there isn't enough volume to justify it.

Because of this mix of customer preferences, retailers shouldn't shun one for the other. Instead, the solution would be to keep a workforce that is adaptable and can switch between channels seamlessly.

How to improve working capital

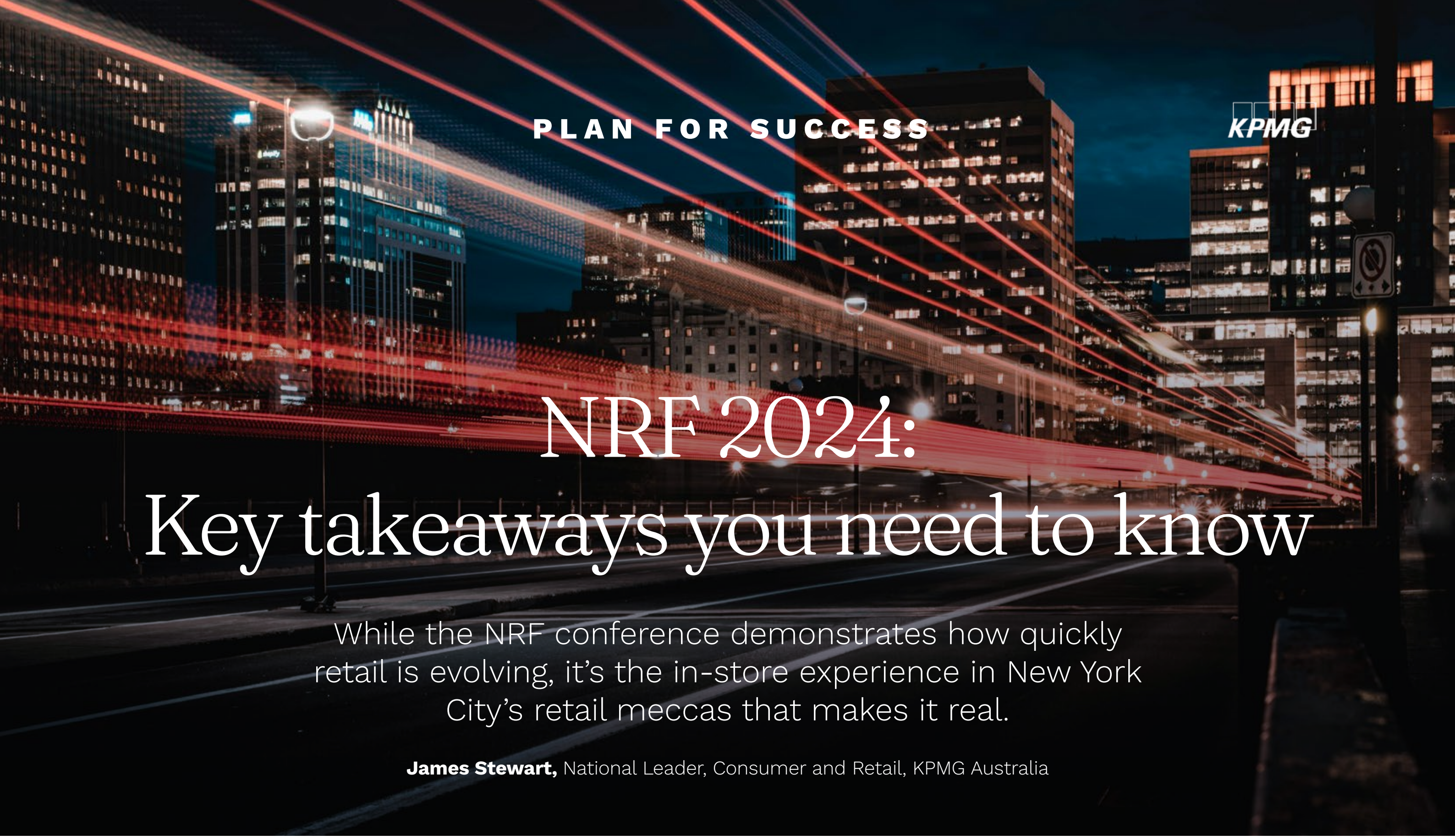
Lastly, retailers also need to be aware of the hidden costs of working capital, as excess inventory becomes a problem when the cost of capital increases.

By managing inventory more effectively and returning from the post-pandemic 'just in case' strategy to the pre-pandemic 'just in time' norm, retailers can improve working capital and reduce the cost risks associated with excess inventory.

Winning in New Zealand in 2024 requires retailers to innovate to protect their turf, prioritise key initiatives that will return tangible benefits, and build a dynamic workforce across omnichannel.

As diverse as these changes are in a challenging economic environment, they are all essential for retailers, as the consequences of keeping to the status quo in a changing market are significant.

Losing market share to competitors is a short-term pain but losing relevance among customers would be the death knell for any retailer. ■



NRF 2024: Key takeaways you need to know

While the NRF conference demonstrates how quickly retail is evolving, it's the in-store experience in New York City's retail meccas that makes it real.

James Stewart, National Leader, Consumer and Retail, KPMG Australia

In late 2022, the world embraced OpenAI's ChatGPT at a take-up rate not seen since the launch of the iPhone in 2007. Some analysts suggested that within two months of launch, it had achieved over 100 million users. Fast forward 15 months, and generative AI solutions have almost become ubiquitous in our daily lives, as we have found new ways of leveraging the technology for efficiency, functionality and engagement.

This year, the National Retail Federation's annual conference, Retail's Big Show, in New York City, was all about AI, data and tech for retail and consumer brands. Indeed, so many sessions had an AI, data or tech theme to them, that it would be easy to think you were at a technology conference not a retail conference.

That said, and to keep it real, I spent two days before the conference doing what all good retailers should do – visiting stores. Williamsburg in Brooklyn, Hudson Yards, and the mega mall just across the river in New Jersey, The American Dream. And wow! I was blown away by some of the retail concepts, the use of tech to drive engagement, and the investment in sustainability, purpose and ethical values that retailers have made as part of their product and value proposition since 2019.

