Inside Retail®

AUSTRALIAN RETAIL OUTLOOK® 2023

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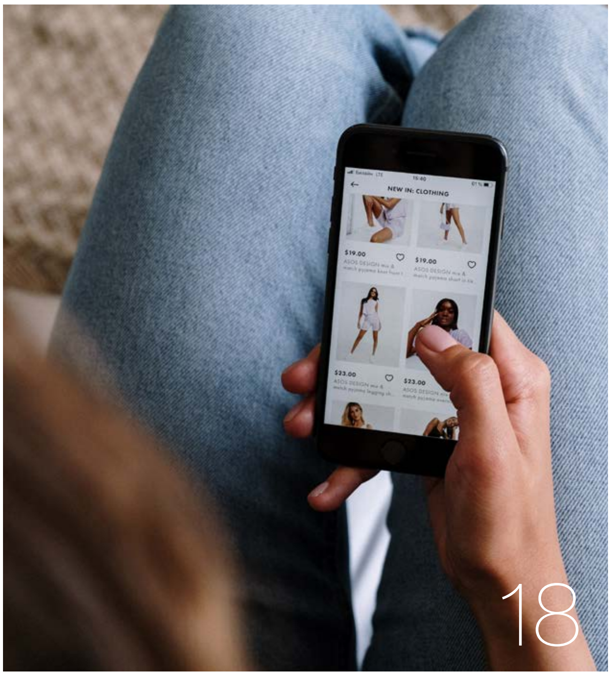

Ready for tomorrow

by KPMG

Retail profiles

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We would like to acknowledge the Gadigal people of the Eora Nation, the traditional owners of the land upon which we work and pay respect to Elders past, present and emerging.

InsideRetail
AUSTRALIAN RETAIL OUTLOOK® 2023

From the editor

THE START OF A NEW YEAR OFTEN brings with it a feeling of fresh optimism and energy to take advantage of the opportunities – and tackle the challenges – in the months ahead, and 2023 is no different.

Despite the fact that most retailers are expecting consumers to rein in discretionary spending as the cost of living continues to rise, the prevailing attitude is that "we can do this." After surviving forced store closures and broken supply chains during the Covid-19 pandemic, navigating a potential recession suddenly seems like small potatoes.

Nevertheless, forewarned is forearmed, and business leaders still need to understand how consumer expectations are changing around online shopping, physical retail, sustainability and data privacy to not only survive but thrive in 2023. This is where our annual *Australian Retail Outlook* comes in.

Each year, we ask our readers to share their experiences from the previous 12 months and predictions for the year ahead. From revenue growth and leasing terms, to social media and the value of the Australian dollar, our survey provides a snapshot of the industry, highlighting retailers' key concerns at a specific moment in time.

It's probably not a surprise to anyone reading this that staffing and cyber security are some of the top priorities for businesses in 2023, but how should you act on these insights? The experts at KPMG have provided smart strategies and practical advice to help you make sure your business is future-fit and ready for tomorrow.

Want to know if you're doing everything you can to keep your customers' data safe? Check out "Protecting your brand must be on everyone's radar" on page 25. Concerned about your inventory levels? Take a look at "De-risking your supply chain" on page 28.

There are also tips to be gleaned from our retail profiles on pages 45-65. We spoke with senior leaders at Dan Murphy's, TerryWhite Chemmart, Ebay, Salvos Stores, Sheet Society, Rebecca Vallance and more about their growth plans in 2023 and beyond.

If there is one thing I have learned from these interviews, it's that successful retailers embrace change and see it as an opportunity to streamline and improve their business. Wishing you all a positive 2023!

Heather McIlvaine
Editor,
Australian Retail Outlook

Are you future-fit?

AUSTRALIAN RETAIL CONTINUED TO power ahead last year, still riding the highs of economic stimulus combined with a global shift to digital platforms. This year may tell a different story, with economic headwinds likely to reset the bar for successful retail performance in 2023 (and potentially 2024).

Higher interest rates and rising energy costs are placing pressure on household budgets and as a higher-than-usual number of households with fixed mortgages refinance towards the middle of the year, we may find consumers starting to feel the pinch.

It wasn't all doom and gloom, though. Since 2020, best-practice retailers have capitalised on the strongest trading conditions in generations. We've seen retailers accelerate their digital transformation journeys, redesign their business models, create seamless integrated experiences, and shore up their supply chains, which will provide resilience moving forward.

Meanwhile, this year shapes up as a lower-growth year, when the challenge for retailers will be to design and implement business models that are genuinely future-fit and capable of adapting to shifting market conditions.

This will mean best-practice retailers will be hyper-focused on understanding their customer, rebalancing range architectures, redefining what an integrated customer experience across channels looks like, investing in protection of their data, and recalibrating supply chains to be resilient and adaptable.

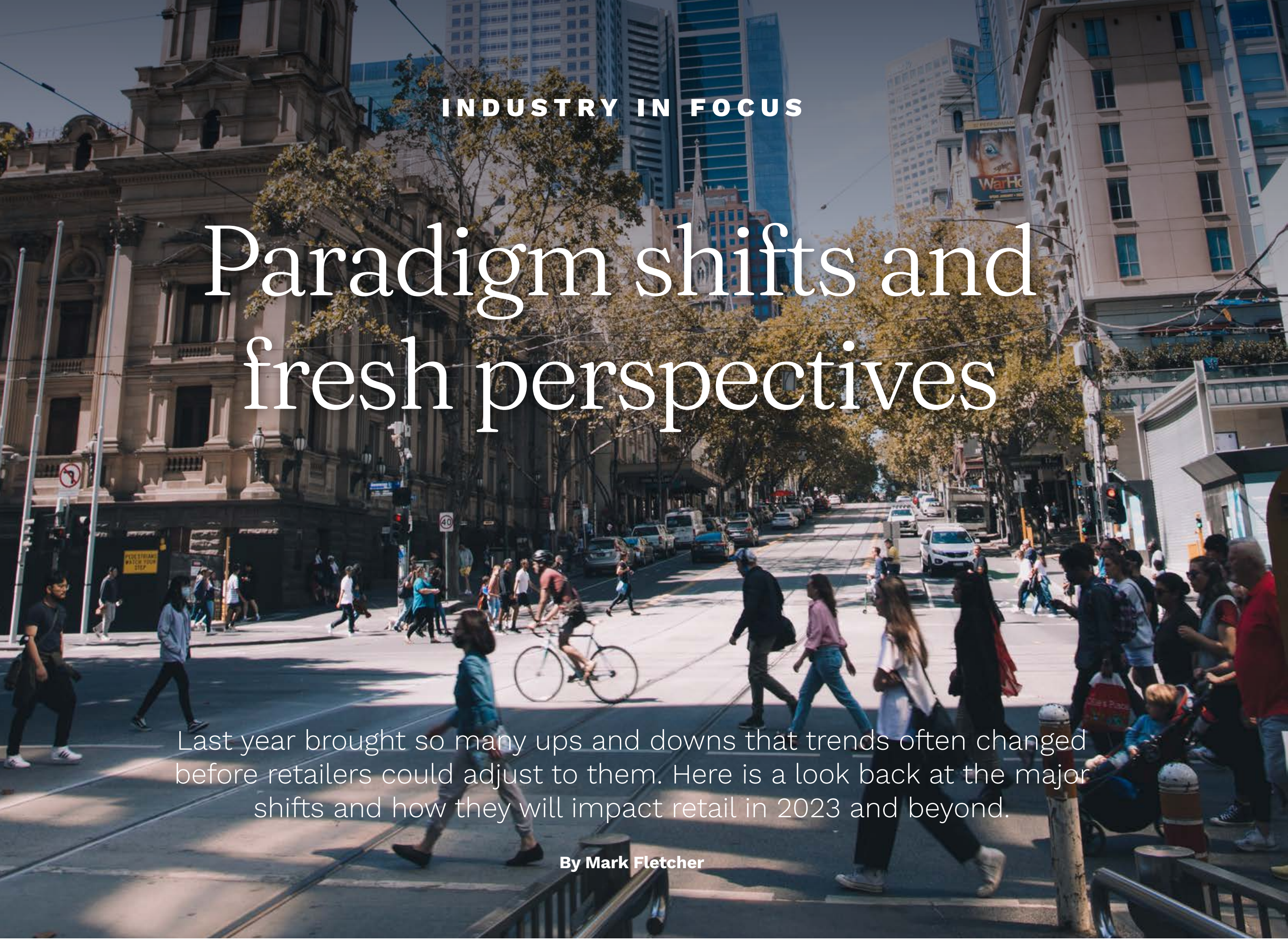
Another issue that shows no sign of receding is cyber risk, with several high-profile data breaches affecting Australian businesses last year. Retailers are taking note, given the permanent step-change to digital channels that has led to more customer data being collected. Being ready to prevent and respond to any breach can be less daunting for retailers preparing for it in the right way, right now.

Despite the potential for severe economic headwinds, we also expect M&A activity to come back to pre-pandemic activity and pricing levels after an unprecedented boom in recent times. Indeed, we believe there remains a strong market appetite to buy good retailers that adapted to the 'new normal' and are future-fit, with strong digital DNA and clearly defined brand identity.

This year could prove to be the retail trading environment we thought we would get in 2020 but didn't. Australian retail has shown its resilience time and time again. Retailers should be asking, 'How can I ensure I am future-fit for years to come?' We believe those leaning into this question will come out on top. ■

Lisa Bora
National Firmwide Lead Partner – Retail & Leisure, KPMG Australia

James Stewart
Partner, Global Retail Restructuring Leader, KPMG Australia



INDUSTRY IN FOCUS

Paradigm shifts and fresh perspectives

Last year brought so many ups and downs that trends often changed before retailers could adjust to them. Here is a look back at the major shifts and how they will impact retail in 2023 and beyond.

By Mark Fletcher

HOW MANY TIMES CAN PARADIGMS shift in one year? in 2022, it seemed like too many.

Let's start with shoppers finally emerging from a Covid-19 cocoon of contemplation and online shopping.

The early signs were that consumers were going to splurge on everything they missed. In a short period, their mindset shifted from lockdown doldrums to finally getting 'back to normal' with a bit of catchup spending and a lot of treating themselves after the hardships of the last two years.

What's more, consumers had spent much of lockdown thinking about what really matters – and the environment came out trumps. This manifested as a preference for retailers and brands with strong ESG credentials, that's where the dollars were headed.

