Deloitte.

Deloitte Christmas Retailers' Survey
Counting on Christmas

October 2013

Contents

Counting on Christmas

Background to survey

Welcome to the second edition of the Deloitte Christmas Retailers' Survey.

During September, we asked a cross section of executives and senior management Australian retailers, about their expectations for the 2013 Christmas period and beyond. Building on the results from last year's survey, the report analyses retailers' sentiment whilst comparing changes in their attitudes and views.

Better times ahead

After a difficult trading period in the first 9 months of the calendar year, retailers appear to be optimistic for the holiday period. Many retailers are predicting higher Christmas sales, albeit with margins remaining relatively consistent with the previous year. Underpinning these expectations is a clear shift in optimism around consumer confidence and the broader Australian economy. Retailers want to capitalise on this as soon as possible, and discounting will again be a vital tool to lure consumers to start spending earlier and in larger amounts. Retailers appear to be prepared to discount earlier than ever to get shoppers into stores to make the most of any uplift in consumer confidence. Heavy discounting has taken a huge toll on many retailers' margins, so being more sophisticated with price reductions and promotional tactics will be vital to ensure higher sales also translate into in higher margins.

Digital denial continues

Despite the success of many global retailers in bolstering sales in difficult times through their online platforms, many Australian retailers continue to lag behind. A surprising 55% of respondents expect to generate less than 2% of their Christmas sales from online. Whilst this number has fallen from 65% in 2012, the snail-like speed of many Australian retailers to adapt to the digital age is a cause for concern. With a quarter of respondents expecting to generate no online sales over the Christmas period, those retailers who have invested in their multi-channel business model will benefit at the expense of the digital deniers.

Store roll-outs set to continue

In last year's survey, 73% of respondents told us that they intended to increase their number of stores in 2013. This trend looks set to continue in 2014, though the number has fallen to 55%. The biggest impediment to achieving retailers' growth aspirations in 2014 is seen as being consumer demand. Second on the list is concern around property costs so we can expect to see continued tensions between retailers and landlords in the next 12 months. With new stores still a key part of many retailers' growth strategy, managing property costs will be vital in ensuring profitable growth is achieved. Likewise over 40% of respondents cited cost efficiencies as their number one strategic priority. Given the high vulnerability of retailers to macroeconomic conditions, it's no surprise that many retailers continue to focus on what they can control – costs in their business.

Outlook for 2014

As we head towards 2014, many retailers are counting on stronger consumer confidence and an Australian economy to give them a much needed recovery. Executing a strategy to translate this optimism into profitable Christmas sales will be more critical than ever.

David White
National Leader
Retail, Wholesale and Distribution Group

Bringing the joy back

After a challenging year, Christmas could bring back some much needed joy for retailers. As we head into 2014 consumer confidence appears to be on the rise.

Highlights from the Christmas Survey

Retailers predict a rise in overall sales but flat margins

After a roller coaster period of trading in 2013, retailers are hopeful of an improved performance over the Christmas period. But any gains aren't expected to be significant. 40% of respondents are anticipating comparable sales growth for Christmas of 0–2%. However, the same percentage of respondents is also predicting that margins will remain flat.

With interest rates at record low levels, retailers are hopeful that this will translate into increased consumer confidence. But with margins expected to remain static, we look set for another highly competitive Christmas for retailers as the fight for share of wallet intensifies.

Strategy and expansion

With 55% of respondents expecting to increase their net number of stores in 2014, organic growth is set to remain a key strategy. However, cost efficiencies have increased in priority this year, with 40% of respondents nominating cost reduction / efficiencies as their number one strategic priority.

Despite the challenging environment facing retailers, online sales continue to represent only a small proportion of overall sales. 25% of respondents are expecting to generate no online sales over the Christmas period whilst 55% of respondents expect sales to represent 2% or less of their total sales over the festive period.

Overseas expansion as a means of growth remains off the table for many retailers, with only 20% of respondents considering venturing outside Australia in 2014. With the rise of the Chinese consumer gaining pace, Australian retailers could be missing out on lucrative opportunities to tap into the China and South East Asia markets.

Economic expectations

With the uncertainty amongst consumers arising from an impending general election no longer an issue, many retailers are optimistic of improved market conditions in 2014.

Retailers are anticipating interest rates to continue to be at or around their historic low of 2.5% for the foreseeable future. Similarly, 55% of respondents expect the Australian dollar to trade between 0.80c to 0.90c to the US$ over the next 12 months. Such stable economic conditions are giving rise to a noticeable increase in the optimism of retailers for 2014.

53% of respondents believe that consumer confidence will increase in the next 12 months compared to just 21% in last year's survey. It appears that retailers believe that the worst times are potentially behind them, and that the signs of recovery in the major global economies such as the US and UK will be replicated in Australia in 2014.

Retailers' expectations

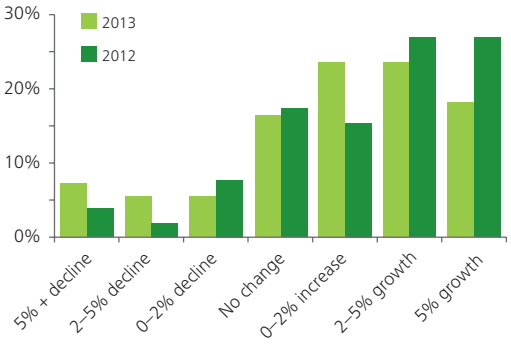
2013

At what point do you expect to begin discounting around Christmas?

An end to slash and burn discounting

As has been common-place amongst retailers over the past few years, discounting as a strategy to attract customers to spend will be a critical strategy to get right in the lead up to Christmas. 2012 saw retailers begin discounting early, and this trend looks set to continue with nearly a quarter of respondents expecting to start discounting by early December – higher than last year. Strategy around when to start discounting will again be critical to the success of many retailers this Christmas. However, retailers are becoming more sophisticated in their approach to discounting. Consumers can expect to see more discrete forms of discounting at Christmas, with selected stores or specific items being discounted to target specific consumers and attract greater footfall into stores. The days of retailers mass discounting lines of products to try and increase market share are coming to an end.

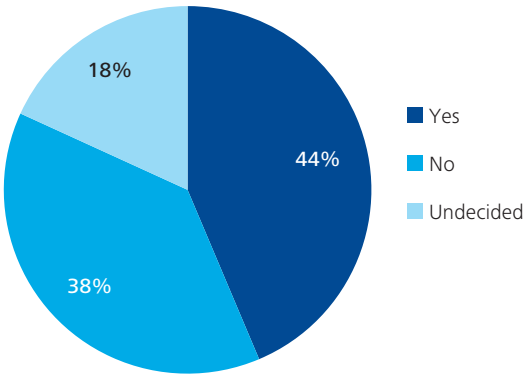
Do you expect Christmas sales to exceed the previous Christmas trading period?



Retailers are positive about the Christmas period albeit slightly less so than last year, with 65% of respondents expecting an improved Christmas trading period this year.