So here are my top takeaways from my retail store tours and NRF's Big Show:

- **Sustainable messaging front and centre:** Successful retailers have amped up their messaging on sustainability, ethical sourcing and community values. Stores and products shout it out loud and clear.
- **Personalised product offerings as the norm:** Personalisation and customisation of fashion apparel have become normalised. Brands and consumers see bespoke individual product offerings as worth the cost.
- **It's all about me (and my dog):** Health, wellness, beauty, and pets are the new rockstar categories.
- **Technology is the new driver of in-store customer experience:** Whether via streamlined self-checkout functionality, Amazon's palm pay (yes you really do pay with a wave of your hand), or the use of augmented reality, holograms or avatars to enhance product display and personal try-on functionality, in-store tech has become a ticket to play in customer experience.
- **AI as the enabler:** AI is seen as the backbone of customer experience, organisational efficiency and competitive advantage. There are literally hundreds, if not thousands, of use cases for it in retail. Be warned, however, the challenge of AI is twofold: One, identifying the AI use cases that will move the dial on performance; and two, starting with clean data. Without an effective data cleansing strategy, AI will not deliver on its promise. This is where the heavy lifting often happens.
- **Technology, beyond DIY:** Best-practice retailers are partnering with tech houses and transformation specialists to change their businesses at scale rapidly, rather than adopting a DIY approach, where day-to-day operations can slow down progress. Technology is advancing faster than ever, and to meet or exceed customer expectations, retailers are chasing efficiency to deliver a customer experience that keeps them ahead of the game.
- **Shifting retail models:** Retail models continue to change. In short, there are only three places to play: value (be the cheapest), luxury (it's all about me), or experiential with a bespoke proprietary product proposition (high engagement and highly valued by the customer).
- **In-store and online channels no longer exist:** It's all about unified, seamless commerce across all available channels. Reducing friction for the customer at every engagement point is where best-practice retailers are laser-focused.
- **Destination malls have become entertainment centres:** American Dream is a mega shopping hub spread over about 300,000sqm, with over 100 retail stores, but more importantly, an entertainment precinct that needs not one, but at least two postcodes An indoor ski field, an indoor wave beach, a Nickelodeon theme park, an aquarium, and a huge Lego play area are just some of the attractions that draw visitors to the mall to stay for an average of up to six hours a visit. This is a must-see, next time you are in NYC.

So, what does this all mean for Australian retailers?

There is no doubt we have some of the world's best retailers in arguably one of the world's most competitive markets. Retail's Big Show simply demonstrates how the bar continues to shift for retail models and how the investment in technology has become core to agile and efficient retail models. AI (including generative AI) has simply become the next important enabler of retail transformation and customer engagement. ■


Retail
Profiles

Ikea Australia champions affordability and the shopping experience

CEO and chief sustainability officer Mirja Viinanen shares the retailer's innovation and growth agenda for the year ahead.

By Heather McIlvaine

***Australian Retail Outlook:* Affordability was a big focus for Ikea Australia in 2023, with the announcement of price reductions on 700 products. What impact has that had on the business?**
Mirja Viinanen: As you know, 2023 proved to be a challenging year for retailers globally. We responded by ensuring affordability was at the forefront for the customer. While the cost of goods increased in the past year, where possible, we did not pass these costs on to customers. Instead, we kept our prices as low as we could and reduced the prices of many of our iconic products.

Despite challenging conditions, our sales grew almost 5 per cent from FY22, and we saw double-digit growth across many of our iconic products, such as Malm beds and chests of drawers, Kallax storage, Kivik sofas and Trofast children's storage.

As we move forward, we will maintain our focus on affordability by increasing our investment into lowering prices even further, and across more products.

> “Customers will be able to place an order online conveniently for products across the full Ikea range.”

ARO: What are your expectations for consumer sentiment and spending in the year ahead?
MV: It's likely that the first half of 2024 discretionary spending will remain tight for many Australians. We estimate the second half of the year will show an increase in consumer spending as we hopefully begin to see relief for mortgage holders after multiple interest rate increases. However, international shipping disruptions in the Red Sea and global conflict's potential impact on oil prices will continue to put pressure on product availability and costs. We take the responsibility as a retailer to maintain our product offer through these times and not pass on these costs to our customers where possible.

In the property market, things are slowing for now, but the record shortage of rental properties will continue to drive prices up for tenants, particularly in our capital cities. Housing affordability is at its lowest in decades and will continue to make the wallets of Australians thinner.

Customers may be considering items that are not necessarily new but new to them, by purchasing second-hand items. Research and consulting firm Fifth Dimension states that the second-hand market in Australia is now worth $60 billion and growing 25 per cent a year. Our buy-back service, where we buy back and resell preloved Ikea items, along with the as-is market and free spare parts offer, are just some of the ways we're enabling customers to be part of the shift to a circular economy while also saving money.

While 2024 is expected to be another challenging year, we will continue to focus on growth and our vision to create a better life at home by increasing the affordability and accessibility of Ikea, made possible by our 4000 dedicated co-workers.

ARO: What opportunities do you see to continue experimenting with physical retail in the year ahead?
MV: In recent years, we have invested heavily in our journey as an innovative omnichannel retailer, opening Plan and Order Point locations in Greater Melbourne and Sydney, enabling us to be exactly where our customers need us to be, which is a key part of our growth strategy for Ikea in Australia.

In 2024, another Plan and Order Point will open in Cannington, south of Perth, for customers to get one-to-one, expert planning advice.

This Plan and Order Point will also have a Pick Up Point for customers onsite. This means customers will be able to place an order online conveniently for products across the full Ikea range, with the option to pick them up from Cannington.

We remain dedicated to enhancing both the in-store experience and accessibility for customers; for example, our Shop and Go feature on the Ikea app enables a faster and more convenient checkout experience in-store, and the installation of self-serve bistro kiosks in all stores reduces wait times for customers and also improves operational efficiency.

ARO: What role do you see innovation playing in Australian retail in the coming years, and what areas of innovation are you focused on now?
MV: At Ikea Australia, we have an ambitious growth agenda, with innovation playing a key role in delivering this ambition and our vision as a company 'to create a better everyday life for the many people'.

The rising expectations of customers are propelling our omnichannel strategy at lightning speed. For us, growth in online sales driven by the Covid-19 pandemic has led us to transform service formats and customer meeting points, reimagine stores as fulfilment centres, and evolve our customer service centre for customers to shop with us remotely. These actions ensure our co-workers can remain focused on 'value-add' engagements for customers.

We are focused on creating further personalisation at scale, leveraging artificial intelligence, self-serve tools and automation where it makes sense, such as with Billie the Chatbot. We want to ensure our co-workers are available to provide more complex support and advice, which will enable us to meet our goals in a sustainable and cost-efficient way.

For fulfilment, we are prioritising automation and artificial intelligence, building 'demand sensing' into our forecasting tools, and leveraging machine-based learning to forecast needs and improve stock integrity. We also maximise the availability of inventory across a total market and over multiple states, enabling us to hold less inventory but provide much better availability to a customer and maximise their potential to purchase.

In the future, we will be looking to introduce and integrate 'pick to person' solutions with full automation for parcel delivery. For home deliveries, we are exploring technology for optimising route planning with our transport partners, so we can maximise productivity gains and cost structures.

In terms of sustainability, we have big goals to fulfil by 2030, which will demand that we innovate to achieve them, through optimising resources, enhancing energy efficiency, and enabling sustainable solutions.