And contrary to the expectations of many online retailers, consumers took their socially minded splurging straight back out to their beloved shopping centres. For some, like Kogan, which had beefed up their inventories in the face of global supply-chain issues, the surge back to physical stores left them trading in the red in the first four months of this financial year.

Sadly, however, many consumers simply couldn't find the products they wanted to buy. The combination of the war in Ukraine, Covid-induced factory shutdowns in China, and massive natural disasters both overseas and in Australia resulted in widespread product shortages, some of which have continued to varying degrees.

Still, all in all, the first shopper paradigm shift of 2022, from a lockdown mindset back to 'normal', meant good times for retailers and brands – as long as they could get stock. Unfortunately, this shift was short-lived.

The cost-of-living crunch

Seemingly out of the blue, around mid-2022 many shoppers realised they could no longer afford their lifestyle. In the face of drastic increases in the cost of essentials, most consumers made rapid and wide-ranging spending cuts.

Some went without products in many non-essential categories altogether, others deferred large purchases. Many traded down to cheaper brands, and most did a lot more price checking before pulling out their digital wallets. There was some reassuring data on improvements in overall retail spending, but the ABS and others attribute most of these increases to rising prices of essential items, rather than more discretionary spending.

With interest rates still high, even the normalisation of costs for many food items has not reassured consumers, and many intend to continue a cautious spending approach in 2023.

So what have been the paradigm shifts for retailers? There are too many to explore them all in depth, so here's a quick review of the ones whose impact is likely to be felt this year and beyond.

People problems

Throughout 2022, retailers struggled with the Covid-induced sick and carer leave, combined with significant decreases in the number of international students and people with temporary visas. The impact hit small businesses and those in regional areas particularly hard.

It's difficult to anticipate the extent to which this will continue through 2023 and beyond, though our industry survey found that 44 per cent of retailers believe staffing will be one of their biggest challenges in 2023 and 39 per cent name retaining staff as one of their top priorities for the year.

Just out of time

Over the last few years, most retailers have focused on fine-tuning their supply chains to reduce inventory and shipping costs. As previously noted, in 2022 multiple factors disrupted these finely tuned machines.

Jana Bowden, professor of marketing at Macquarie Business School, aptly summarised these developments, noting that the cost of shipping goods to Australia had increased by up to 700 percent, ordering times had tripled and most retailers have had to pay earlier for their orders.

More importantly, however, "The whole concept of just-in-time sourcing that Australia has relied so heavily upon has crumbled," Bowden remarked.

Many retailers are already gearing up for these issues, with 24 per cent citing supply chain, and 20 per cent citing shipping and delivery as major challenges for 2023.

E-commerce matures

Despite such staffing challenges, many retailers benefited from the surge back to physical stores. Longer term, however, 2022 clarified the short- to medium-term future of online retailing as a significant channel but one that is still substantially smaller than physical stores.

While Covid lockdowns shifted many shoppers online, the last six months have brought a leveling out of shopper participation in e-commerce, and of online as a proportion of retail sales. Survey data fails to suggest any significant change in the near future, with almost three in four shoppers preferring to shop in-store, and nearly two in five saying they have a newfound appreciation for being able to touch and try on fashion items.

Reflecting this consumer behaviour, only 12 per cent of retailers reported a significant rise in their e-commerce revenue in 2022, though 49 per cent did experience some increase. Another sign of the leveling off of e-commerce is that only 30 per cent of retailers list growing online as one of their top priorities for 2023.

Perhaps the most telling sign that digital still has a long way to go, however, is that 39 per cent of retailers who operate physical stores plan to increase their footprint in 2023.

> "Many retailers benefited from the surge back to physical stores."

Doing the right thing

Last year also delivered a case study in the business impact of ESG behaviour.

Within weeks of the Russian invasion of Ukraine, numerous global brands, including H&M, Inditex – the parent of Zara and a collection of other brands – and Estée Lauder shut up shop in Russia. Most luxury brands ceased trading, leaving empty stores, while ASOS, Apple, Ikea and Nike have all suspended or closed various consumer-facing services.

Uniqlo chose a different response and announced that it was not closing its Russian stores, so as to not "deprive people in Russia of clothing, as it is a basic human need". It stated: "Clothing is a necessity of life. The people of Russia have the same right to live as we do." It was a bold response that lasted less than a week in the face of a global social-media backlash.

On balance, it appears that most retailers are comfortable with their own approach to ESG, with just one in seven (15 per cent) nominating it as a top priority for 2023.

Under the spotlight

The Australian Competition and Consumer Commission's Digital Platform Services Inquiry report found that online marketplaces have a "high level of control and involvement" in transactions between consumers and sellers on their platforms.

The consumer watchdog's report highlighted a range of operational and privacy concerns regarding the use of consumer data, lack of dispute resolution mechanisms and the way products are preferentially ranked on some websites.

"Hybrid marketplaces, like other vertically integrated digital platforms, face conflicts of interest and may act in ways that advantage their own products with potentially adverse effects for third-party sellers and consumers," the report stated.

Buy now, pay later (BNPL) has been the darling of the retail industry, with widespread consumer acceptance; however, it has been under intense scrutiny, with consumer groups pushing hard for tighter regulations.

In November, The Treasury released an options paper on BNPL. A number of options were outlined and further consultations promised. It looks likely there will be regulatory changes in the future.

All in all, what a year of change. More than ever, it is a time for new perspectives and fresh approaches. There is no doubt that 2023 will reward those retailers that are prepared to get uncomfortable and embrace the new reality – what fun. ■

Industry insights: executive voices

Retail leaders gave us their opinions on consumer confidence, staffing costs, e-commerce and more in our annual survey.

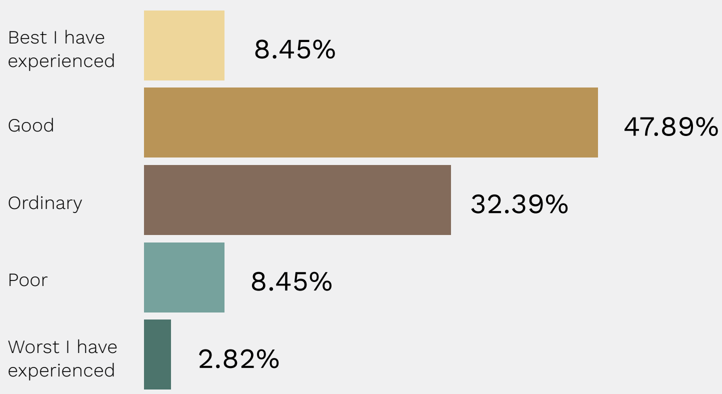
By Mark Fletcher

MANY RETAILERS WILL BE HAPPY TO PUT 2022 IN THE past and move on. So what are they planning for 2023? We conducted a broad survey of retail executives, including many senior ones, and came up with some surprising findings.

See how your thoughts compare with those of the industry as a whole.

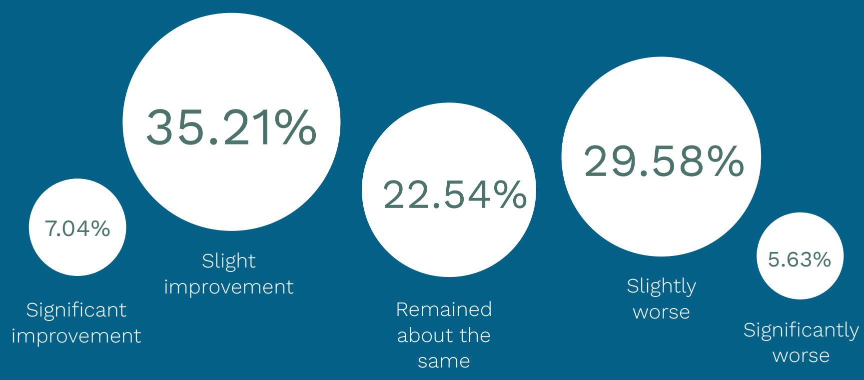
Q.1 How would you describe trading conditions in 2022?

A lot of retailers really didn't like 2021. The majority found 2022 an improvement, thankfully, though most simply shifted from poor or terrible trading conditions back to ordinary ones (17 per cent described 2021 as ordinary, 32 per cent described 2022 that way). It was telling that the proportion of retailers who experienced good or outstanding trading conditions didn't significantly increase in 2022.



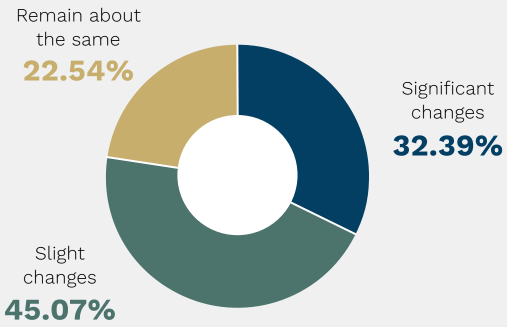
Q.2 How did the last 12 months compare to the previous year?

Retailers had a similarly subdued perspective when reflecting back on 2021 compared with 2022, with 42 per cent saying 2022 was an improvement, but 36 per cent saying it was worse.

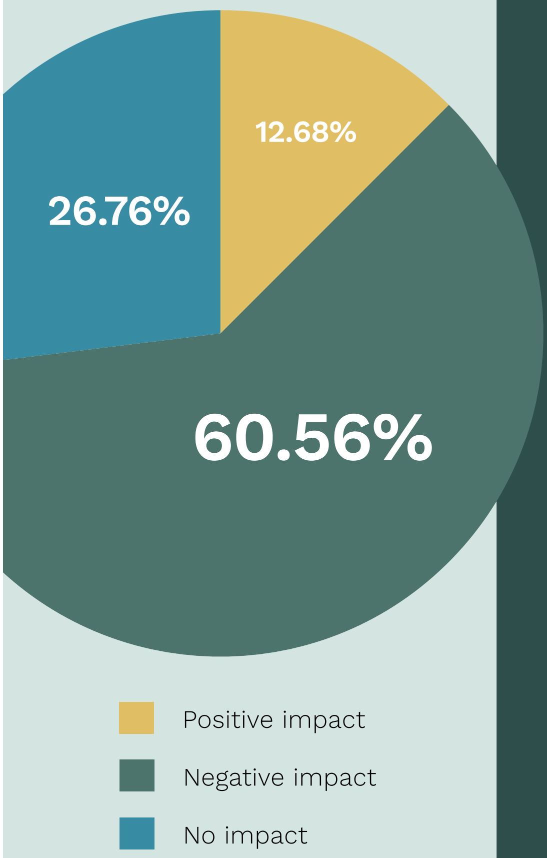


Q.3 How do you expect trading conditions to change in 2023?