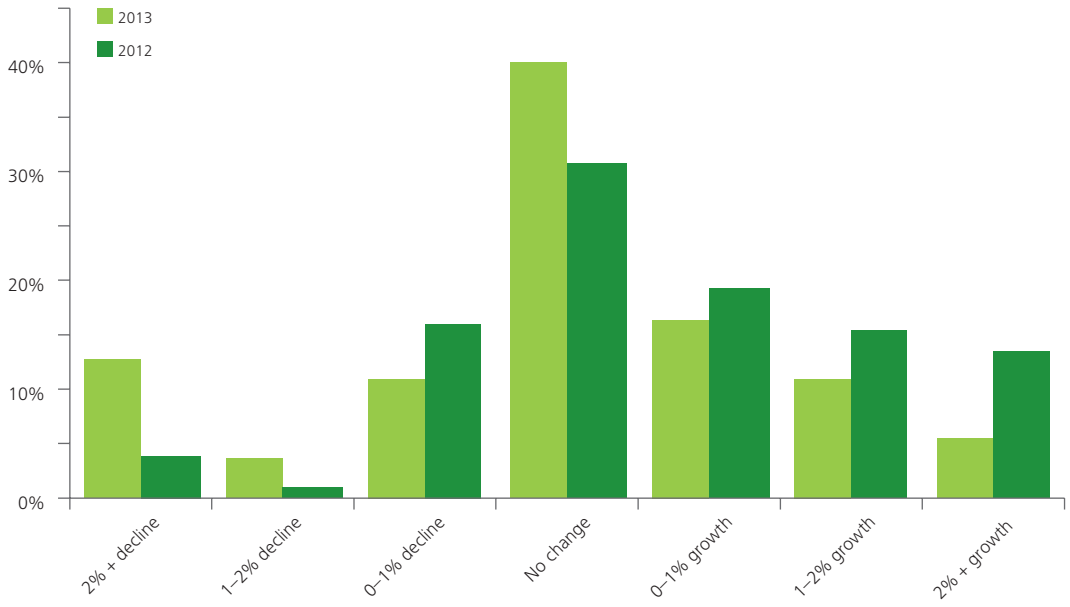
Retailers remain relatively cautious about revenue growth at Christmas, with 40% anticipating sales growth of between 0% to 2%. An underlying theme of the survey's results is that retailers are cautious around performance at Christmas due to the reliance on consumer confidence and the overall strength of the economy.

Do you believe that the fall in the $A value to date this year will result in higher retail prices this Christmas?



Retailers' opinions on whether the fall in the value of the Australian dollar will result in higher retail prices seems split. 44% of respondents believe these costs will be passed on to the consumer compared to 38% who don't.

Do you expect margins for the Christmas period to exceed the previous year?



Similar to the expectation around sales, most respondents are not expecting any significant uptick in margins, with 40% expecting margins to remain unchanged from last year.

The strong will survive. Those that have a strong brand and know their customer will continue to grow. Weak players in 2013 will see life getting harder in 2014. – *Respondent*

Australian retail macroeconomic outlook

Australian retailers continue to do it tough – operating in a market where overall gains are modest, in an environment where consumers remain very cautious with their spending, and where digital technology has lowered the barriers to entry for a whole range of new competitors.

At present the economic backdrop is delivering only modest income growth with Australia's unemployment rate drifting up over 2013. Short term prospects for job growth also looks subdued, with the slowdown in new resources investment helping to limit both jobs and wages growth in that sector and elsewhere through the economy. So far, ultra-low interest rates and a falling exchange rate haven't yet delivered too much of a spark to compensate, although there are areas of promise.

As a result, retail sales growth over the past year is underperforming longer term trends. Within the broader retail market, some initial signs of improvement have been seen for household goods sales, which tend to be more responsive to low interest rates. Food retailers have also posted solid sales growth, but discretionary spending has come under pressure, with clothing retailers seeing weakness while department stores continue to lose market share.

Looking across the nation, differences in retail sales outcomes by State are also starting to tighten up. Recent data shows that Western Australia and Queensland are still leading with the strongest retail performance over the past year (thanks to an earlier surge in resources investment), but the margin is now a slim one, with no jurisdiction doing particularly well. Low interest rates will deliver some advantage to NSW, Victoria and the ACT over the next year, given the generally higher level of mortgages in those jurisdictions.

Over Christmas this year retailers will be looking for an improvement in consumer confidence to assist sales growth. Latest readings are more encouraging on that front, with completion of the Federal election campaign reducing uncertainty in terms of government policy. But it is via lower interest rates and a lower exchange rate that longer lasting benefits may be delivered.

Indeed, with inflation still well under control, an extended period of low interest rates beckons, providing the most likely trigger for a broader retail upswing. Partly on the back of those rate cuts, share markets have lifted over the past year, and house prices are now starting to lift strongly, providing a boost to household wealth. Similarly, housing construction activity is also lifting, which tends to bring into play a lift in spending on consumer durables.

A lower exchange rate will also help, with the $A now nestled comfortably below parity with the $US. The lower $A (and the possibility of more falls to come over time) should help to generate some additional employment growth over time in a range of tradeables sectors, and help the Australian economy in its transition from being led by a surge in mining investment towards a broader range of sectors. That said, a lower $A will also place a degree of upward pressure on costs of imported items for many retailers.

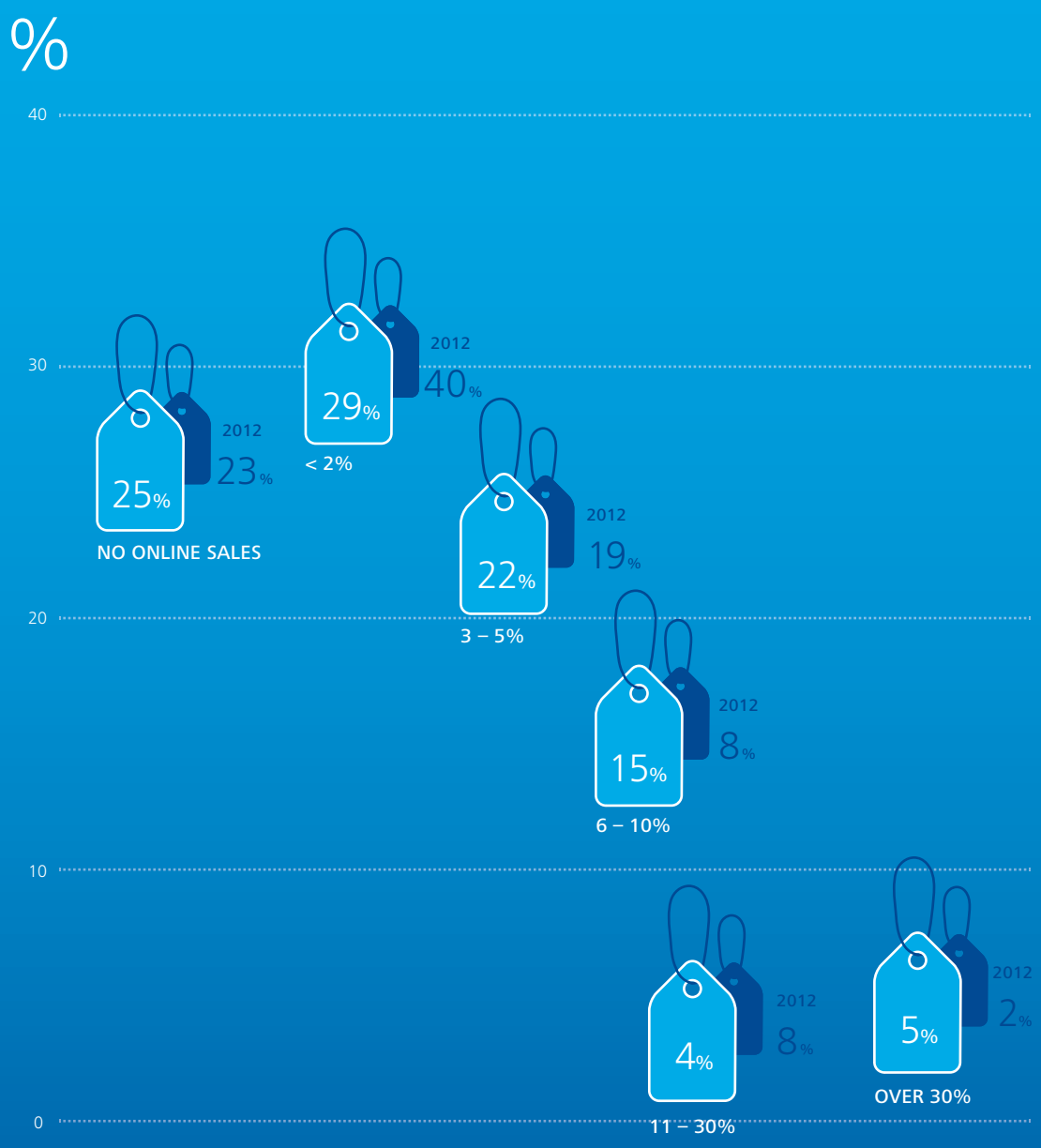
Deloitte Access Economics see these effects helping to lift retail growth over the next two years. But the underlying economic environment will continue to struggle to achieve a lot in the way of jobs and income growth. For the Australian economy, the days of easy gains are well behind us.