Despite the challenges to the decarbonisation of the transport sector in Australia, we remain committed to our ambition to achieve 100 per cent of customer deliveries by zero-emissions vehicles by 2025. In the past 12 months, we've achieved exponential growth on this ambition, with 32 per cent of truck deliveries now via a zero-emissions vehicle.

ARO: What are some of the retail fundamentals that you think are worth remembering?
MV: The customer experience is the absolute priority and remains at the forefront of our transformation.

Each week, we receive more than 10,000 customer reviews through different channels, which informs the actions we take as a business. Ease of shopping is essential for customers and something we are always dedicated to improving, whether through our Ikea app and the online customer experience, improvements in payments or reducing waiting times for customers.

As we continue to develop digital tools to enable a better shopping experience, we recognise that co-worker interaction remains a top driver for customer feedback and is a fundamental we keep in focus.

Finally, being the world's largest home furnishing retailer, we are proud to be a pioneer in environmental and social responsibility. However, we never lose sight of the fact our product range is at the heart of our business – and the offer of affordable, high-quality home furnishings is who we are and what we do. It's what our customers love most about us, what we have been relentlessly dedicated to for over 80 years, and what will ensure Ikea stays in the hearts and minds of 'the many people' and their ever-evolving needs and desires in the future. ■

Jeans for the greater good: Outland Denim

Targeting shoppers at the higher end of the market and emphasising its purpose are two ways the ethical fashion brand aims to navigate pricing pressure in 2024.

By Joshua Gliddon

Premium jeans label Outland Denim was launched in 2016, but planning for the venture stretched for six years before that, founder and CEO James Bartle said.

"We worked on the social impact model and proving what it could do," Bartle said. "The idea and the concept behind it is that we believe you can use consumerism for good."

At the heart of the consumerism for good strategy is a policy of empowering the people – mostly women in Cambodia – and paying them living wages. Outland brings people out of modern slavery and sex trafficking situations and gives them the opportunity to learn how to be seamstresses over several years.

Bartle said consumerism is viewed as a dirty word, at least in some quarters, and there is much talk of slow fashion and buying less. There's some environmental benefit to this, but he believes it's not looking at the whole picture.

"Our perspective is to use business so that every time you create a product, you're benefiting both humanity and the planet.

"How do we genuinely create a circular economy so that every time someone buys one of our products, they know that the impact of buying that product was to make someone's life better?" he continued.

Core market

Outland Denim's target market is women aged 25-45. They care about social justice issues, they're educated, and they understand the realities of their purchasing choices.

"So, she's coming to us and looking for solutions, to be able to buy products that align with her values," Bartle noted. "And that's where our brand steps in."

Melbourne is the biggest market for Outland Denim's products, followed by Sydney and then Queensland.

Outland Denim focuses on getting the message out about how its products are made through word of mouth. Bartle said one of the most powerful brand promotions is when people go out and talk about the product and how it's made.

On the inside of the jeans is a message from the seamstress who made it, and the swing tags have a QR code so customers can send a message to the seamstress who constructed their jeans and let them know they appreciate their work.

Bartle said: "It's about that educational piece where the customer is able to communicate and understand the realities of what their purchase meant for someone else."

Looking into 2024

As the economy gets tighter, consumers will look more towards brands with purpose, he said, and noted that even fast fashion brands like Shein are starting to attach themselves to sustainability.

"If we have brands like that seeing the need to attach themselves to something that has purpose, then I think it's really clear for brands like Outland that purpose has to be even more at the forefront."

Retail is down across the board, and Bartle said this is something he hopes will change in 2024, but he's also realistic about interest rates and the cost of living having a long-lasting impact.

"So, we know that communicating the impact of a purchase and people being a lot more considered about their purchases are important."

One of Outland Denim's strategies to take on the tight retail and spending environment is to address what Bartle said is a part of the market where "there's less up and down". And that means pushing towards higher price points, which is where the brand sees its opportunity to grow and insulate itself from the broader economic situation.

To do this, the company is looking at its construction and materials, as well as the trend pieces it is bringing to market.

"We're bringing those things together to address the needs of that woman who's looking to make good purchasing decisions and having the right product at the right price in the right demographic of people – and doing it all at the right time," he observed.

What Outland Denim won't be doing is competing on price, because Bartle says doing so becomes a race to the bottom, and it's something he views as poor strategy.

Markdown strategies are damaging in the long term, and would interfere with the social justice mission Outland Denim is trying to achieve.

Ultimately, Bartle said, navigating the economic challenges of 2024 is a matter of targeting consumers who are better insulated and have higher disposable incomes.

It also means re-evaluating the path to market, and how Outland Denim, word of mouth aside, promotes its products. Ads with Facebook and Instagram owner Meta just don't work as well as they once did, he said. Email and SMS marketing, on the other hand, still works well as a promotional medium – with the right approach.

"If we're going to ping inside someone's pocket, then we need to be adding real value. We can't just be spamming people trying to get a sale out of them."

"If we're going to ping inside someone's pocket, then we need to be adding real value."

Outland Denim has a retail presence, and also uses wholesale as a route to market. "We've got our direct-to-consumer and our wholesale business and personally I am very passionate about our wholesale business," he said.

Wholesale, with retailers like David Jones, is the backbone of any brand, as it lets potential customers touch and feel the product and experience it before purchase. "I don't think this will change, particularly for a brand that's selling denim pieces."

By targeting the high end, Outland Denim hopes to be able to capture a market that's socially progressive, and cares about how and where a product is made. It also wants to insulate itself from the realities of the current economic situation, where consumer spending is tight. By having a purpose, Outland Denim is looking to differentiate itself in a crowded market, one where consumers are increasingly sitting on their hands, rather than putting them into their pockets. ■

How Lush is finding the scent of success in tough times

GM of retail Brittany Gian explains how investing in staff training and customer experience helped Lush ANZ navigate 2023, and what's in store for the year ahead.

By Heather McIlvaine

***Australian Retail Outlook:* What were the biggest highlights of 2023 for Lush ANZ?**
Britanny Gian: It was a huge year for Lush ANZ. To pick just one highlight is a task in itself but a true standout moment for us was our first foray into collaborations with other brands. Having never partnered with another brand before November 2022, Lush launched four massive collaborations in 2023 with the likes of One Piece, *Super Mario Bros Movie*, *SpongeBob SquarePants*, and the iconic *Barbie*. From a retail perspective, these collaborations were incredibly successful at helping us captivate new customers and reminding our existing ones about the innovation behind every one of our products. For example, our *Super Mario Bros Movie* collaboration alone contributed to more than 5 per cent of our brand's growth globally – a huge testament to the success of this partnership and a definite incentive to continue partnering with well-aligned brands.

We were also very pleased this year to return to our campaigning roots with social justice organisation Get Up, in support of First Nations justice and the Voice to Parliament referendum. Although the outcome of the referendum was not as we hoped, as a business that has been campaigning for social justice for nearly three decades, we were proud to use our storefronts to amplify First Nations perspectives throughout this important moment in Australian history.