What retailers are in general agreement about, however, is that 2023 is going to be a zinger with 77 per cent expecting some change in trading conditions from 2022, and almost one in three expecting trading conditions to be significantly different.

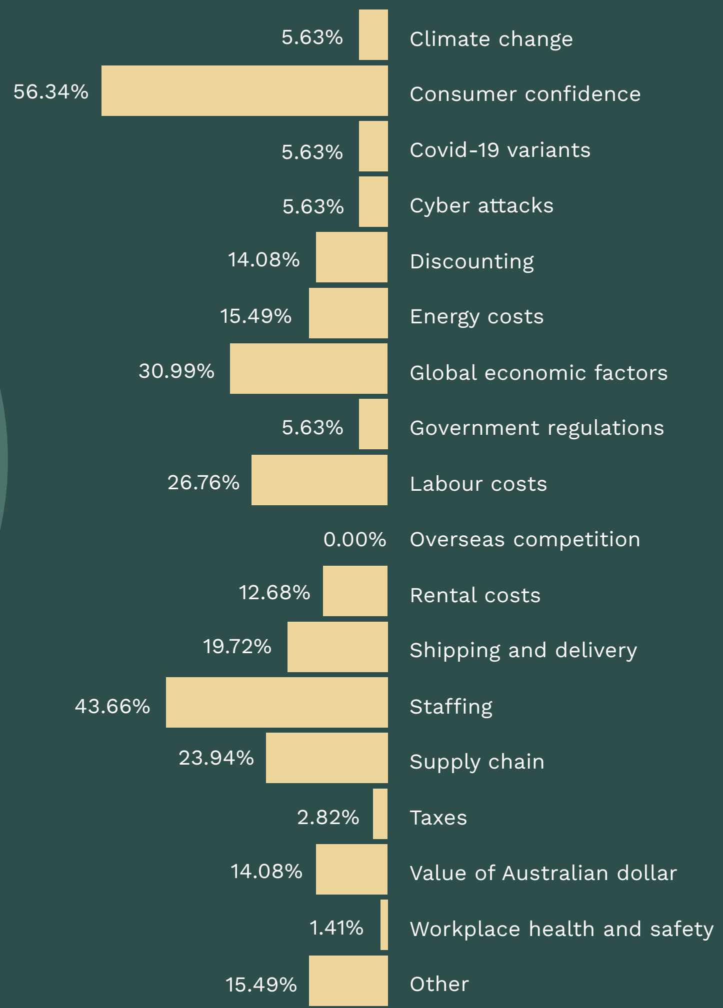


Q.4 How will the value of the Australian dollar impact your business in 2023?



A key concern for retailers, and a major contributor to their belief that 2023 will deliver changed trading conditions, is the potential negative impact of the Australian dollar. Reflecting our broad engagement with international supply chains and financing, only one in four retailers (27 per cent) nominated themselves as immune to its effects.

Q.5 What are the biggest challenges facing retailers in 2023?



As discussed in our review of 2022, consumers spent the year on a roller-coaster, going from spending to saving to skimping. Most retailers are not convinced that shopper sentiment has stabilised; more than half (56 per cent) see consumer confidence as the biggest challenge for the industry in 2023.

Most retailers experienced staffing issues in 2022, and 44 per cent see this as a problem that will extend into 2023. With anticipated staff shortages come increased wages, and 27 per cent also note labour costs as a major industry issue for 2023. ►

Q.6 What will be the top priorities for your business in 2023?

45.07%
Increasing margin

39.44%
Retaining staff

38.03%
Increasing turnover

29.58%
Growing online

25.35%
Rolling out new technology

18.31%
Omnichannel initiatives

15.49%
ESG (environmental, social, and corpoerate governance) initiatives

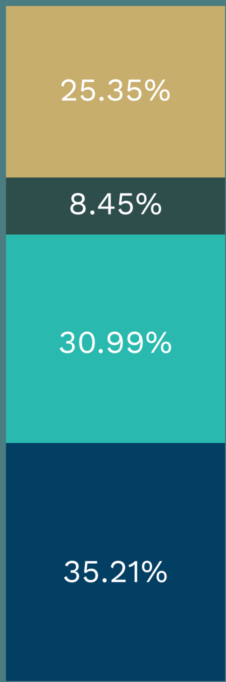
15.49%
Hiring and training staff

15.49%
Growing on social media

It would be an unusual retailer who didn't list increasing margin and turnover as their leading business objectives, and they were both among the top priorities for the retailers surveyed.

Staffing has already been identified as a challenge for retailers in 2023, though they are focused more on retaining staff (39 per cent) than on hiring and training staff (15 per cent). To some extent, this strategy reflects their concerns around rising labour costs and is likely to continue as long as employment remains high.

Q.7 Do you plan to change your number of stores in 2023?



Shoppers' enthusiastic return to physical stores has emboldened many retailers, with 39 per cent of those with physical stores planning to increase their footprint in 2023. This is three times the proportion that are planning to decrease their number of stores (13 per cent). While this is good news, it will also continue to put pressure on staffing and keep the job market red hot.

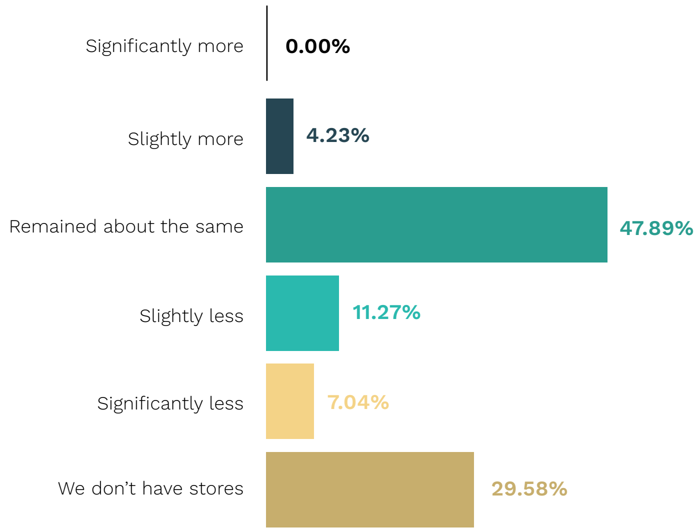
Yes - increase the number of stores

Yes - decrease the number of stores

No - stay about the same

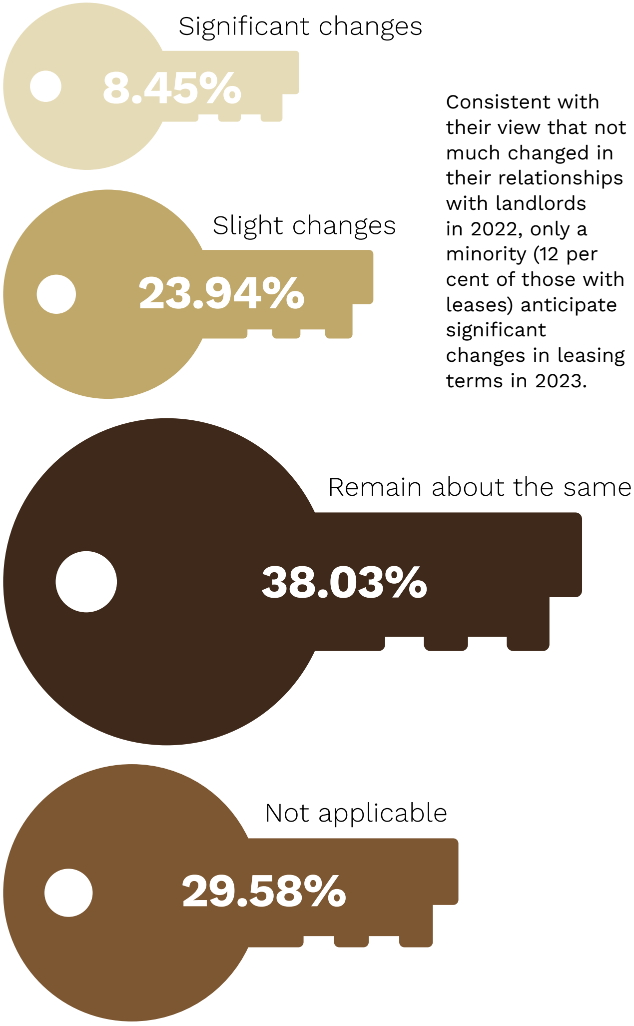
We do not operate any physical stores

Q.8 Did you receive more flexibility and help from landlords in 2022 compared to the previous year?



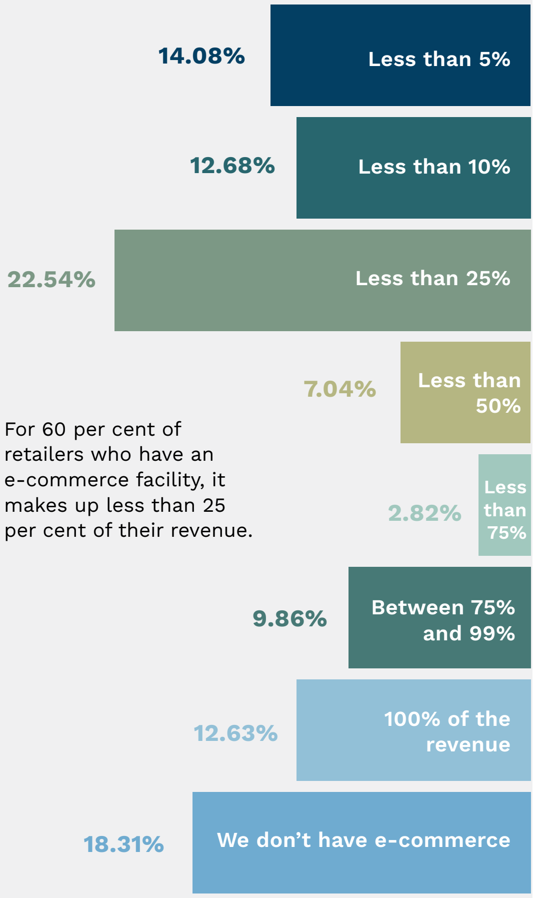
Most physical/omnichannel retailers (68 per cent) reported 'business as usual' in terms of the support they received from their landlords. With so many retailers planning to open more stores in 2023, it will be interesting to see if they still feel the same way about their landlords when we look back on 2023.