David Rumbens
Deloitte Access Economics

Online trends

2013

What percentage do you expect your online sales to be over the Christmas period?



An opportunity missed?

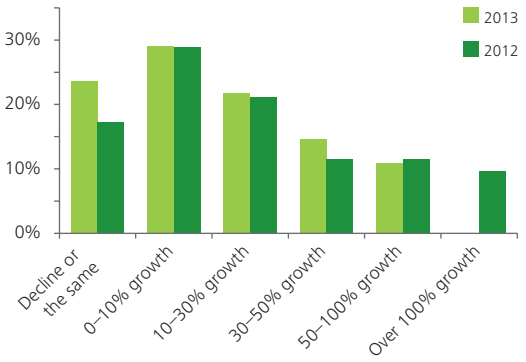
Australian retailers have historically been slower to adopt effective online strategies than those in the US and Europe. The survey highlights that many retailers continue to expect to generate very few sales from online with a noteworthy 25% of respondents expecting no sales from online at all over Christmas. Over half of respondents (54%) expect online sales over Christmas to be 2% or less of total sales. With many retailers having invested significantly in their online platforms the results are surprisingly low.

Whilst 76% of respondents predict that their online sales will increase this Christmas compared to last year, the pace of sales seems to be slower than some other overseas markets have experienced. Given that online threats either from overseas and local retailers represents respondent's source of greatest competition going forwards (38%), question marks remain as to what extent Australian retailers have sufficiently invested in their multi-channel businesses to ensure their competitiveness and future relevance to the consumer.

For those retailers that have invested in this channel, trends overseas would suggest that they are well placed to capitalise on the changing structure and shopping habits of Australian consumers.

Reduced interest rates may offer certain retailers some respite from overseas online retailers. However, Australian consumers are becoming increasingly digitised, and developing an effective online strategy to respond to this structural shift in the Australian retail landscape remains a significant challenge for many Australian retailers.

By what % do you expect online sales for the Christmas period to exceed last Christmas?



We will see more online growth from an older demographic. Profit margins will continue to drop due to online competitiveness and lack of loyalty displayed by consumers. – *Respondent*

The changing digital landscape for retailer

A key focus for any retailer, who is looking for success in 2014 and beyond is to fully embrace multi-channel retail and to understand that each touch-point offers an opportunity to entice and delight the consumer.

The digital maturity of consumers has developed exponentially in the last 2–3 years and expectations around a complete, converged customer experience have grown in line. Whilst the overall percentage of online retail sales is under 10% of all retail revenues (significantly behind US and UK counterparts), we now know that closer to 80% of all sales are influenced by digital. We also know that a multi-channel shopper is likely to spend between 15–30% more than a consumer using a single channel.

Most importantly, in this multi-channel, multi-device environment, retailers must focus on reaching customers in context – which means Mobile technology. In this medium ROI is driven by the design of the user experience: simple, engaging, intuitive navigation and content that is appropriate for the screen size and resolution.

Retailers have grown increasingly aware of mobile 'showrooming' (either trying on merchandise in store prior to buying online, or conducting price comparisons online before committing to a purchase); however few are embracing the opportunities that are presented through mobile technology.

Mobile / Social integration offers consumers the opportunity to 'share', 'vote', 'like', 'check-in' and 'comment' on their retail experience. For the retailer, there is an untapped opportunity to augment the in-store experience, whether that be presenting consumers with localized offers through GPS technology, providing contextual information through augmented reality, delivering interactive content from suppliers or improving the check-out process through mobile payments. As much as these technologies can lead to a rich, improved customer experience, they also provide an opportunity to capture invaluable customer data.

Looking forward, we expect to see further development of smartphone and tablet technology to provide 3D mapping of the consumer, allowing them to effectively 'try on' products in a virtual change room. This builds on the emergence of interactive mirrors that innovative, forward looking retailers are starting to experiment with.

As retailers look to grow sales through the digital channel, the quality and consistency of the online presence needs to be considered. It is still commonplace to see retailers with inconsistent offerings between online and offline channels, with a large proportion of Australian retailers having less than 50% of their in-store range online. Investment in the technology platform and integration with backend systems is critical to provide accurate, up to date product choice, availability and pricing information.

As retailers look to grow sales through the digital channel, the quality and consistency of the online presence needs to be considered.

Innovation in cloud, digital and social technology means that traditional barriers to entry in the retail sector have fallen. Start-up retailers can use cloud software to run and manage their 'back office' for under $100 per month, whilst effective use of social media channels, such as YouTube and Facebook bring their marketing costs close to zero. As the groundswell of new entrants increases, it is intuitive to expect that new (sustainable) business models will emerge that will put pressure on traditional retail operations.

As consumers have increasing expectations around the digital retail experience, they also understand that retailers will have access to richer data about their behaviours and preferences. How retailers use this information will be a key factor in differentiating themselves from the competition. Targeted marketing and recommendations will be become more personalised and retailers can look to take advantage of this information to enhance loyalty programs that, in the main, have been generic to date.

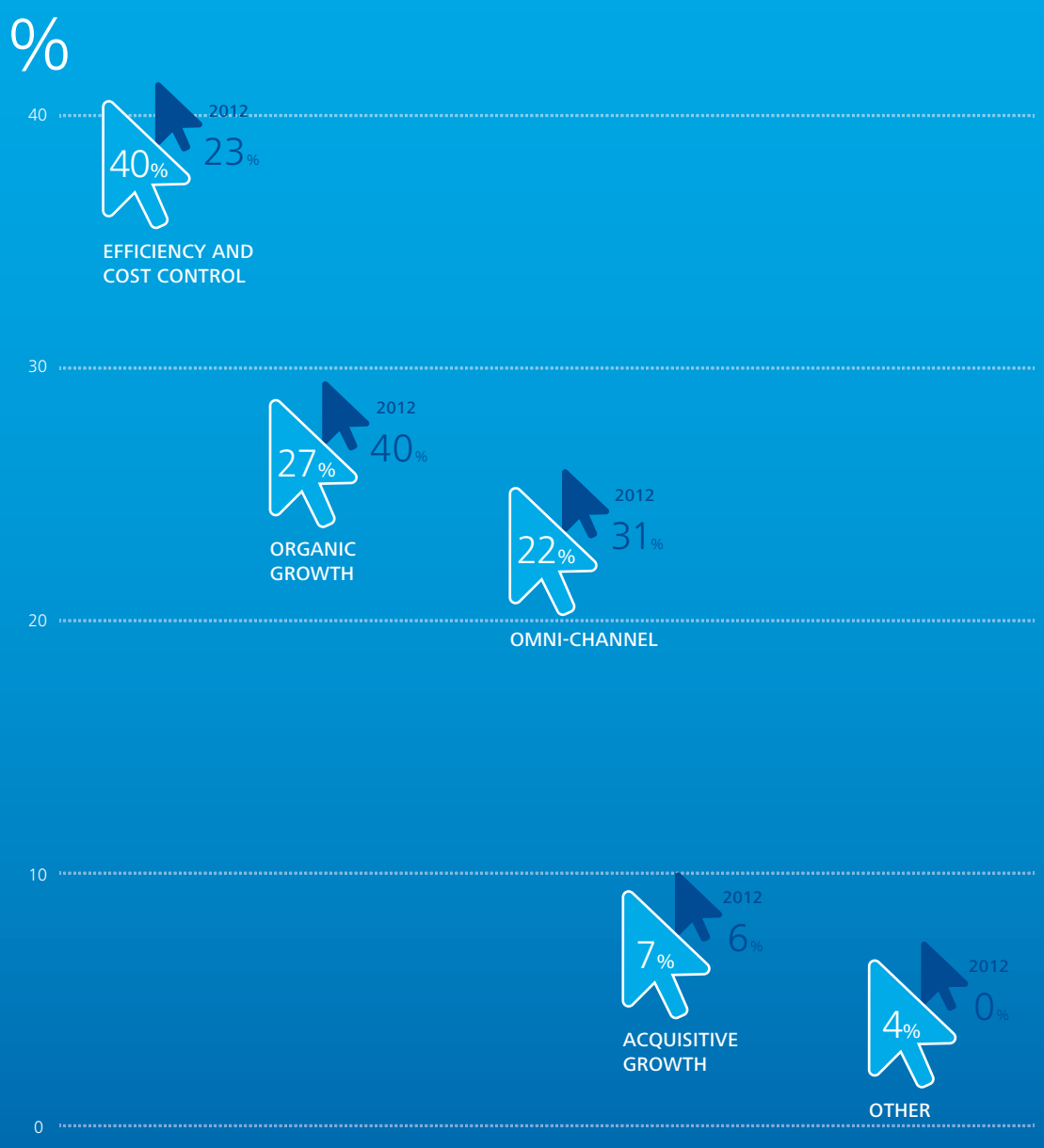
So, with the digital landscape offering retailers more opportunities than ever to entice and engage with consumers, those who embrace the technology and take a multi-channel view to augment the in-store experience, whilst providing a great user experience through the online and mobile channels, will be well placed to catch the next wave of retail growth in Australia.