ARO: Many retailers have described 2023 as 'patchy', with several external factors, such as rising internet rates and global conflicts, dampening consumer sentiment. What was your experience in terms of consumer spending, and what strategies did you deploy to navigate the challenging economic environment?
BG: It certainly was a challenging year for our industry, with so many external factors influencing customers' behaviour. My mantra was 'focus on what you can control'. This meant our strategy centred around customer experience and staff training. We can't control what's happening in the outside world but we want our shops to feel like an oasis of kindness – somewhere where you can come in and receive an experience that exceeds all your expectations, from staff with expert knowledge. Focusing on the customer experience will make the sales results come, and we've seen healthy growth in our customer conversion rate as a result, over 40 per cent, year on year.

To achieve this, we have consciously transitioned back to face-to-face training. And we have further plans to expand on this, with an Australia and New Zealand-wide staff training tour set for the coming months. One of the most powerful things someone once said to me was 'People don't want to sell something, they want to belong to something,' and we find staff training – whether it be on our transparent and ethical supply chains, activism efforts, or effective ingredients – is one of the most powerful community-building tools we have. An engaged and passionate team is one that wants to get it right for the customer, and that is the most impactful thing we can focus on in the current market.

> "Focusing on the customer experience will make the sales results come."

ARO: Loyalty is always a hot topic in retail, but especially when consumer sentiment is down. What is Lush's approach to loyalty, and how are you planning to further invest in it in 2024?
BG: At Lush, our approach to customer loyalty revolves around immersive storytelling and exceptional customer service that transcends traditional customer loyalty programs. As an environmentally conscious brand, we insist on buying only the best and freshest ingredients for our products, and paying our suppliers fairly for this. Likewise, we price our products fairly to reflect their true cost all year round, rather than hiking prices to cover the cost of loyalty programs or regular sales.

Sampling is also key to our loyalty strategy. Cosmetics are deeply personal and the effects of a single product can change significantly from person to person. It's important to us that our customers never take home a product that will go to waste if it turns out not to be right for them, so we offer extensive consultation and sampling opportunities to ensure customers' investments in our products will always meet their needs and encourage them to return for future top-ups. In 2024, we will continue our heavy investment in staff training, to ensure that our teams are more than qualified to connect our customers with products they'll love.

Another approach that our community will see more of from us in 2024 will be more direct channels to share feedback, product requests and connect with others within the Lushie community. In particular, we'll be focusing heavily on Discord as a community channel where our most loyal Lushies can come together to hear the latest news from the business, see a sneak peak of new launches, and even give their input on product development. For example, in November 2023, we released seven limited fragrances, the scents for which were suggested and voted for by devoted Lushies on our Reddit and Discord channels. This was an extremely successful initiative, with five out of six of the fragrances selling out entirely in less than a fortnight.

ARO: What are the business' other priorities for 2024?
BG: We've just seen our new Parramatta store open in December and we're excited at the prospect of spreading the Lush message further with more new locations on the horizon for 2024. With our decision to come away from social media, our retail stores are so important to us in being able to share our ethos and fresh cosmetics with a wider audience. With this in mind, we'll be rolling out a new concept shop focused on our brand values and ethics at new and existing locations over the course of the year, too.

Alongside our property projects, we also have more collaborations in the pipeline. Of course, we can't share who with just yet, but we're confident these are going to capture a new audience and delight our customers with the same success we saw in the year just gone. In addition to the product innovation the collaborations bring, we'll be focusing on our fragrance range this year. Fragrance has always been core to the Lush range, we are known for our smell after all, and over recent months, we've seen the online virality of our fragrances such as Super Milk and Sticky Dates help drive growth in the range of 45 per cent, year on year.

Finally, you can expect to see more campaigning from us as we continue our mission to leave the world Lusher than we found it – for our planet, animals and communities.

ARO: What are the biggest challenges on your radar in 2024?
BG: Unfortunately, I think we're going to continue to contend with an uncertain economic climate and we expect to see consumer confidence fluctuate across the year ahead. We're confident that by staying true to our brand message and centring our in-store experience we can continue to see growth for our brand despite the potentially shaky outlook.

ARO: Are there any 'quick wins' you're hoping to leverage in 2024?
BG: We have seen our seasonal launches get bigger year on year, with sales of our gift range in particular experiencing double-digit growth. We are looking ahead to a year of celebration, kicking off with Lunar New Year and Valentine's Day, with our customers celebrating their loved ones with pampering gifts and getting treats for themselves. The inclusion of new ranges for more cultural holidays, including Diwali and Eid, has been a welcome addition to our product range. We want to provide an environment and experience where everyone can be celebrated. ■

Finding beauty in simplicity: Milligram

The stationery specialist is banking on its omnichannel retail model and broad range of functional and beautiful products to drive growth in the year ahead.

By Joshua Gliddon

There's a term the Japanese use to describe finding beauty in everyday objects – 'wabi-sabi'. The meaning runs a little deeper than that, but wabi-sabi is essentially what Milligram, a retailer of stationery and other personal goods, is all about.

The business was started in 2007 by Scott Druce and Matt Harris. Back then, it was called NoteMaker, and it was run from Druce's kitchen table. Fast forward to 2023, and the company was renamed Milligram to better reflect what it does, and it now combines e-commerce with physical retail stores.

At the time of writing, Milligram had six locations in Melbourne, a seventh in George Street, Sydney, and was on the cusp of opening an eighth in the cosmopolitan inner west Sydney suburb of Newtown.

"Before we did physical retail, we sold – and continue to sell – into about 1400 retailers across Australia and New Zealand," Druce said.

The bricks-and-mortar piece

The third-party retailers Milligram sells into include Officeworks, David Jones and Myer, and it was this experience that gave the management team the appetite to move beyond e-commerce into physical retail. "We gained a lot of experience in that as part of the business, and we really wanted to come into the physical space," Druce said.

"It was an evolution for the growing business and us becoming more confident about retail." E-commerce, he added, only takes you so far, and physical retail is a great way to connect with customers and be part of their journey.

Milligram is looking to add another four stores to its retail network, but with this comes another challenge: how to curate the stock mix in the stores, given e-commerce allows an almost infinite number of products, but in a shop, shelf space is limited.

The retail presence, Druce said, is not cookie-cutter. Milligram uses a designer to tailor each store to its location and demographic. And the demographic is an important consideration when it comes to stock.

Each store has a core range and from there, it depends on the people who come through the door. The Bourke Street, Melbourne, location, for example, attracts lots of tourists and students, so the travel category is twice as large as other stores in the network.

But being an e-commerce retailer also means if a customer comes in and what they want is not in stock, it's just a matter of ordering it from the warehouse and having it shipped, either to the customer's home or back to the store for click-and-collect.