Q.9 How do you expect leasing terms to change in 2023?



Consistent with their view that not much changed in their relationships with landlords in 2022, only a minority (12 per cent of those with leases) anticipate significant changes in leasing terms in 2023.

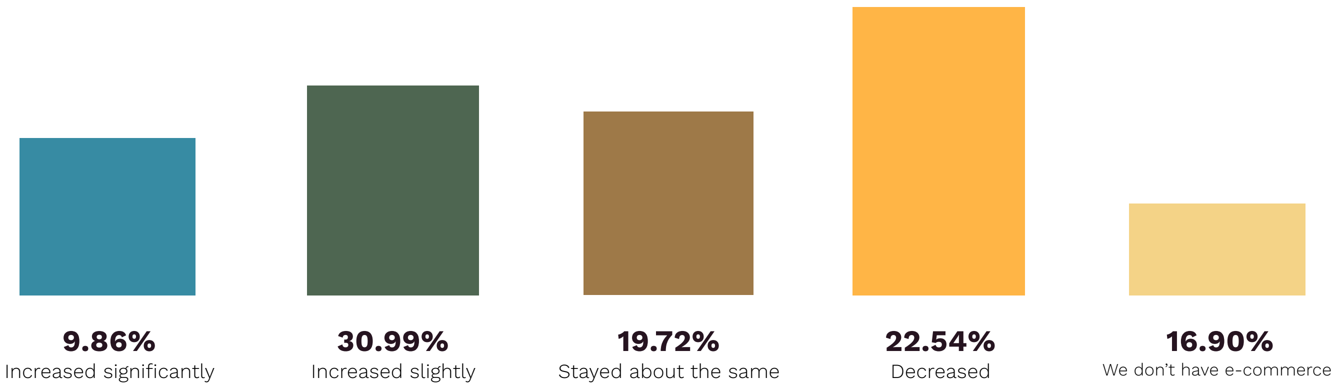
Q.10 What percentage of your total revenue comes from your e-commerce channel?



For 60 per cent of retailers who have an e-commerce facility, it makes up less than 25 per cent of their revenue.

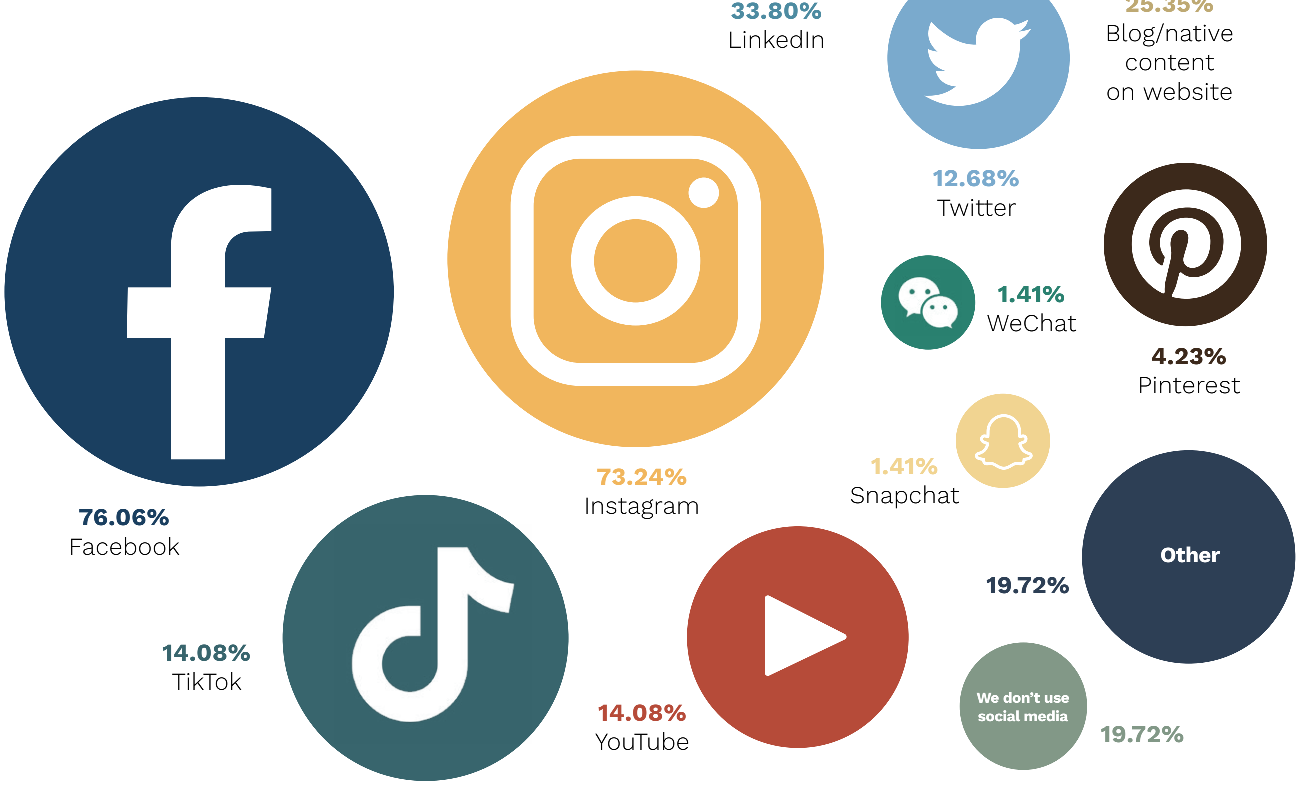
Q.11 How did your revenue from e-commerce in 2022 compare to the previous year?

While 49 per cent of online retailers with an e-commerce facility saw an improvement in their online revenue in 2022, it was a significant increase for only 12 per cent. Despite that, 30 per cent are still focused on growing their online revenue in 2023. ►



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

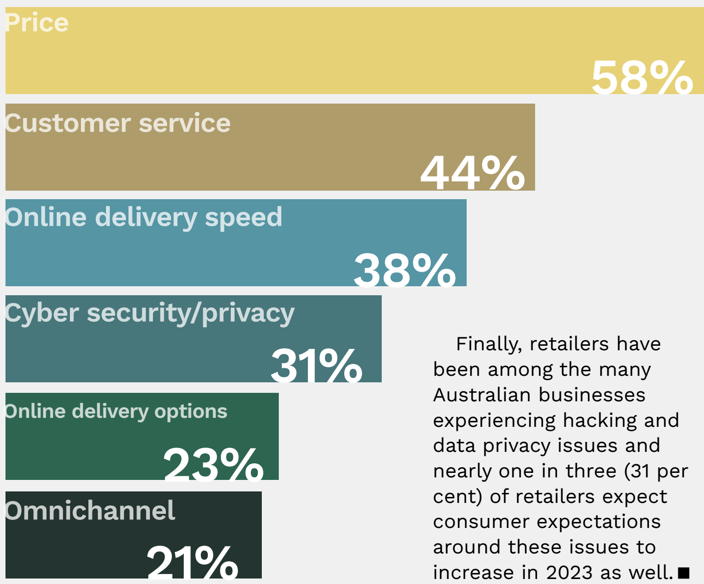
Consistent with their broad consumer use, Facebook and Instagram remain retailers' preferred social media channels; however, LinkedIn, which is oriented towards business interactions, makes a surprise appearance as an effective social media channel for 34 per cent of retailers, marginally ahead of both TikTok and blogs.



Q.13 Where will consumer expectations increase the most in 2023?

Consumer expectations do rise each year, and more than half (58 per cent) of retailers believe price will be a key consumer focus for the next 12 months. Given the continuing uncertainty around economic conditions, shoppers will probably continue to place price ahead of all other considerations.

As already identified in this survey, staffing is a key 2023 concern and priority for many retailers. And helping push this along is the broad expectation (44 per cent) that shoppers will expect even better customer service in 2023.



Finally, retailers have been among the many Australian businesses experiencing hacking and data privacy issues and nearly one in three (31 per cent) of retailers expect consumer expectations around these issues to increase in 2023 as well. ■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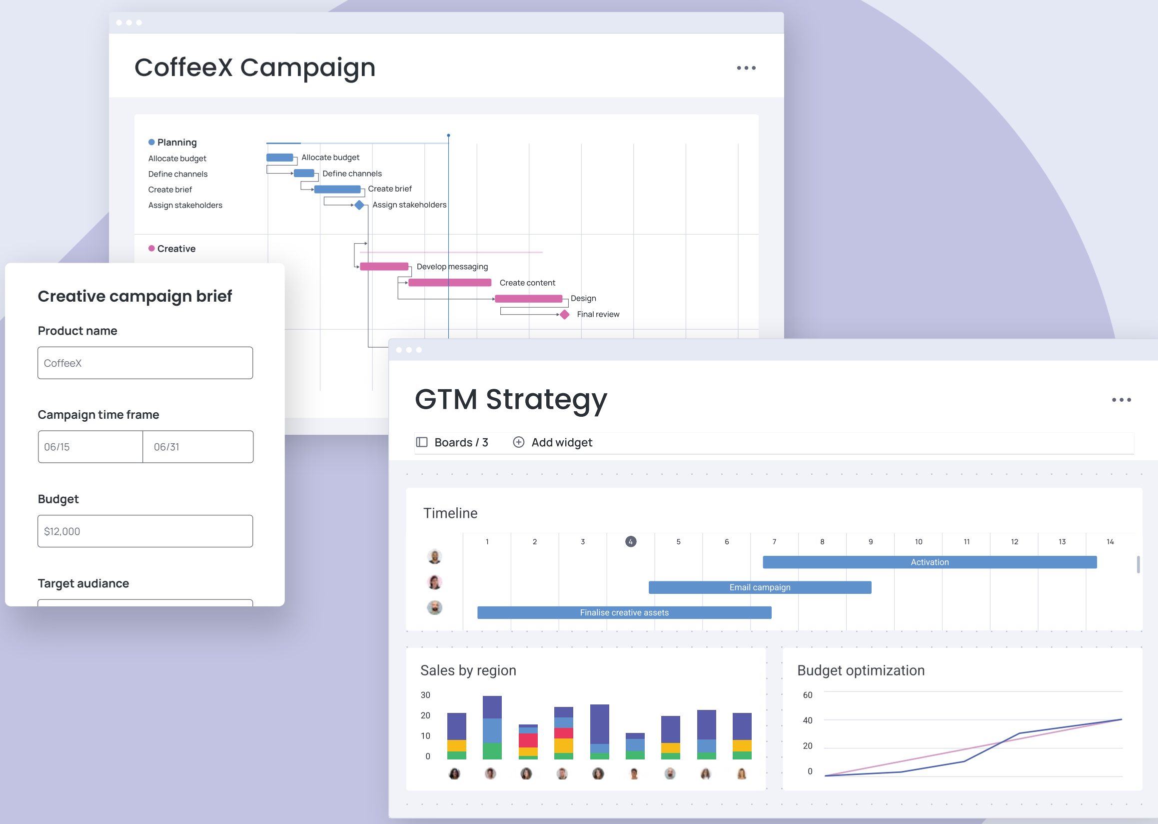