Jonathan Rees
Partner, Deloitte Digital

Competitive landscape

2013

What is the number one strategic focus of your business?

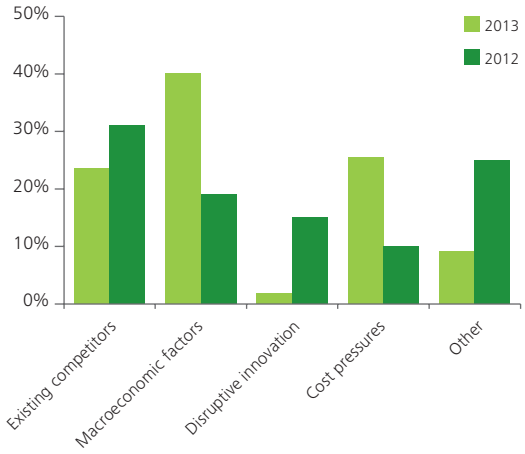


Traditional or new?

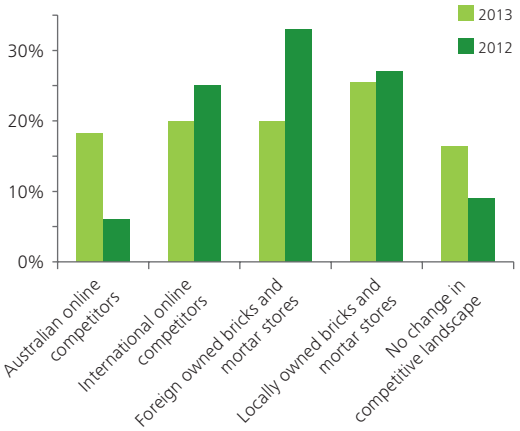
The Australian retail market continues to be fiercely competitive. In recent years we have seen an influx of global retailers into the Australian market, either through a physical store presence or online. In last year's survey, 58% respondents saw international retailers as their greatest source of competition. This has fallen to 40% in 2013, reflecting the fact that these competitors are now very much part of the Australian competitive landscape.

International online competitors continue to be noted as a source of competitive pressure. However interestingly local online competitors are now seen as an almost equal source of concern, reflecting the significant progress a number of local retailers have made with their online offerings over the past 12 months.

What do you consider to be the greatest risk in your business?



From which source do you expect to see the most increased competition?



Risks identified by respondents continue to be diverse, with the greatest of these continuing to be the traditional: existing competitors and macroeconomic factors.

However, there is a clear shift towards macro-economic factors being the largest risk factor, with 40% citing this as their key business risk. Existing competitors remain a primary focus but there is a clear consensus amongst retailers that they are in many ways hostages to the fortunes of the broader economy. Whilst there is no doubt underlying consumer confidence has a huge impact on their success or failure, the strongest retailers will continue to prosper at the expense of competitors no matter what the economic conditions.

Despite retailers operating in a rapidly changing environment, only 2% of respondents cited disruptive innovation as their greatest threat, down from 15% in 2012. This may reflect Australian retailers becoming more confident with their multi-channel offerings and position in the market. However, in such a rapidly changing environment, any complacency on the impact technology could have on their business could prove extremely costly in the medium to long term.

Identifying the warning signs

Retailers have had to respond to significant pressures over **recent years with recent retailer failures a result of traditional root causes, often incorporating a combination of**:

- Rising rent, wage and overhead cost environment
- Revenue and margin pressure from overseas competition both online and in-store
- High turnover of key senior talent
- Poor financial information and forecasting
- Poor documentation
- Poor inventory management locking up cash
- Too highly levered balance sheet
- Lack of a clearly defined strategy which is leaving some retailers uncompetitive.

But what is more worrying is that whilst Australian consumers are embracing digital technology, many Australian retailers seem stubbornly slow to respond. With a surprising 55% of respondents expecting to generate less than 2% of their Christmas sales from online and just 2% citing disruptive innovation as their greatest business risk, our survey suggests digital denial continues – whilst consumer adoption of digital technology flourishes.

Interestingly, we are not yet really seeing the impact of digital in retail business failures, but the impact of digital is creeping up on some retailers like old age. The Hypothetical Retailer table below demonstrates doing nothing is simply not a sustainable option:

Whilst a lower A$, reduced interest rates, improving property prices, and the federal election now behind us should help to drive consumers to spend more, the most successful retailers will still be asking:

- What wages, rent or overheads can be driven out?
- What operational efficiencies can be delivered from online/technology efficiencies?
- Do we really know how our customers are finding, researching, comparing and buying our products?
- What is our digital strategy?… and does the way we are responding make sense?
- Are we enabling a digital culture in our organisation?
- Should we invest more in social, mobile and data?

In these continued uncertain times, our experience in helping to turn around struggling retailers has highlighted 5 key themes for retailers to focus on:

1. Embrace the digital revolution. Denial is not an option
2. Continue to focus on costs – there is always room for greater efficiencies
3. Be transparent with financial stakeholders
4. Invest resources in talent and employee relationships
5. Perform regular internal benchmarking – and act upon the results.