"You only have so much room in-store," Druce said, and with the e-commerce component Milligram can meet its customers' needs, regardless of whether an item is physically in stock or not.

Cost-of-living crisis not a factor in growth

Druce said the cost-of-living crisis hasn't had a great impact on the business, and this comes down to the demographic the company serves. A large proportion of its customer base is either Millennial or Gen Z, and those generations aren't experiencing the same interest rate-led challenges as older demographics. The reason, Druce said, is home ownership levels are lower among this group.

Another factor, post-Covid, is Milligram's CBD locations, which have been experiencing growth in foot traffic since the health crisis eased, Druce said. "If you look at suburban shopping centres, they've experienced at least a 10 per cent decline in traffic, but CBD locations have grown."

> "Milligram is looking to add another four stores to its retail network."

Immigration and international student numbers have also bounced back, helping the bottom line, as the people who fall into those categories are looking for high-quality products and a retail environment suiting their mindset and interests.

It's the desire for high quality and a passion for sustainability driving market trends in Milligram's space, Druce said.

"We frequently survey our customers and sustainability is one of their top two or three priorities."

Also driving trends in its market is the omnichannel experience, he said. Customers want to start their journey in one place, be it online or in-store, and then complete it elsewhere. "We have to make sure the online experience is closely aligned to the in-store experience, so it makes sense for the customer and it's easy for them to make a transaction."

Challenges and opportunities

The first market challenge Druce sees is that retail is generally flat, and there's not a lot of growth for some retailers in the market. "We're doing well, and that comes down to our demographic, products and location, but it's certainly a bit bleak out there."

A second challenge is the shift by some retailers to become vertically integrated, something Milligram will avoid so it's able to offer the broadest product range to its customers.

"This is a real opportunity for us because we're a multi-brand business, but vertical integration definitely challenges the retail landscape."

To navigate these challenges, Druce said Milligram will look at providing its customers with more value but will avoid discounting. It could come through bundling, a gift with purchase or free shipping, he said.

"We're also constantly reviewing the range. We're a product-led business and while some businesses are marketing-led, or guided by aesthetics, we're always about the technical and functional aspects of our products," he said.

In the end, Milligram is about wabi-sabi. It's about selling beautiful, functional goods to a discerning demographic, one that's concerned about function, sustainability and style.

"The customer mindset is constantly evolving, and so we have to be really connected with what they want." ■

Incu focuses on the digital experience

After overinvesting in technology during Covid-19, the multi-brand retailer is seeking to refine its e-commerce offering by taking a more personalised approach.

By Joshua Gliddon

"As long as the product speaks to the customer, and there's a story behind it," said Douglas Low, CEO of clothing and accessories retailer Incu.

He makes the comparison of a high-end bakery, selling expensive bread, and then an inexpensive shop selling Vietnamese pork rolls. Incu's customers would go to both because the stories behind those shops resonate with the buyer. It's the same with Incu, he said. People want products that appeal to them, and speak to them as individuals, and it's those products the retailer will stock.

Incu has been in business for just over two decades and operates seven branded stores on Australia's East Coast, which stock a range of domestic and international designer labels, such as Anna Quan, Christopher Esber, Esse Studios, Dries Van Noten, Acne Studios, and Simone Rocha.

It also operates stand-alone stores for several overseas partners, including Rag & Bone, Ganni and APC. "So we are like their local partner, and we will also stock their brands within our own stores," Low explained.

Understanding the demographic

Unlike retailers that look at their customers in terms of their age group or socioeconomic status, Incu takes a broader approach. "Our customers are interested in design, they probably have similarities in the way they shop and the food they eat, and what they're keen on in terms of art and the music they listen to," Low said.

"They're not after something different for difference sake, but they value authenticity," he added.

Returning to the example of the high-end bread shop and the pork roll store, Incu's customers might buy an expensive product, or they may purchase something more affordable, but so long as there's a story behind it, and it speaks to them, then they're into it.

Opportunities in 2024

Low said Incu's biggest opportunity in the coming year is in digital, a space it has operated in for around the last 10 years, but one where he feels the retailer still has room to improve.

"I feel like because we naturally understand bricks-and-mortar it's been easier, but we still haven't been able to translate the experience we offer into digital, and so we've been assessing how to do that in a better way."

He said Incu probably over-invested in its tech stack coming out of Covid-19, something they did because "we had no idea what we were doing".

"You get bombarded with people offering you the world, but what we're now looking at is simple things we can do internally."

One of the areas where the company has struggled to translate its physical experience into digital is the buying journey. When customers come into a store, they're greeted by a staff member who will chat about what the customer is looking for, what they like, their lifestyle and the occasion for the purchase.

"And then they'll pick out something for you."

With digital, the human touch isn't there. The recommendation tool might be accurate sometimes, but other times it's way off the mark. In-store, he said, the staff member can show the customer around and gauge what they want. "So, we can really personalise the experience in a way that's quite challenging for digital to do."

For Low, the human touch that physical retail offers is critical to the company's success. With digital, Incu is looking at how to make the online experience more high touch, even down to adding a handwritten note to the package for the customer to read when they get their delivery.

"For Low, the human touch that physical retail offers is critical to the company's success."

Challenges in 2024

One of the headwinds Incu faces is the fact that, while it has in-house brands, it also stocks a wide variety of products from other retailers. If those retailers reduce the price on global e-commerce platforms, then customers realise they can get the product cheaper there than going into an Incu store.

"So, I think one of the challenges for us is the economic headwinds locally, but also managing and reviewing how things are going overseas to see how our brands are protecting us as retailers."

He sees Incu's competitive differentiation as that in-store experience. "When you come into one of our stores and have that connection, then it's hard to beat."

And providing a welcoming atmosphere isn't just about making an immediate sale. Customers could come in to browse, but the experience they have when it is time to purchase a new pair of jeans, shoes or a dress, means they feel valued when they come back in to buy something.

The cost of living has also meant that aspirational shoppers are tending to go elsewhere and buying products that are more affordable and, as a result, Incu has found its average transaction value has crept up. More affluent shoppers, those who are insulated from cost-of-living pressures, are still spending, and when they do, they're spending more, Low said.

Those customers are also more experimental in what they buy, reflecting changing gender and identity norms in Incu's core market, he noted.

Low has been with the business for 19 years, starting out on the shop floor and working his way through to the C-Suite. "It's been a great journey," he said. "I love the company and the opportunities it presents." ■

Stepping up its APAC presence: Hoka

The footwear brand's head of APAC distribution and e-commerce discusses launching in Australia and investing in technology.

By Stephanie Caite Chadwick

***Australian Retail Outlook:* What is the overarching vision fuelling Hoka's retail expansion into the Australian market?**
Prasanna Bhaskar: The Hoka online and wholesale businesses have shown 20 per cent growth in Australia and New Zealand over the past year. We see progression of the brand, allowing our retail teams to serve our customers and build a strong community. Following the successful launch of the Hoka concept stores in Asia, we view retail expansion as a new growth channel to serve our customers and continue building a brand presence in the performance and lifestyle category in Australia.