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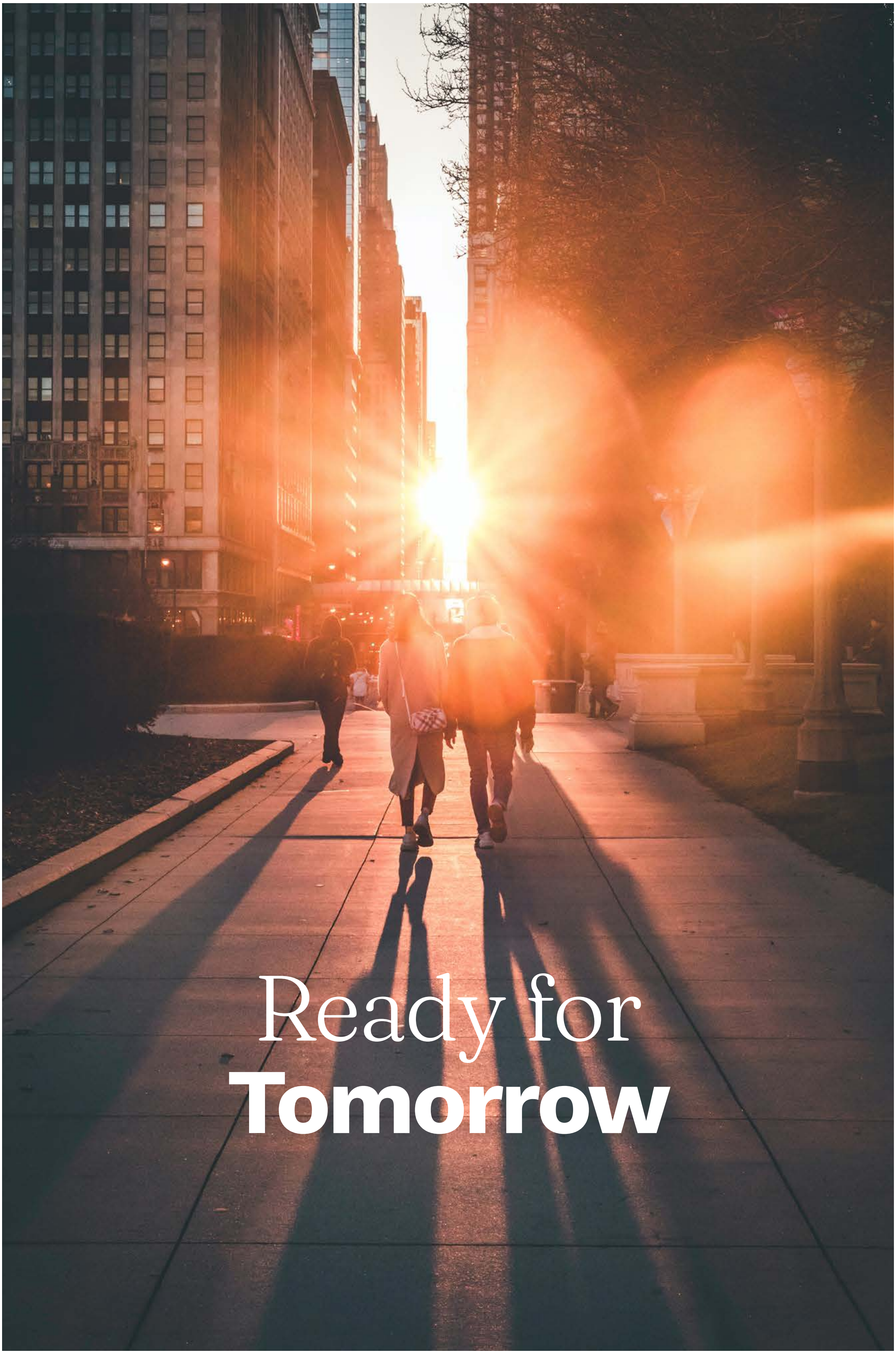
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2023 economy: less is more as growth rate slows

Just as retailers begin to recover from the pandemic, rising interest rates create new headwinds. Overall, however, Australia looks well placed for the year ahead.

Sarah Hunter, Partner and Senior Economist, KPMG Australia

DESPITE THE MOUNTING HEADWINDS, AUSTRALIA'S ECONOMY was a strong outperformer in 2022. The removal of restrictions on movement in the early months of the year, coupled with pent-up demand in households, formed the catalyst for a boom in household spending; monthly retail turnover rose 12.5 per cent between December 2021 and November 2022.

And while other sectors in the economy, such as construction, have continued to battle with supply-chain disruptions and adverse weather, activity has been buoyant across the board in general; we estimate that GDP expanded by around 3.8 per cent last year, with the economy growing by an estimated 6.5 per cent since the start of the pandemic; however, the last couple of years have also brought some permanent changes.

For consumers, there is a very strong desire to get out and enjoy life. Domestic travel has fully rebounded, with 27.7 million passengers flying domestically in the three months to September 2022. Hospitality has had a resurgence as well. This has been good news for retail spending that is linked to social settings, such as clothing and shoes and department stores.

Spending on international travel remains a long way below pre-pandemic levels, and while labour and aircraft capacity remain a constraint driving high airline ticket prices, this is expected to improve over the course of the year as more of the global airline fleet comes back online.

Domestically, the household savings rate was 6.9 per cent in September 2022 only slightly above 2019 levels and well down from the 2020 high of about 24 per cent, suggesting that the amount of dry powder in consumers wallets is declining. The shift in spending towards online channels is another permanent outcome of the pandemic, with annual events such as the Black Friday and Click Frenzy sales helping to propel end-of-season retail sales well into November, permanently changing the flow of consumers' retail spending patterns.

Policymakers navigate a narrow path

Notwithstanding the strength of the economy in 2022, the headwinds to momentum in 2023 are clear.

The strength of the national economy and a need to bring inflation back down to the 2-3 per cent target band has prompted the Reserve Bank to raise the cash rate precipitously, to over 3 per cent from near-zero 12 months ago. The RBA is set to tighten further before pausing to allow the impact of what's been done to flow through. The impact of higher interest rates on the housing market is apparent. Sydney has led the country's

decline, with a 13 per cent correction in prices seen in 2022. Interest rates are also putting pressure on household budgets for those with a mortgage (around a third of households), and this squeeze is set to increase as those with fixed mortgages refinance through 2023.

Consumers are also feeling the heat from the strongest inflation rates seen in over 20 years.

> “The RBA is set to tighten further before pausing to allow the impact of what’s been done to flow through.”

While price rises in early 2022 were relatively concentrated in a few categories, particularly food, fuel and the cost of residential construction, pressures have broadened to most parts of the economy and there are anecdotal reports of some consumers trading down to manage their household budgets.

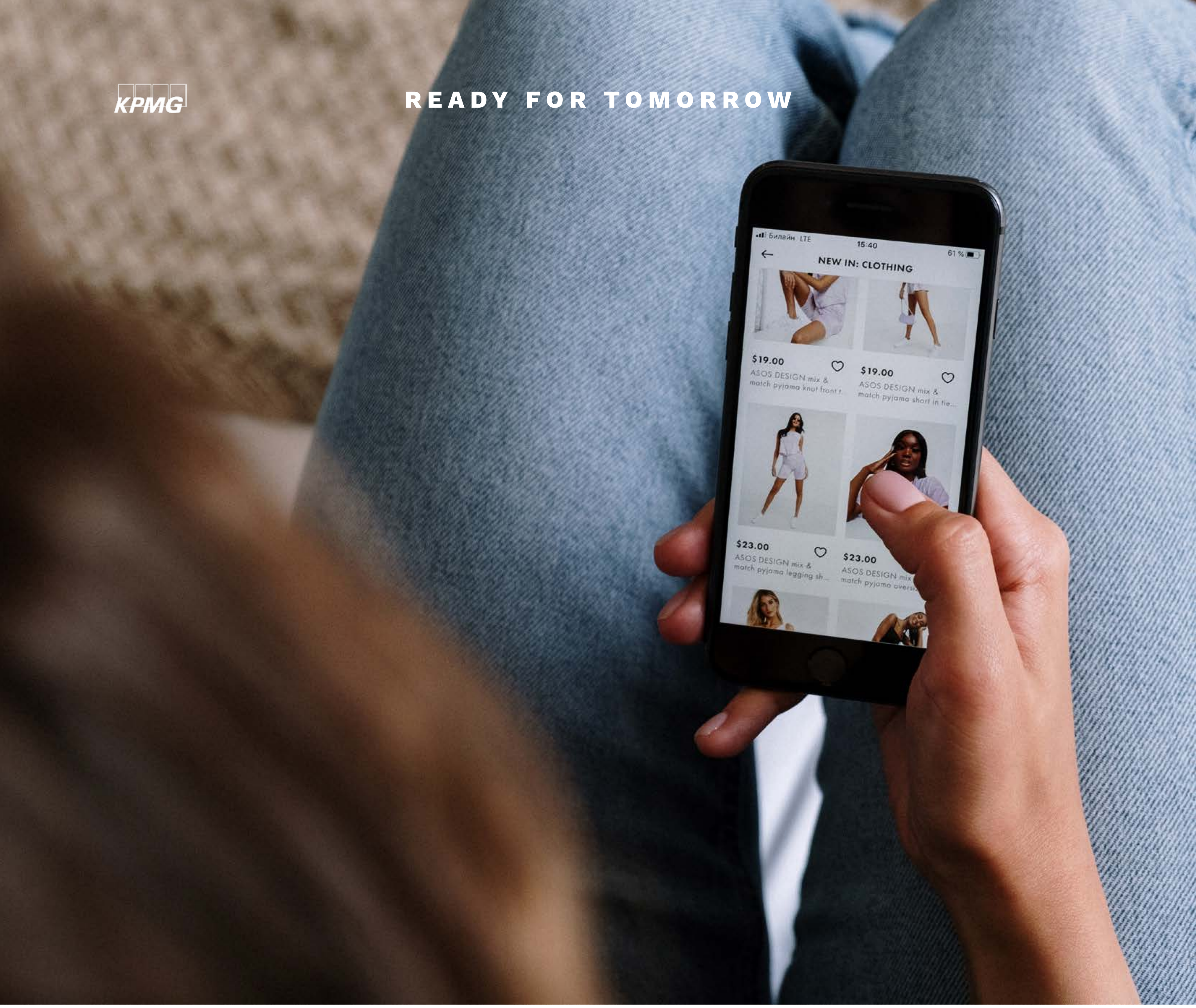
Notwithstanding these drags, the return of migration – 117,000 student and temporary worker visas were processed in the first quarter of the financial year, a record high – and continued wage growth of about 3.5 per cent this year, albeit slower than headline inflation, will provide some support. Taking all this and the end of the reopening boom into account, consumer spending is set to grow by less than 2 per cent in 2023, down from over 6.5 per cent in 2022.