Tim Norman
Deloitte Restructuring Services

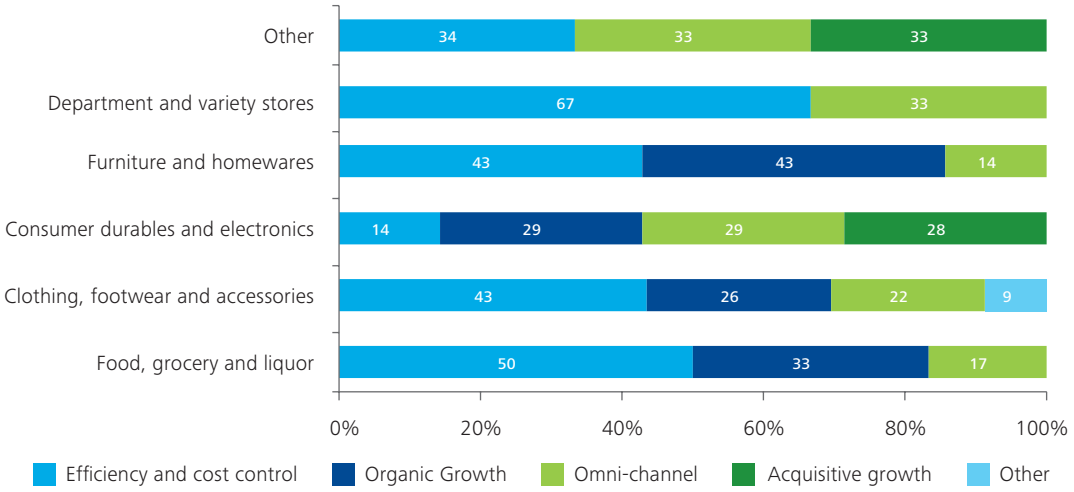
$m	Then	Now	
Sales	100	95	5% drop in like-for-like sales
COGS	50	48	
Gross Margin	50	47	
Less:	50%	49%	1% tighter margin from competition
Wages	17	20	3% growth over 5 years
Rent	19	24	CPI plus 2% over 5 years
Other	8	9	
Net Profit/(Loss)	**6**	**(6)**	

Strategic priorities

In the face of challenging macro-economic conditions, retailers are focusing on what is within their control – costs. Efficiency and cost control is the number one strategic focus of 40% of respondents compared to organic growth 12 months ago. This is consistent with other responses whereby store roll outs are set to continue in 2014 but at a slower pace. Omni-channel is the prime focus area of 22% of respondents compared to 31% a year ago. This may be reflective of retailers having now invested significant amounts into their online business. However, it may also be a sign that some Australian retailers underestimate the need to adopt a genuine multi-channel offering. Unsurprisingly, there remains little appetite amongst retailers for acquisitive growth with only 7% of respondents nominating this as a strategic priority.

Improved consumer sentiment combined with a planned expansion of store count should see improved sales. But margin may be a challenge if the AUD continues to fall. – *Respondent*

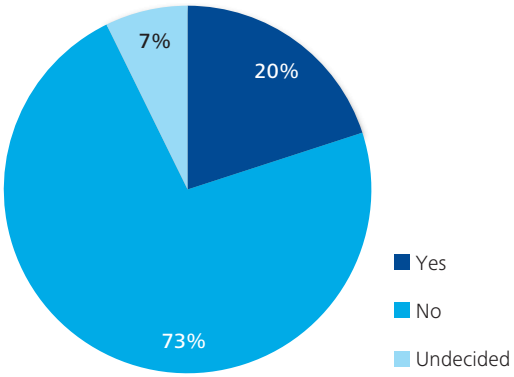
What is the current number one strategic focus of your business?



At a segment level, strategies between retailers continue to be varied. The focus for the *Food, grocery and liquor* segment is clearly centred on driving further cost efficiencies whilst growing through store expansion. This strategy is also repeated in the *Clothing, footwear and accessories* segment, albeit with a slightly greater focus on omni-channel. For *Consumer durables and electronics*, strategies appear fairly evenly split, but is the sector least concerned with efficiencies and cost reductions. In contrast, the strategy for *Department and variety stores* appears clear: drive efficiencies and improve omni-channel. With department stores being one of the hardest hit sectors within retail, developing an effective omni-channel whilst improving operating efficiencies is a sensible approach to take, but which may prove harder to implement in practice in the face of fierce competition.

Opportunities overseas?

Do you see expanding your operations overseas as an opportunity to grow your business in the next 12 months?

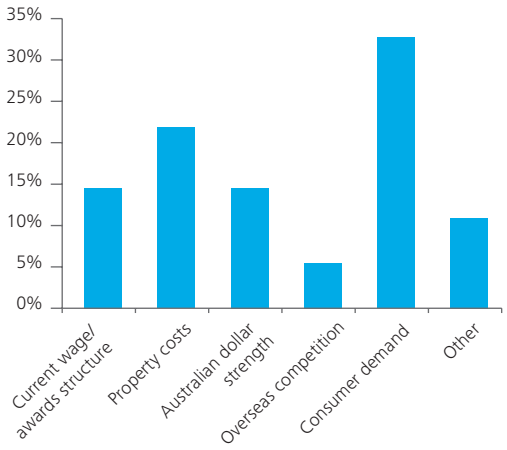


Whilst we have seen a trend of overseas retailers entering the Australian market, the vast majority of Australian retailers surveyed do not appear to have similar overseas growth plans. 73% of respondents are not intending to expand overseas in the next 12 months, instead focusing on the domestic market.

Given the opportunities opening up in South East Asia, it seems that many Australian retailers are not yet prepared to enter these markets. This may prove to be a missed opportunity, with the rise of the middle class in China in particular offering many growth prospectives for retailers as China's economy continues to rebalance from infrastructure to consumer spending.

Impediments to growth

What is the biggest impediment to you achieving sustainable growth?

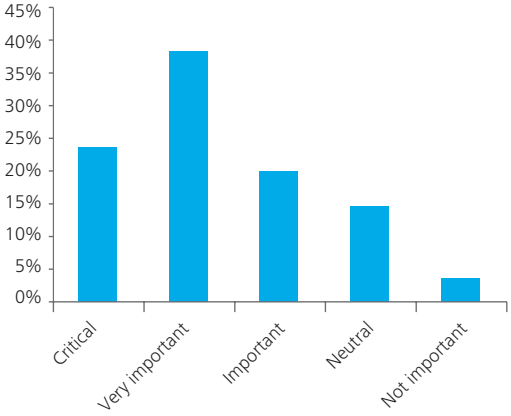


The majority of respondents (33%) consider consumer demand their greatest impediment to achieving sustainable growth. In a market which is so dependent on consumer confidence it is no surprise to see macro-economic conditions being a major area of concern for retailers. Interestingly, the second highest impediment to growth for retailers is property costs at 22%. Many retailers have been faced with increasing lease costs despite lower consumer spending due to contractual annual fixed increases. With property costs making up a significant portion of retailers' overall costs, we can expect to see further pressure on landlords to either reduce lease costs or provide additional incentives to retailers as they re-new or take out new leases. Greater collaboration between retailers and landlords/shopping centre owners will also be important as both parties seek to entice more shoppers into retail stores and combine forces to fight the increasing trend of online sales.

It is worthy to note that Australian retailers don't see overseas competition as a major impediment to growth. Despite the global influx to Australian by international retailers such as Zara, Top Shop and ASOS it appears that Australian retailers are confident that they can compete and grow alongside these new entrants. Time will tell whether this sentiment is right.

Making data matter

How important is the use of data analytics in improving the performance of your company?



The use of data analytics in driving performance improvements is gaining increasing importance across most industries, and retail is no exception. Data has always been available to companies, but the challenge has been how best to use this data. This is recognised by our respondents, with nearly a quarter stating that data analytics is critical in improving their company's performance and 82% believing that it's either critical, very important or important. The recent acquisition of the data analytics business Quantium by Woolworths has sent a clear message to the market: the use of data has huge potential and if used correctly, could bring significant performance improvements. Many Australian retailers seem to recognise this but just like multi-channel retailing, companies will need to invest to avoid being left behind.