ARO: What has the response been like to Hoka running shoes since launching in Australia?
PB: Australia is a very important market for Hoka – where the outdoors is hugely accessible and staying active is a large part of the lifestyle. As a newcomer to the performance footwear space, we offer a unique point of difference in the way we provide cushioning, overall comfort, and unique design. Whether you're running an ultra-marathon or a fast 5km, or taking a walk around the block, the feeling you experience when you lace up a pair is uniquely Hoka. Australians have embraced the unique level of comfort as we've refined and improved our initial offering with pinnacle running franchises like Mach X and hiking styles like Anacapa and Kaha.

ARO: Community-building initiatives have long been part of Hoka's marketing strategy. Can you share the thinking behind this, and a few recent community-building initiatives that have been successful?
PB: At Hoka, our reason for being is our community. Our purpose is to share the power of movement with as many people as possible. We have been building grassroots initiatives with our retail partners, who have been successful in bringing runners and fans of Hoka in the community together. We believe Hoka lives in the spirit of our community.

This year, we launched our first large-scale community event in Australia – the Hoka Fly Run Sydney – an inclusive run event with inspiring masterclasses and exciting product trials. The event uncovered a significant appetite for Hoka community events in the market. Within the first 24 hours of going live, the event was booked out with hundreds of runners from ultra-marathoners to first-timers. We have plans to further build momentum by offering masterclasses with our brand ambassadors and reaching a wider audience by partnering with run clubs that share the same brand purpose.

ARO: Hoka was one of the early adopters of SafeSize technology, which provides personalised shoe recommendations based on 3D scans of an individual customer's feet. How does the brand view the role of technology in the customer experience? And how does it plan to continue investing in technology in 2024?
PB: We are committed to delivering a premium and personalised experience to our customers. Our global partnership with SafeSize enables our team of run advisers in Hoka stores and events to conduct a lightning-fast 3D foot scan that takes less than two seconds and creates a unique and precise foot profile for each individual customer. Based on this technology that delivers an individualised foot profile, we can recommend the best-fitting shoe from Hoka tailored specifically to a customer's needs and preferences. The use of SafeSize's 3D foot scanning technology is aligned with our brand purpose to offer a more personalised, efficient and accurate service. We will continue to invest in technology that helps us deliver the highest level of comfort and performance based on our consumers' individual needs.

ARO: Looking back on 2023, what were some of the biggest challenges Hoka faced as a brand?
PB: The pandemic fuelled fitness globally, and we saw consumers turn to the outdoors and to running amid lockdowns. Supply was one of the key challenges, as demand for Hoka continued to soar after the pandemic reflecting a consumer shift to a fitness lifestyle. Our DTC [direct-to-consumer] channel is growing exponentially, and we have pivoted to digital, focusing on a seamless consumer experience. Our teams and partners have played a pivotal role in being nimble and embracing digital even more in a post-pandemic world.

> "In June 2023, we launched our largest global integrated marketing campaign."

ARO: What was the biggest highlight for Hoka in 2023 – either in the APAC region or globally?
PB: In June 2023, we launched our largest global integrated marketing campaign, 'Murmuration', under our Fly Human Fly brand platform. The campaign explores the concept of murmuration – the flocking behaviour of birds – and highlights the brand's belief in the transformational power of movement.

We reinforced the idea of community through the introduction of the Hoka Fly Run – a community event designed to celebrate the joy of movement. We brought the international series to Australia's own Bennelong Lawn, next to the iconic Sydney Harbour.

ARO: Are there any major projects or initiatives Hoka has in the works for its Australian customer base in 2024?
PB: Without giving away too much, we will continue our community-building initiatives through brand experience events and relationships with regional run clubs. Exciting projects are in the works for our Australian consumers. We'll also look at aggressive retail expansion to provide a unique Hoka experience to our consumers in our stores.

ARO: Hoka was founded by creating a shoe to make running downhill easier. What's the next problem Hoka is trying to solve with its principle of radical change?
PB: We have been innovating and diversifying in the outdoor and hiking categories consistently. Our innovation and design team are always working on the next big thing. We will just have to wait and see. ■

From e-commerce to bricks-and-mortar: Edible Blooms

How one of the last of Australia's original e-commerce businesses is tapping into omnichannel retail, and why it's the right time for businesses to look for new channels.

By Joshua Gliddon

"Your could say we're like a florist, but you get to eat our bouquets when they arrive, so it's a product that combines the best of gift-giving and floral giving in one delivery," Edible Blooms co-founder and managing director, Kelly Jamieson, said.

Edible Blooms was founded in South Australia in 2005. And after 18 years, it is one of the last of the original wave of Australian e-commerce businesses still standing, Jamieson said. And it's not standing still. In 2023 and into 2024, the company is expanding into the physical retail space through a partnership with the TerryWhite Chemmart chain, as well as establishing a presence in places like hospitals and convenience stores – all places where people are looking for an appropriate, yet premium, gift for someone important in their life.

Inside Edible Blooms' offerings

"When I look at what we do and what our purpose is as a business, it's about delivering joy and making people happy every day," Jamieson said.

Jamieson said Edible Blooms' products are about celebrating life's moments, making people feel special, and ensuring it's easy for someone to make a person who is near and dear to them feel amazing.

"So that's our role in life, to spread happiness and joy."

The company's signature product is its chocolate bouquets, made with Melbourne-based Lindor Chocolates, a family chocolatier Edible Blooms has worked with for the last decade-and-a-half. More recently, it has expanded into fresh fruit bouquets. Strawberries are ►

dipped in chocolate and presented in a gift box.

"We have a really strong gourmet gifting range, which is how we started, but we also now do gourmet gift hampers and a plant delivery service, because the way I see it, we are more than a gift.

"We're creating those special moments in life where you get to acknowledge whether it's a special birthday or a thank you."

Corporate gifting is also a core plank of Edible Blooms' offering. These gifts are personalised with individual swing tags and the ribbons used to wrap the products are corporate-branded, she said.

"So, if you're Telstra or similar, and you want to send out a thank-you to customers or clients, then you can really make our gifts look like your own branded gift when it goes out."

A passion for gourmet and gifting

Jamieson started the business in 2005 with her sister, who is still general manager. Growing up in country South Australia, they both went to boarding school and when they finished their education, they had friends scattered across the nation.

"We often needed to send flowers and gifts to our friends. We also loved gourmet gifting and flowers and so we kind of put them together and created Edible Blooms," she said. "It was quite a novel concept when we first introduced it."