The picture for other parts of the economy is also a mixed bag. The war in Ukraine has had a significant impact on global commodity prices, with the manufacturing sector in Europe now contracting as a result of the increase in fuel costs. More broadly, high inflation and rising interest rates are challenging many economies, and in some cases domestic conditions have held back activity. China’s economy underperformed in 2022, but the relaxation of Covid restrictions, interest rate cuts and other stimulus to the property sector should lift momentum moving through 2023. Australia’s exporters have generally been able to adapt over the last two years and take revenues to near-record highs. Helped by the disruption in global markets, commodity producers have found new markets in India, South Korea and Japan, while high-value manufacturers such as wine producers have pivoted into Europe.

Elsewhere, the challenge of elevated input costs and labour shortages in the construction sector should start to ease this year as conditions normalise locally and globally. It will take time, but the demand outlook for the sector remains positive. There is a solid pipeline of major infrastructure projects to complete, including the work needed for the 2032 Olympics, and demand for residential housing remains robust. The government has made providing affordable housing a key policy commitment, with the establishment of the National Housing Accord.

Australia is still set to outperform

Overall, the economy is expected to just about escape a recession, but grow by less than 2 per cent. This is below trend but given the strong performance over the last two years, in many ways it’s a welcome moderation in momentum. Firms and the labour market need time to expand capacity and catch up with demand, and during this process the RBA should be able to bring domestic inflationary pressures under control and return to the 2-3 per cent band in the medium term. This outcome will ultimately be best for the government, households and retail businesses. ■



It's not e-commerce anymore – it's just commerce

As online retail has expanded, the lines between channels have become blurred. A unified organisational focus on the customer experience is more important than ever.

Linda Chai, Partner, Retail Technology, KPMG Australia
Lisa Bora, National Firmwide Lead Partner - Retail & Leisure, KPMG Australia
Phil Welch, Retail Operations, KPMG Australia
Rebecca Alexander-Head, Client Director – Retail, KPMG Australia

FROM 2020-22, RETAILERS TOOK THE opportunity to accelerate their digital transformations. For many, this meant bringing forward investments in e-commerce to sustain a level of sales activity. As economies across the world reopen and store foot traffic enjoys a healthy rebound, many retailers are turning their attention to what they should do next with the investments that were made during the pandemic.

While the percentage year-on-year growth in sales made through online channels has fallen since the heights achieved during the pandemic, we continue to see a 'locked-in' step change in the volume of sales being made online: that means the investments made to ▶

expand the utility and reach of this channel continue to be a valuable base for retailers.

Australia Post's 2022 e-commerce industry report told us that online retail sales represent around 20 per cent of total retail sales, with shopping habits being reformed during the pandemic. Shopify declared Australian online shoppers' 2022 Black Friday sales fourth globally and November 2022 was the biggest month in Australia's online shopping history. However, over the 12-month period from November 2021 to November 2022, online purchases were down 3.8 per cent due to lockdown-driven spending in 2021.[1]

All this shows e-commerce has become critical to any retailer's sales strategy and there are significant benefits for brands. Firstly, e-commerce has enabled many brands to attract customer segments to their store that may have never previously considered that retailer.

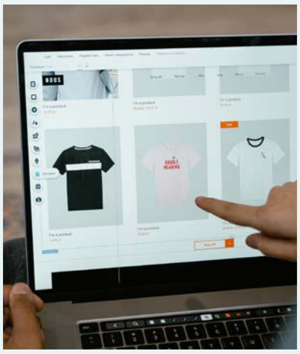
Retailers who have invested in their online visibility, search functions and excellent digital user experiences have seen their share of wallet amongst other dormant segments expand, in some cases with impressive results. Brands have started to scale their size and appeal impressively by leveraging e-commerce to reach beyond their niche appeal to broader and more diverse customer groups.

Secondly, having a strong e-commerce channel enables customers to find products online that they may have struggled to locate in-store. This is particularly true with department stores and discount department shops, where the efficiency is created by seeking out niche brands or specific products that might be underrepresented in mainstream retailers. Benefits to the retailer are not just the revenue this brings in, but the positive association forged through this type of strong brand experience.

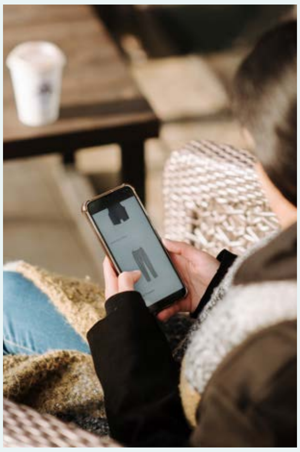
Thirdly, e-commerce should be seen as a channel that can drive shoppers in-store for intentional purchases. One example is at Michael Hill, which leverages its online platform to simplify the shopping experience for jewellery, allowing customers to reserve the products they are most interested in and create a time for a personal, in-store shopping consultation. This is a strategy of ensuring the online and offline sales experiences are integrated, particularly in premium product categories like jewellery, where there is a mental spending limit online. Customers are more likely to trade up when they transition to the in-store environment.

It's all just commerce now

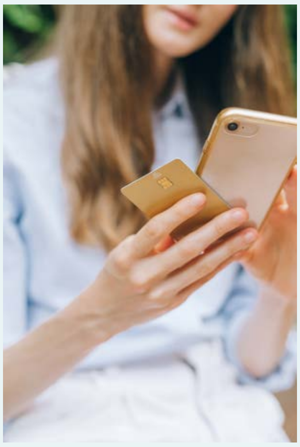
With retailers using the online channel to promote engagement across the entire buying journey, the distinction between the online store and physical stores has become increasingly blurred. We are seeing the role of e-commerce in a number of distinct parts of the journey and motivations to shop online have moved far beyond convenience alone:



1 Awareness: Online channels should be leveraged to promote broader awareness of their products and services to potential customers across multiple platforms. The retailer's website is merely the start of a customer's shopping journey today. Social media marketing in particular has grown in terms of its reach and impact, with an estimated 75 per cent of internet users reporting that they use social media to research products prior to purchase, either online or in-store.[2]



2 Education: As the majority of consumers turn to the internet to compare products prior to making purchases, retailers are also using this channel to educate their target customers on the benefits of their products over the competition. Online channels are proving to be an excellent platform through which retailers can provide customers with information-rich materials, such as sustainability alignment in response to the trend towards more conscious and mindful consumption.



3 Sales: Mobile commerce has become the norm and social commerce has grown, especially as Gen Z become young adults with their own spending power. Further, with the increasing awareness of cybersecurity concerns worldwide, establishing trust with customers to give them the confidence to transact online has become more important than ever, leading to greater online penetration by trusted and known brands than unknown or generic ones.

4 Customer service: This is often a buyer's primary point of contact with a brand. Customers expect to be able to ask questions before, during and after a purchase and that help is provided quickly. The experience that they have during these interactions is often a key determinant of whether a sale is completed, or a repeat purchase is made.

While these trends are broadly applicable, they are not universal. There are differences between categories, retailers and customer segments. For example, in household goods, we have seen good penetration of online sales and the rise of pureplay retailers with a loyal following, due to strong user experience and detailed product information. In contrast, the grocery category has experienced a far more blended approach to online and in-store purchases, with customers regularly buying everyday items online while less common purchases and fresh food continue to be the domain of in-store visits. Sophisticated retailers understand where the differences are for their target customers within the brand's specific categories and will optimise each channel accordingly for a seamless commerce experience.

Success requires organisation-wide agility and focus

Delivering great customer experiences across the entire buying journey is challenging. Engaging experiences that attract customers to the website or the store will only go so far.

> “75 per cent of internet users use social media to research products prior to purchase.”

The ability to execute on the basic sales and fulfilment transaction itself is also important. A lack of payment options, a lack of focus on what's driving cart abandonment, limited stock visibility and poor returns experiences are just a small sample of the reasons that customers spend less than they otherwise might online.

Addressing these issues to capture the full potential of a given sales interaction will typically require deep change that has implications for store operations, the entire supply chain, human resources and finance. We believe the retailers that will genuinely thrive tomorrow will understand that success requires agility across the entire organisation, not just in a specific channel. Some success will come from optimising each channel to meet the distinct needs of specific customer segments in that channel. Lasting and sustainable success, however, will also require the business to be agile so that the entire organisation can work harmoniously to deliver on an end-to-end customer experience across all integrated channels. ■

[1] Australia Post, Inside Australian Online Shopping eCommerce update, November 2022

[2] Datareportal, 2022

“Aligent are true experts when it comes to e-commerce. They are a trusted advisor and partner. They have a deep understanding of e commerce ecosystem and can handle all the complex areas that often get neglected – think Performance, integrations, and security. Above all they share our values with being transparent and upfront and have been able to deliver on their promises.”