Driving performance through data

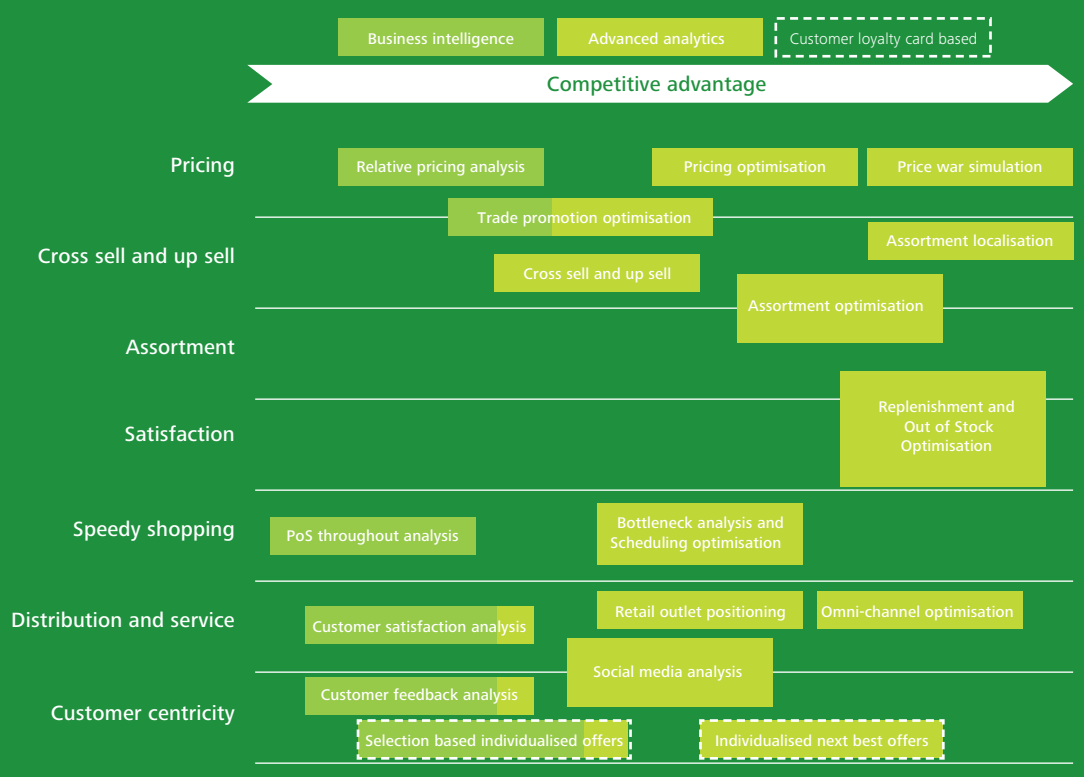
This year's surveys confirms that 82% of retailers see analytics as being 'important' to 'critical' for improving their company's performance. This may sound high but is it considering that the best global retailers, including Amazon and Tesco, see the deployment of their analytics capability in day to day operations as a pillar of their competitive advantage. This has been further demonstrated by Woolworths' recent investment in a specialist analytics company.

What is Analytics?

But what is analytics in the context of retail? Too often analytics gets incorrectly aggregated into the business intelligence and reporting definition. While Business Intelligence and reporting are fundamentally required to run the modern retail operation it is not a sustainable source of competitive advantage. In short having the ability to look back, slice and dice and understand what has happened is simply a ticket to play as a retailer nowadays. Analytics, more commonly referred to these days as Advanced Analytics, is the science of looking forward to discover, predict, simulate and optimise situations and operations.

Where does a retailer apply Analytics?

The best retailers are deploying analytics to drive efficiencies, optimise costs and focus growth initiatives (as per below). Typically retailers focus first on understanding their customers as this is very often the basis that it is a key input to most of the decisions made across all of their operations.



By way of example knowing the demand for your products and services at a small area location level is an imperative input for decisions in relation to distribution, retail location, store fit-out and assortment, trade promotions, pricing, store replenishment and staff rostering. Retailers more than ever are able to get more granular and accurate in their understanding of demand considering internal and external events like trade promotions, weather and social events as more and more data has become available about the individual customers, households and communities. In our experience the application of these granular small area forecasts, rather than high level averages, yield significantly better outcomes – typically in the range of 10% to 15% – and create competitive advantage.

Can any retailer improve performance through Analytics?

Analytics used to be a big player's game however this is not the case today. There are a number of technology developments in recent times that has levelled the playing field significantly. In fact in the new data and analytics inspired world it may be advantageous to be small.

Access to Analytics talent

While great analytics talent is still scarce, access to the best retail analytic algorithms and models is not. The emergence of communities like the Kaggle Data Scientist community enables all retail businesses to get access to the best e.g. the Kaggle community has outperformed (most times significantly) the analytic teams at the largest and most analytics savvy businesses around the globe across all industries.

Access to enough 'good' data

This is too often a convenient excuse not to deploy analytics. Notwithstanding this quite often mistaken belief, what has emerged is the ability for retail businesses to access third party datasets to provide outside in insight for their operations e.g. determining demand is quite often solely derived from third party data.

Systems and technology

They are simply better, faster and cheaper e.g. cloud, Software as a Service and niche providers have changed the game.

Courage and conviction

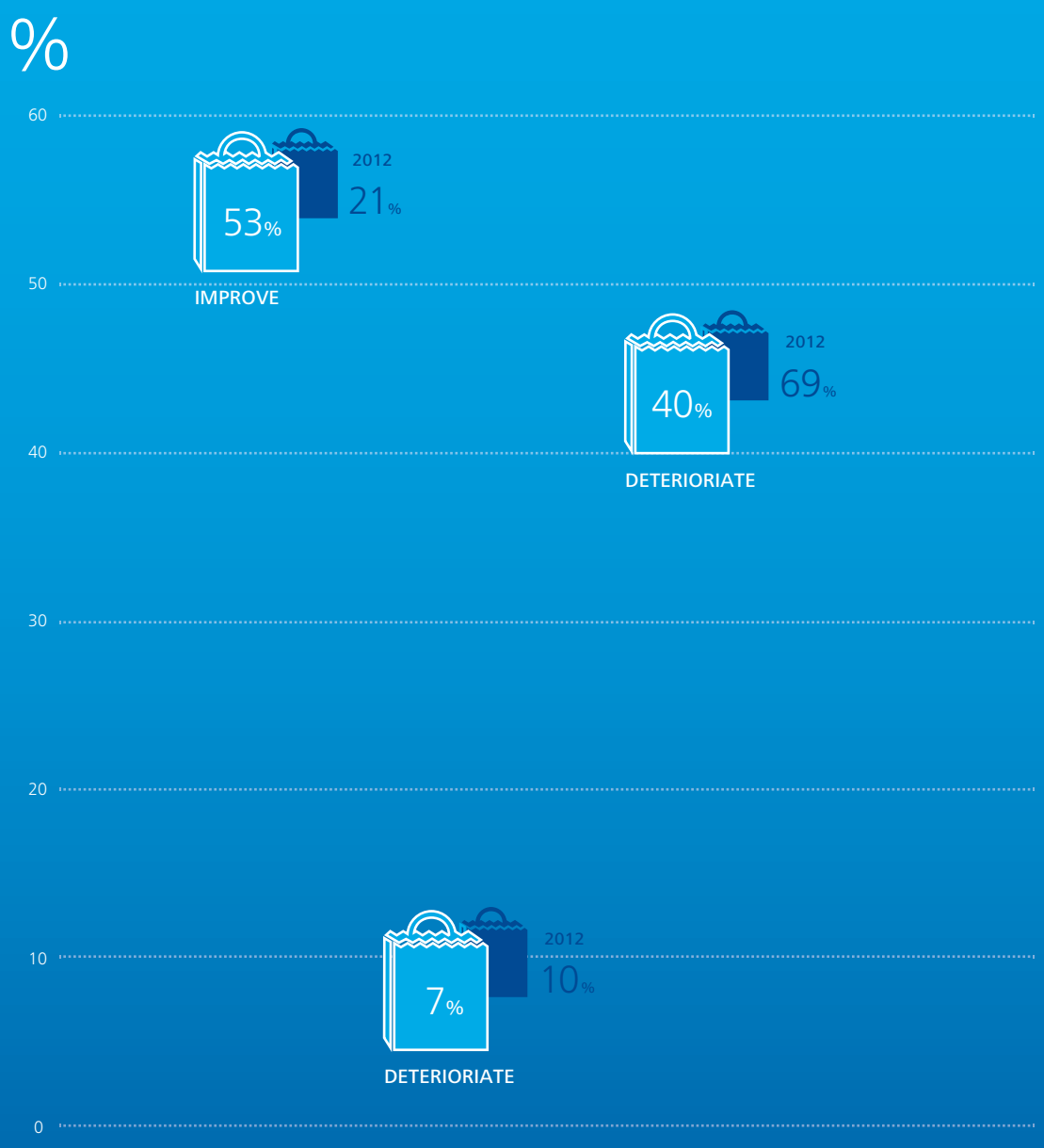
This is the key. It is one thing to know what is going to happen however it is another thing to decide to and act on that eventuality. The retail businesses that do this better will achieve sustainable competitive advantage through analytics.