One of the early challenges they faced was in educating the market about the idea there was an alternative to flowers or the traditional gift hamper but, as Jamieson noted, once people saw and understood what Edible Blooms offered, it went viral. Recipients who get one of its bouquets suddenly have a lightbulb go off in their head, and then order for the people who are important to them. "It creates a flow-on effect."

> "We've developed a brand-new range and created a mini-florist for retailers to have in-store."

A shift from being a pure-play e-commerce business

Founded as a pure e-commerce business, Edible Blooms is now shifting its strategy and has begun partnering with key retailers.

"We've developed a brand-new range and created a mini-florist for retailers to have in-store," Jamieson said. "We are already in 200 retail points around Australia and the goal is by June of 2024 to be in thousands of retailers."

She said the new strategy is all about making sure Edible Blooms' products are where its customers are. The added bonus for retailers is the products have a six-month shelf life, and so for those partners, it's a different offering to the traditional fresh flowers, which have a short shelf life and can look wilted and not at their best after a week.

The new strategy is all about listening to customers and responding to where they want to make a purchase, which is both online and in retail.

"So partnering with a pharmacy was a really strategic move for us because pharmacies are places where, if you've got somebody who's unwell, often you're filling a script for a family member [and you may want] the ability to buy something to cheer them up while you're filling the script or if you're a busy parent and you need to get teacher gifts, you can collect them from the pharmacy," she said. "Pharmacies have great locations, and they have great opening hours.

"So, we saw that as a really brilliant fit."

Jamieson said she wondered why the company didn't embark on a retail strategy 10 years ago – "I guess we've been busy and just focusing on e-commerce" – but added that it was a realisation they had a unique product that eventually drove the new approach.

Like all retailers, she worries about the economy and cost of living and said the company is watching trends carefully. "It's one of those challenges you have to work around, but you don't have control over."

The cost of living has also had an impact, and the company has seen growth numbers slow, but the business is still growing.

"I think when things do get tighter for retailers, it actually pushes us all to think outside the box and look for those new channels," she concluded. ■

Fashioning a softer greener future: Paire

Much more than just a comfy sock brand, Paire is a fashion tech start-up with sustainability at its core. Here, co-founders Nathan Yun and Rex Zhang discuss their plans.

By Stephanie Caite Chadwick

***Australian Retail Outlook:* What is the overarching mission of Paire?**
Nathan Yun: Even from the beginning of Paire, our mission still hasn't changed. Our brand was established as an act of resistance against the fast-fashion trend. Our mission is to create garments that optimise comfort and functionality without causing harm to the Earth or exploiting labourers. We leverage the latest advancements in materials science to produce high-tech essential clothing with the finest materials.

ARO: What does Paire see as the biggest barrier in the Australian retail industry to launching a sustainable start-up?
NY: The majority of consumers are not ready to spend on high-value products that have a higher price point than fast-fashion brands. Most people are still choosing cost, rather than supporting sustainable efforts, which can mean a higher price point. ►

Rex Zhang: To overcome this barrier, Paire focuses on providing functionality with a sustainable approach, made possible by our materials science background.

ARO: What was the biggest highlight for Paire in 2023?
NY: The biggest highlight of 2023 was the launch of our first bricks-and-mortar shop at QV Melbourne. It definitely changed the game for us as an e-commerce brand, especially in [terms of] customer experience and acquisition. Since the start, many customers have expressed that we should open up our own shop, because the biggest point of difference in our products is how our material feels.

ARO: Paire has created and patented five high-tech fabrics to use in its production of garments. How does the brand view the role of technology in creating a more sustainable brand?
RZ: We learned that fabric technology is essential if we want to combine functionality, comfort and sustainability all in one product. We had to create something new, and it's because of these innovations that we can proudly present our products as a combination of optimal functionality and our efforts to be sustainable. Take our RegSilk for example. Our textile engineering team and I wanted to create a fabric that was kind to sensitive skin whilst being sustainable. After an arduous development process, we created RegSilk, which is made from the remaining silkworm cocoons that are considered waste after the traditional silk procuring process.

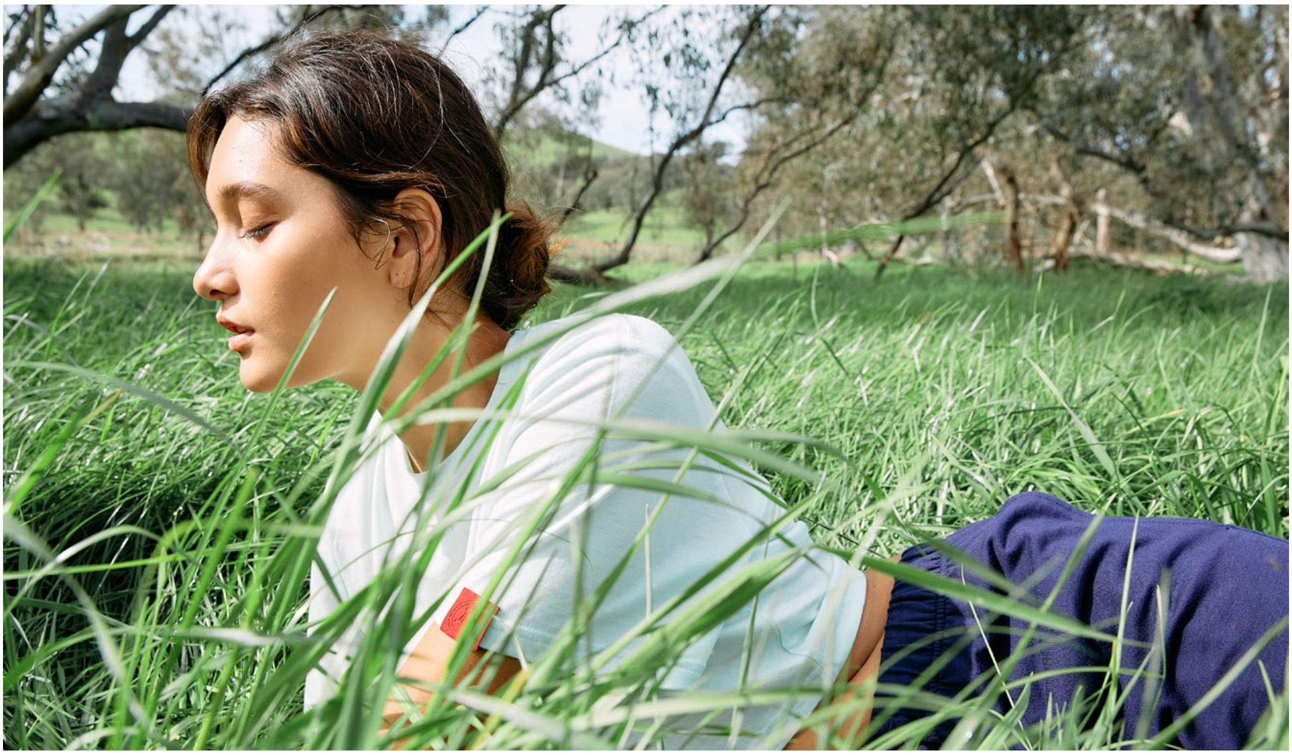
> "Fabric technology is essential if we want to combine functionality, comfort and sustainability."