Lee Munro, Director. Munro Footwear Group

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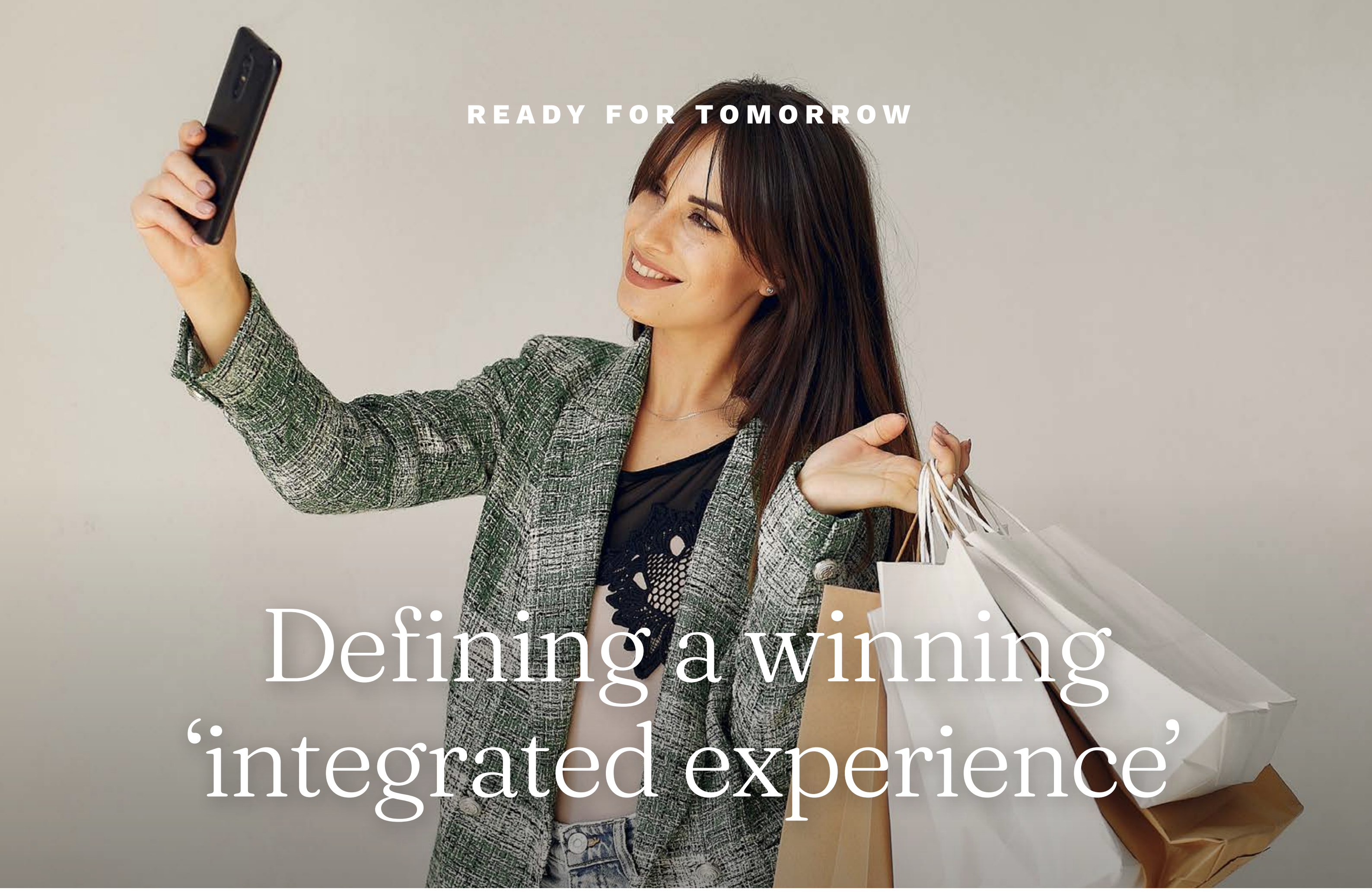


Defining a winning 'integrated experience'

Take a closer look at the elements that will make up a successfully personalised and convenient journey online and in-store for shoppers in the new normal.

Richard Large, Director, Customer Experience, KPMG Australia
Lisa Bora, National Firmwide Lead Partner - Retail & Leisure, KPMG Australia
Shae McDougall, Director, Retail Operations, KPMG Australia

NOW THAT THE BALANCE OF IN-STORE AND ONLINE SHOPPING has started to settle into a new norm, retailers need to focus on delivering seamless integrated retail experiences more than ever. But what does this much overused and rather generic term 'integrated experience' mean in practical terms?

We see two clear areas where physical and digital channels will increasingly converge in 2023 and beyond: the first is in the use of predictive analytics and real-time triggers to drive foot traffic and stimulate purchases; the second is in e-commerce raising its game to emulate the familiarity and immediacy of in-store interactions, particularly post-purchase.

Predictive and proactive engagement

Current campaign personalisation tends to engage similar shoppers prescriptively, based on their profiles, using predetermined trigger points along the customer journey to dictate what information to send to a customer based on past behaviour. This does not recognise contextual data relating to the individual, such as the behaviour they are exhibiting at a specific point in time, which is far more relevant in determining the type of information they should be sent.

The evolution of this capability, towards reacting to contextual data will increasingly cause a shift, from outbound push campaigns to inbound personalised experiences based on identifying and acting on signals as they happen. Delivering a message to a customer that directly relates to the precise stage they are at in the purchase journey – while they are in that moment – amplifies the impact exponentially.

10-50%

of churn can be reduced by using inbound personalised experiences. They can also drive conversion rates 3-6 times higher.[1]

Examples of this effect include the Starbucks app in the US, which uses geo-location to identify when a customer is approaching a Starbucks outlet and prompts them to order their favourite coffee so that it is ready to pick up as they walk past on the way to their office. As a competitive response, Dunkin' Donuts employs geo-conquesting to offer coffee lovers hot offers and discounts from Dunkin' Donuts as they approach Starbucks.

3.6%

of people who received Dunkin' Donuts offers came to redeem them in-store.[2]

In longer-sales-cycle retail, Harley Davidson uses AI to detect when potential target customers are most likely to be ready to buy, and advises a sales representative to contact them and walk them through the sales process.

Three components underpin this capability:

1. The continual collection and aggregation of transactional, contextual, behavioural and motivational data at an ►

individual customer level.
2. The ability to detect and understand the significance of behaviours in real time, to determine the best response.
3. The means to deliver the right message to the individual via a medium that suits their circumstances.

Transactional, behavioural and motivational data points are already on many retailers' radars, but to enable inbound personalisation, these measures need to be extended to real-time contextual data from apps, mobile devices and geo-location. Investment in deep analytical capabilities is also required, to support the coordination and curation of data in a decisioning engine.

Raising e-commerce's game

In the last two years, lockdowns and store closures have accelerated the growth of e-commerce to unprecedented levels, as customers have embraced the shopping ease and freedom forced upon them. Restrictions have now eased, however, and shoppers are returning to physical stores. Greater alignment of certain elements is necessary for the integrated experience between online and in-store to be optimised.

When you shop in-store, you take your purchase home with you. Similarly, when you return a product in person, it costs nothing to do so, and you're refunded immediately. E-commerce does not replicate this ease and immediacy of experience post-purchase, in spite of being convenient in other respects.

58% of shoppers state that return options are an important factor when making a purchase.

66% of shoppers have returned an item they bought in-store, while...

42% returned an item they bought online.[3]

There are retailers already making a move to bridge this gap and a great example is Dissh. The Australian fashion brand offers instant refunds on full-priced items via Refundid. Shoppers are reimbursed before they've even returned their goods. This potentially changes the game from free deliveries and returns and suggests that channel and geographic separation will no longer be sufficient.

Whilst recognising the balance to be struck between commercial benefit from repeat purchases and the cost of implementing changes for shopper convenience, the question "Where to from here?" needs to be asked. Could the gig economy of couriers enable 30-minute returns, or would increased transparency and communication of inbound processing suffice when time is less of an issue? Enabling cash returns earlier than stock receipt, as well as maximising customer personalisation, creates the opportunity to convert a return into another sale and becomes a much more profitable way to think about returns.

48% of consumers would shop online more frequently if there were faster delivery options available.[4]

A change in retailer mindset from 'Is this necessary?' to 'What benefits are there when I meet my customers' needs?' must prevail more commonly. Whilst same-day delivery is currently the conventional norm, delivery within 30 minutes is set to supersede this across the board. Consumers of products such as Lego are now adopting the demand for immediacy that was previously the domain of consumables, with JB Hi-Fi announcing 90-minute delivery via Uber. Other categories are sure to follow. Retailers will start to be reimagined as supply-chain businesses, focused on the efficiency of staying ahead of consumer expectations. Transparency of data will be critical to maintain and maximise profitability and remove the reliance on third-party service providers, which erode margins.

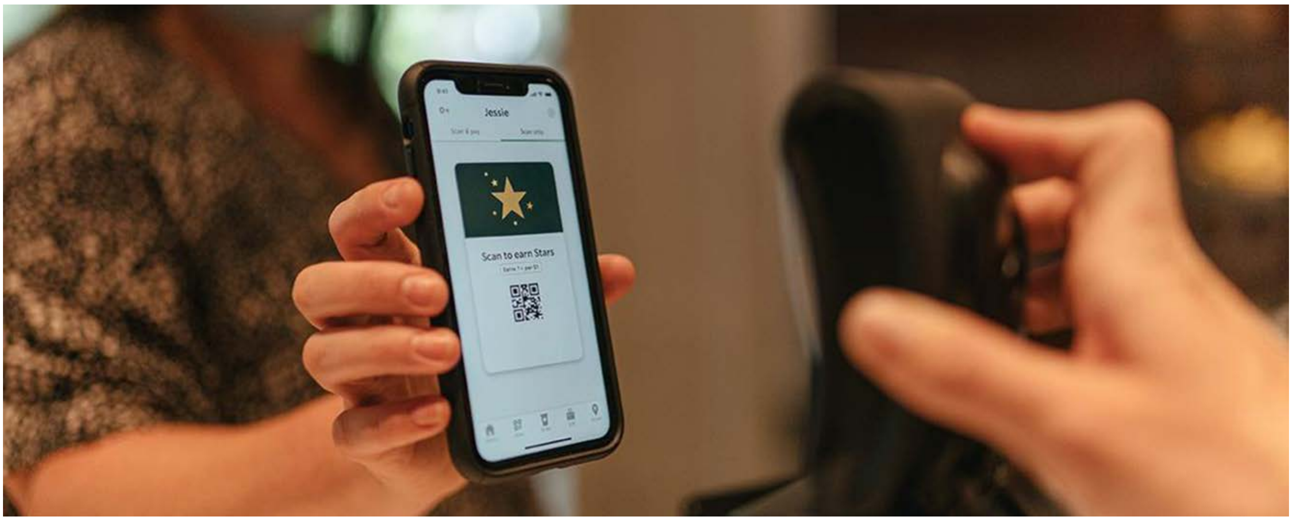
Every year, the landscape of customer experience in retail will evolve. There will be new technology, supply-chain advancements, new market entrants and disruptors – the list goes on. It is our responsibility as retail leaders to be bold, advance with the changes, pre-empt the next wave and continuously innovate to respond to the needs of our current and future customers. An integrated experience that enables interactions with your retail brand any time and anywhere is key. ■

[1] Australia Post, Inside Australian Online Shopping eCommerce update, November 2022

[2] Mindk.com, "How Location-Based Apps Benefit Businesses"

[3] Inside Retail, "Where are Aussie consumers now?" November 2022.