Anthony Viel
Deloitte Analytics

The next 12 months

2013

What is your expectation of consumer confidence in the next 12 months?

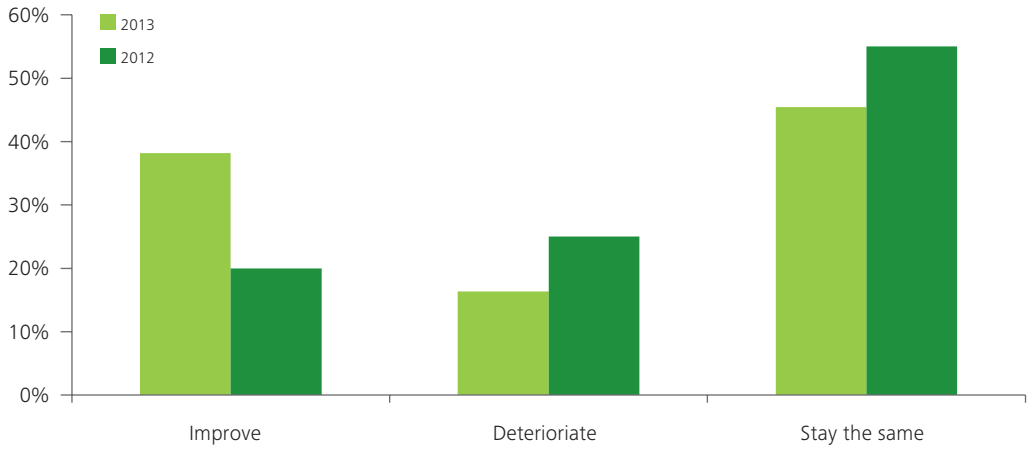


Banking on the feel good factor

Retailers are becoming more optimistic around consumer confidence in 2014. 53% of respondents believe that consumer confidence will increase in the next 12 months compared to just 21% in last year's survey. It appears that retailers believe that the worst times are potentially behind them, and that the signs of recovery in the major global economies such as the US and UK will be replicated in Australia in 2014.

As with consumer confidence, expectations for the broader economy are also more optimistic though not quite as positive. 38% of respondents expect the Australian economy to improve over the next 12 months, compared to 20% last year. The majority of respondents, however, believe that the economy will be broadly the same in 2014, suggesting that trading conditions will continue to be tough for retailers despite an improvement in consumer confidence.

How will the broader economy perform in the next 12 months?



Whilst the weakening of the dollar presents significant pressure to profitability it does dampen the attractiveness of overseas websites and should drive more sales back to Australian website and bricks and mortar. – Respondent

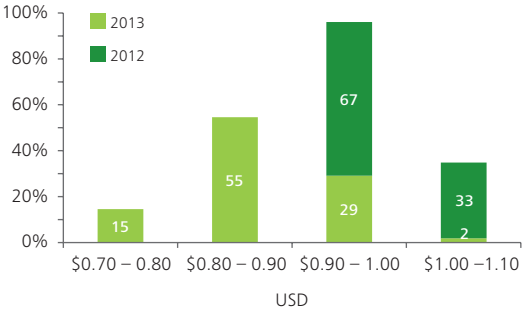
A major shift that has occurred since last year's survey is the strength of the Australian dollar. Over the past 12 months we have seen the Australian dollar weaken by over 10%. The majority of respondents (55%) expect the Australian dollar to continue to trade between 0.80 to 0.90 USD in 2014. With many retailers enjoying the benefits of lower product costs throughout 2013, the depreciation of the Australian dollar could have a significant impact on retailers' cost structures.

With retailers split on whether these costs will translate into higher retail prices, finding cost efficiencies elsewhere in the business will be critical.

The flip side is that overseas online offerings will become less price competitive, giving Australian retailers opportunity to regain market share.

Falling interest rates have also helped to provide a stimulus to consumer confidence. 36% of respondents expect interest rates to remain at their current rate of 2.5%, with 80% of respondents expecting interest rates to remain between 2.5% to 5% over the next 12 months. Continued low interest rates are a major contributor to retailers' optimism around improved consumer confidence, together with greater stability following the federal elections in September.

At what level do you believe the AUD/USD will be in 12 months' time?



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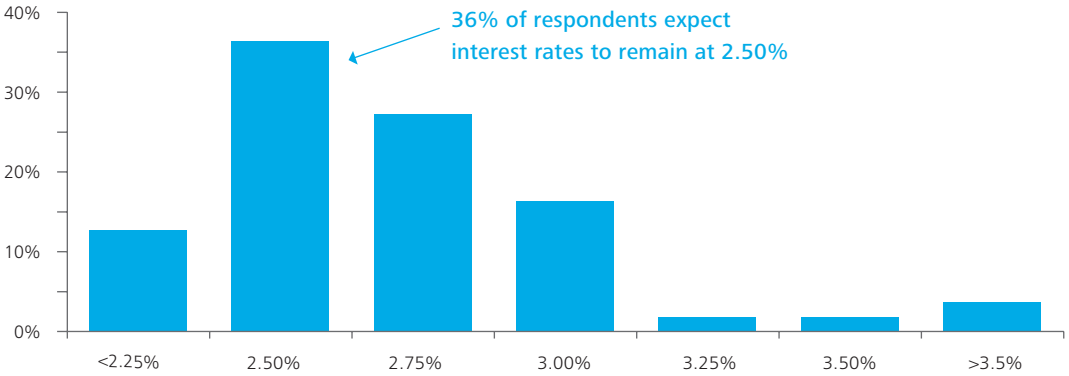


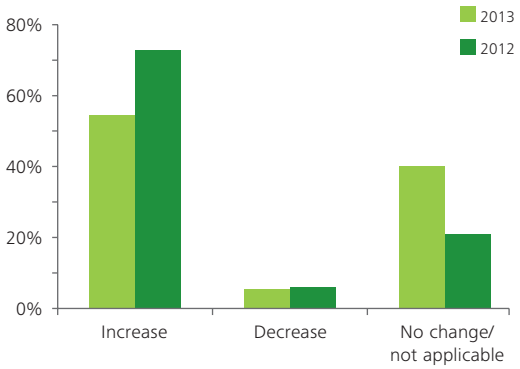
Sources of growth

A recurring theme in this year's survey is the lack of attention given by retailers to online offerings. This is further evident in respondents' view on driving sales growth in the next 12 months. Just 2% of respondents saw online sales as the key driver of sales growth, with the majority of respondents continuing to see new stores as the major source of revenue growth in 2014.

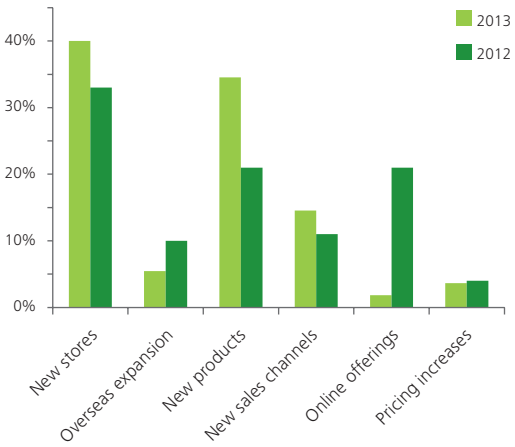
Whilst those respondents planning to increase their net new stores decreased to 55% compared to 73% in 2012, bricks and mortar stores continues to form the basis of many retailers' growth aspirations in 2014.