ARO: Does Paire have any advice for brands and retailers that are looking to create a more sustainable business?
NY: Really focus on the functionality of your products. Greenwashing is as popular as ever and the buzzword 'sustainability' tends to be overused. To overcome this, create products that customers will buy because they're simply great products, not just because they're sustainable. Being sustainable should be the bottom line of every brand, it shouldn't be a selling point. We always have to make decisions that are right for the labourers, our customers, and the Earth.

ARO: How is Paire overcoming the challenge of educating its customer base about the quality and sustainability of its products?
RZ: In our early days as an online brand, we gave away our socks for free. By taking away the barrier of pricing, customers are able to experience the difference in the quality of our material and design. We have found that tactile interaction with our products is truly the best way for customers to learn and understand why our products are made the way they are, and the positive response to our recent pop-up store reaffirms it. As customers come in to touch and feel the products, they can appreciate the quality and our sustainability efforts.

ARO: As an e-commerce business, how does Paire view the role of bricks-and-mortar stores in helping the business scale?
NY: Bricks-and-mortar has been a crucial step for us as a business. It helped us reach a much broader and newer audience. It completes the shopping experience that we envisioned as a brand, with an emphasis on the material of our products. The offline space also gives credibility to the brand and improves business performance/scale in all aspects.

ARO: Are there any major projects or initiatives in the works in 2024?
NY: There are always new exciting products to come. Moreover, with our pop-up store's success, we are now working on a bricks-and-mortar retail strategy and finding more opportunities to get Paire into people's hands. We're also exploring wholesale channels, so there are more touchpoints for more customers to experience our products offline. ■



Forty Winks: Don't sleep on the need for community

The bedding specialist is leveraging its franchised store owners and investing in marketing and technology to attract the next generation of consumers.

By Joshua Gliddon

Mum and dad-owned stores might seem like a quaint throwback to a quieter, less inclusive era like the 1950s, but for bedding specialist Forty Winks, local stores owned by local people – plus modern values like diversity and inclusion – are an integral part of the way the 40-year-old bedding company does business.

"We're 100 per cent franchised," said Forty Winks director Cameron van den Dungen. "We have no company-owned stores, and that's the strength of our network."

Having local owners and operators means the Forty Winks franchisees are very engaged with their local communities. "They work hard for their communities and that's one of the benefits of having owner-operators in all our franchises, whether it's Forster in NSW, Albany in WA, or Launceston in Tasmania."

The market is down, but new demographics beckon

Covid-19 supercharged many markets, including work-from-home technology and, in the case of Forty Winks and its space, the household and bulky goods sector. But with the health crisis now behind us, discretionary spending on items like travel is back on consumers' radar and competing for a share of wallet space.

Then there are all the factors contributing to the ongoing cost-of-living crisis, including interest-rate rises and inflation, making the consumer dollar even harder to win. For Forty Winks, this has led to a stark reality: van den Dungen says the market is down by about 20 per cent on the same time last year.

"All these pressures are putting the pinch on wallets," he said. "But we're actually outperforming the category, and so we're going after market share.

"That's the focus for the next 12-18 months. How do you become the dominant player in the category and take market share from others?"

Those mum-and-dad store owners? They're a competitive advantage

Forty Winks' franchisees are embedded in their communities but, during the cost-of-living crisis, they've also been prudent with their money, van den Dungen said.

"They've held onto their savings, they're very strong and they're investing in their marketing," he said.

And it's the marketing investment that's important. Forty Winks has embarked on a major campaign called Unslept, which is an acknowledgment that, as a society, we're simply not getting enough sleep, and the sleep we're getting isn't of sufficient quality.

Van den Dungen's passion about people getting high-quality sleep – or, as is the case, not getting enough good sleep – is infectious. It's something he brings up at social gatherings. And while it may not constitute the last word in BBQ small talk, he's got the stats and facts to back up his claims.

In a nutshell, lack of sleep releases a hormone that promotes obesity, he said. It also speeds up the ageing process and, for every hour of sleep someone misses out on, they lose the equivalent of one IQ point the following day. "So, lack of ►

sleep puts on weight, speeds up ageing and potentially makes you dumber," he somewhat wryly observed.

Then there's the elephant in the room, with some evidence pointing to disrupted sleep in older people leading to the early onset of dementia. "It's not settled, but it looks likely."

These sleep facts aren't a secret, but van den Dungen said there's very little cut-through to get the average person to rethink what they're doing when it comes to sleep. And so, the Unslept campaign was born.

"We thought we can be scientific, we can be straight, we can be boring, and we can be clinical," he said. "But Forty Winks isn't boring, and it isn't clinical." So again, it comes back to those mum-and-dad franchisees.

Van den Dungen said if someone spent any time with Forty Winks' store owners, they'd spend half their time laughing. They're a fun group of people who are part of their communities.

"They're not too serious, other than the fact they're very serious about what they do, about trying to help people get a better night's sleep."

And so, the Unslept campaign, in taking a lighthearted approach to the sleep crisis through individual store owners, aligns with Forty Winks' cultural values while attempting to educate people about the fact sleep is something we can't neglect if we want good health and a long life.

> "We're actually outperforming the category, and so we're going after market share."

2024: a brand repositioning

Forty Winks was founded in 1984. Van den Dungen's dad was one of the founding members of the group. The core demographic back then was the Baby Boomers, and it's a market that has remained loyal to the company.

The problem is, the Baby Boomers are getting old. "We don't want to lose or leave that group, but they're moving into other areas of the market now as they go into retirement living and need more assistive technology in the bedroom."

Because of this demographic shift, Forty Winks, in van den Dungen's words, needed to find another group to grow old with. The company did in-depth studies. It engaged market experts and consultants. It spent a lot of money, and when it came out the other side of the process, it realised it needed to engage the 'bed in a box' crowd. That is, Gen Z and younger Millennials.

"It's a younger crowd, but they are really focused on health and wellbeing outcomes, and for us, that's a desired future customer."

But to reach those customers, Forty Winks had to reinvent its tech stack from top to bottom. It needed to meet the future customers where they are on their buying journey, be it in-store, a traditional e-commerce web environment, or somewhere else those young folks hang out, like Instagram.

"Our journey eventually led us to realise our model is far more interesting and relevant to them, having the ability to transact wherever they are," he said.

Instagram might seem a long way from a mum and dad-owned store in a regional area. But there's common ground. Instagram and family-owned stores are both communities, just different kinds. And as Forty Winks came to realise, when you're selling a better night's sleep, it's community that counts. ■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