Other major sources of growth include new products (35%) which bodes well for both retailers and consumers. Just 4% of respondents expect price increases to be significant driver of sales in 2014 reflecting the continued price pressures faced by retailers.

Do you expect to increase net stores/outlets in the next 12 months?



What do you expect will be the most significant driver of sales growth in your business in the next 12 months?



Competitive priorities for private retailers

The challenges for retailers are essentially the same, regardless of ownership structure. The way in which these challenges are tackled and exploited however will differ based on the size and leverage of the retail group, the availability of capital and agility of the organisation to make good decisions quickly and implement the actions identified.

Where once private retailers only worried about local competition, they are now facing global competition and this competition has hit them hard, both online and through physical presence. Established brands (e.g. Top Shop, Zara, Gap and H&M) have been entering the market with fresh strategies and aggressively taking market share. The challenge for many is how to compete and differentiate their brand, capitalise on their existing loyalty and re-think their growth strategy.

In a market where the retail environment remains relatively stagnant, private retailers have a set of key priorities which will see them both competing and winning in their categories. These priorities include embracing omni-channel retailing strategically, setting the benchmark for customer service, and ensuring they have supply chain operational excellence.

Consumers expect personalised customer service in store as well as online.

Strategic omni-channel retailing

While most retailers have a presence across online channels, few truly understand how consumers use the different channels in their purchasing journey, especially the growing medium of mobile commerce. Retailers need to map out the shopping 'journey', especially in terms of how consumers move across channels and engage with their brand. Understanding the stages of the process allows you to exploit the strengths of each channel by integrating sales activity across online, mobile and physical environments.

Many retailers have an e-commerce site and most have made these sites suitable for mobile and tablet devices however, they are having significant challenges at making all of these channels work together and work seamlessly. Consumers expect a seamless experience from a webpage, mobile device and the physical store. Consumers also expect personalised customer service in store as well as online. To this end, retailers are trying to stitch together customer data from across the organisation in order to be able to more effectively engage with their consumers.

Many have invested in an online channel and social tools such as Facebook, Twitter and Pinterest but most have treated this growth engine of their business like an exercise in ticking the boxes. They have little insight into if they are the right channels to market, which of their customers use which channel, which of their customers are actively promoting their brands or products, how to communicate with their customers across these channels and how to integrate these channels to drive revenue.

As these consumers are integrating digital channels and social media into daily life, those retailers that have developed a digital and social strategy and are rapidly innovating the way they engage with their customers are seeing a significant uplift in sales.

Talent as a competitive advantage

For smaller scale privately owned retailers, outstanding customer service can be a key differentiator. While online retailers can offer a cheap and fast shopping experience, customers still crave information and the personalised service of a proficient and personable assistant. This is evident when rotation occurs with your best store manager or area manager and suddenly sales in a stagnant store lift.

Private retailers who invest in their human resources function, ensuring that this is aligned to their strategic objectives are seeing a competitive advantage. In particular, regular staff training on products and in-store sales and marketing are seeing a significant improvement in productivity and employee engagement.

Supply chain and inventory excellence

The high cost of transport and distribution to move goods from ports to warehouses to stores continues to be an issue because of our physical geographic size. Some retailers remain focused on pushing suppliers to reduce costs rather than optimising their supply chain to reduce complexity and the cost of doing business. Many private retailers are looking to direct importing to improve gross margins, particularly while the Australian dollar remains high.

The traditional supply chain models need to change and smart retailers are considering vertical supplier integration, different fulfilment models such as drop ship to customer and cross docking as well as international 3PL providers.

Many retailers continue to face increasing balances of inventory due to slowing store sales and consumers shopping online. We are seeing an increase in store discounts and clearance which essentially erode margin and change the shopping dynamic with the consumer. While sales clearances remain a viable option to exit slow moving stock and attract customer attention, the private retailers that are doing this well are making informed decision based on well analysed data from their systems. Some have invested in cloud-based Project Lifecycle Management, merchandise planning and price optimisation technology which simulate strategies for base pricing, promotions and markdowns to improve revenue, profit and customer loyalty. These enable targeted and proven decisions, and for private retailers where the decision making structure is less cumbersome, this provides private retailers with the agility of being first to market.

Rachel Smith and Mary Lusito
Deloitte Private

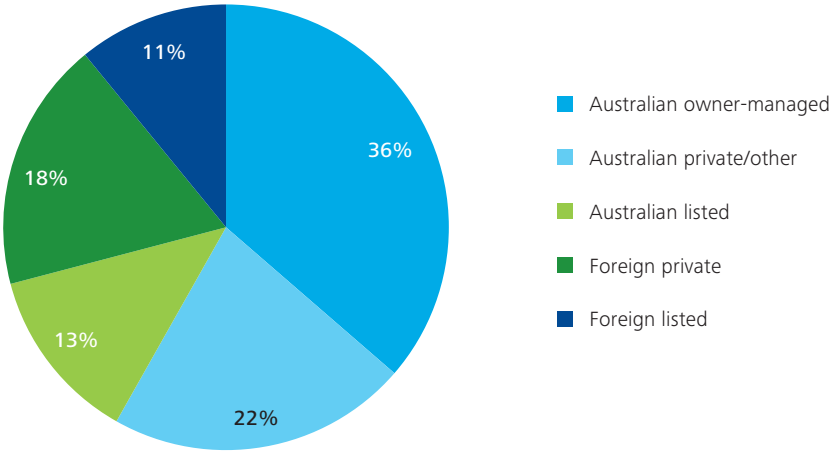
About the survey

Summary of respondents

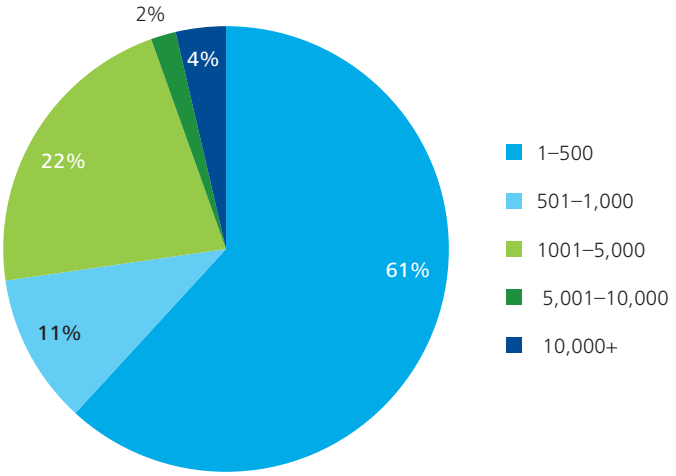
The Deloitte Christmas Retailers' Survey is based on a survey of 60 senior executives of leading retailers in the Australian market.

The respondents are executive and senior management of a cross section of retailers inclusive of listed, private and foreign owned businesses.

Ownership structure of respondents



Number of employees



The selection of participants is intended to provide a representative sample of large and small businesses, with most participants made up of the sub-1,000 employee segment.

The geographic reach of participants is evenly distributed between Australia, Australia and New Zealand and Global retailers.

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The Retail, Wholesale and Distribution Group at Deloitte has extensive experience throughout the industry, and is focused on providing innovative, industry-specific solutions to retailers and their suppliers across audit, tax, consulting, corporate re-organisation and corporate finance.

If you would like further information about any of the topics in this report, or our service capability to the retail industry, please contact our National Retail, Wholesale and Distribution leader David White or one of the team members.

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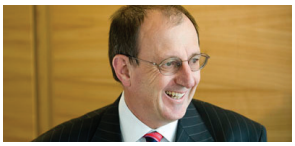

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