[4] powerretail.com.au



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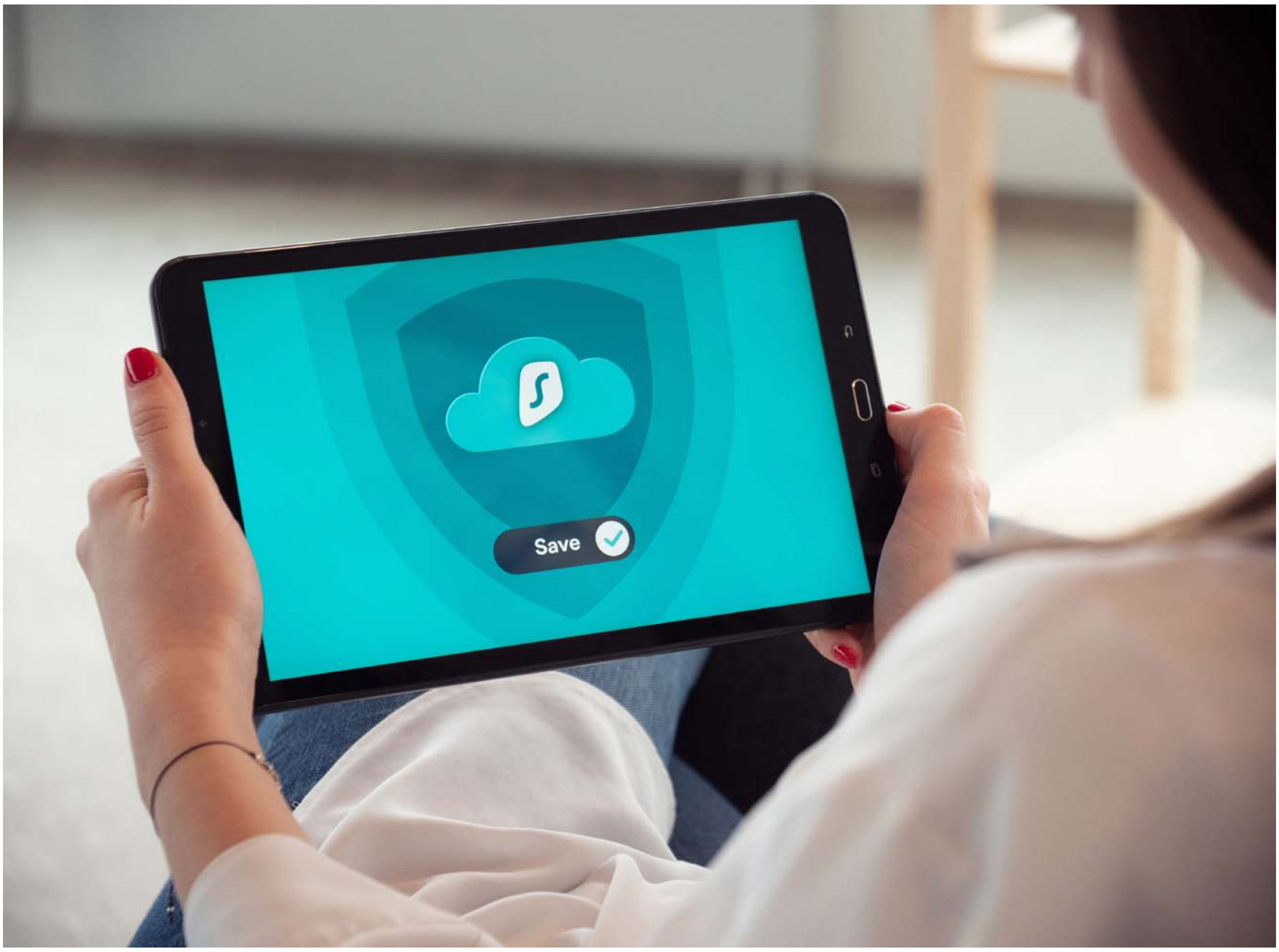
Protecting your brand must be on everyone's radar



It's more important than ever for retail companies – from the board on down – to be ready for attacks on digital systems. Help is available.

Matthew Quick, Director, Technology Risk & Cyber, KPMG Australia
Luke Eason, Partner, Technology Risk & Cyber, KPMG Australia

RETAILERS HAVE ALWAYS BEEN UNIQUE in the world of business. With slim margins, complex supply chains and rapid changes in customer interest driven by changes in seasons or a viral hit on social media, retailers are constantly adapting to different market conditions. Retail boards and executives need to be financial analysts, property speculators, geopolitical gurus, social-media experts, brand builders and, above all else, relentlessly customer-focused.

It is little surprise then, that the need for retail boards to be highly literate in technology and cyber-risk has been seen as just another challenge. The rapid pivot of retailers to digital channels has led to more customer data being collected, and in light of some of the high-profile data breaches in Australia in the last 12 months, boards are concerned about whether their cyber-risks are now being properly managed.

Unlike challenges in the past, however, cyber-risk and security have a habit of making those who haven't been deeply involved in them as a profession feel a sense of unease or even fear. Retail boards and executives are required to oversee a complex organisation with multiple points of presence in both the real and online worlds, which rely on systems remaining secure and available to trade to protect brand, reputation and even a business's ongoing existence.

There is good news though. Awareness of the need for a greater level of engagement in cyber-risk is becoming better understood each year. KPMG's 2022 CEO Outlook Report shows that more CEOs are recognising that they're underprepared for a cyber-attack – with 24 per cent saying so in 2022, compared with 13 per cent in 2021 – and no noticeable change in the number who say they are prepared (56 per cent). There were, however, nearly three-quarters (72 per cent) who said their organisation at least has a plan in place to deal with a ransomware attack, compared with 65 per cent in 2021.[1]

24%

of CEOs say they are underprepared for a cyber-attack

56%

of CEOs say they are prepared for a cyber-attack

72%

of CEOs say their organisation at least has a plan in place to deal with a ransomware attack.

However, what is often forgotten in discussions with cyber-risk is the upside.

Done well, cyber-risk management can be a significant advantage for retailers. Not just through the avoidance of the costs and brand damage that come with an attack but also from the increased levels of trust and engagement that comes from an honest, open and clear discussion with your customers.

Take loyalty or membership programs as an example. Whilst it may be easy to sign customers up at the point of sale and keep them engaged from there, the ROI from setting up and running these programs can be turned on its head as soon as that trust is broken.

In KPMG's Cyber Trust Insights 2022 global report, over one-third of organisations we surveyed already recognised that increased trust leads to better profitability, but nearly two-thirds said that cyber-security requirements are still shaped by compliance rather than long-term strategic ambitions.

In 2023, Australian retailers that truly understand the business advantage gained by ensuring their systems, suppliers and people are able to demonstrate how they manage cyber-risks is not only doing the right thing by their customers, but also for their bottom line.

Verizon's *2022 Data Breach Investigations Report* analysed more than 23,000 incidents and 5,200 confirmed breaches from all around the world. This report notes that of the 629 incidents and 241 breaches for retailers, social engineering attacks – such as phishing and pretexting – have been increasing consistently, year-on-year, from 7 per cent in 2016, to 13 per cent in 2018 and now to 29 per cent in 2021.

So what can retailers do? How should they respond to both the risks and the opportunities that exist?

The share of incidents and data breaches attributed to social engineering attacks, such as phishing and pretexting, has been increasing year-on-year. From...

7% in 2016

to

13% in 2018

to

29% in 2021.

1 Harness your greatest asset: your people.

Retailers' reliance on technology at almost every single point across a long and time-critical supply chain can't be ignored. The retail technology landscape is one of complexity in terms of systems, suppliers, locations and, critically, people. It can't be monitored 100 per cent of the time for 100 per cent of the cyber-risks.

Whilst the incident and breach numbers for retailers supports the common view that employees are the weakest link in any organisational security program, the reality is that they can also be its greatest asset. Workforces – both yours as a retailer and those of your suppliers and third parties – can act as the first line of defence in blunting social engineering attacks, if they are well educated in cyber-security risks.

Activities ranging from training campaigns to phishing and crisis simulations are examples of reliable, well-established ways to help build awareness of cyber-risk. Emerging options such as user behaviour analysis through integrated API analytics and dedicated cyber escape rooms are particularly worthy of consideration for retailers whose employees are often highly geographically dispersed in clustered groups with a high percentage of casual workers.

2 Learn from the (recent) past.

Recent history has highlighted for all Australians just how real the threat is of a successful cyber-attack. Then, once the investigations are done and the causes identified, the importance of getting your core cyber-controls in place and making sure they're working is yet again reinforced.

These core controls are things like: making sure vulnerabilities in your systems are identified and then quickly patched; implementing multi-factor authentication; decommissioning old systems and rationalising duplicated functionality; making sure APIs are hardened and secure; taking backups of critical data and systems then testing them as ►

part of regular resilience recovery exercises; and having the right tools in place to detect and alert you to any unusual or suspicious activity.

Critically, for retailers, this includes also asking questions and seeking assurance from your suppliers and supply-chain partners that they must do the same. In the high-volume and multi-vendor world of retail, it may seem that high levels of supply redundancy are available but dig a bit deeper and you'll often find that what seemed like a wide field of suppliers are all relying on the same fourth- or fifth-party supplier somewhere down the line.

Finally, testing that the controls you and your suppliers are relying on are designed and operating effectively is essential. The hard lessons about missing or incomplete controls learned by organisations that have been compromised cannot be ignored.

3 When something does go wrong, know whom to call.

Knowing whom to contact is crucial when responding to a cyber-incident. Swift, clear actions and communication enable you to protect what you can and not allow further harm. Not only that but, crucially, in retail, where stickiness of customers is so important, holding on to as much goodwill as you can in the very worst of times is vital.

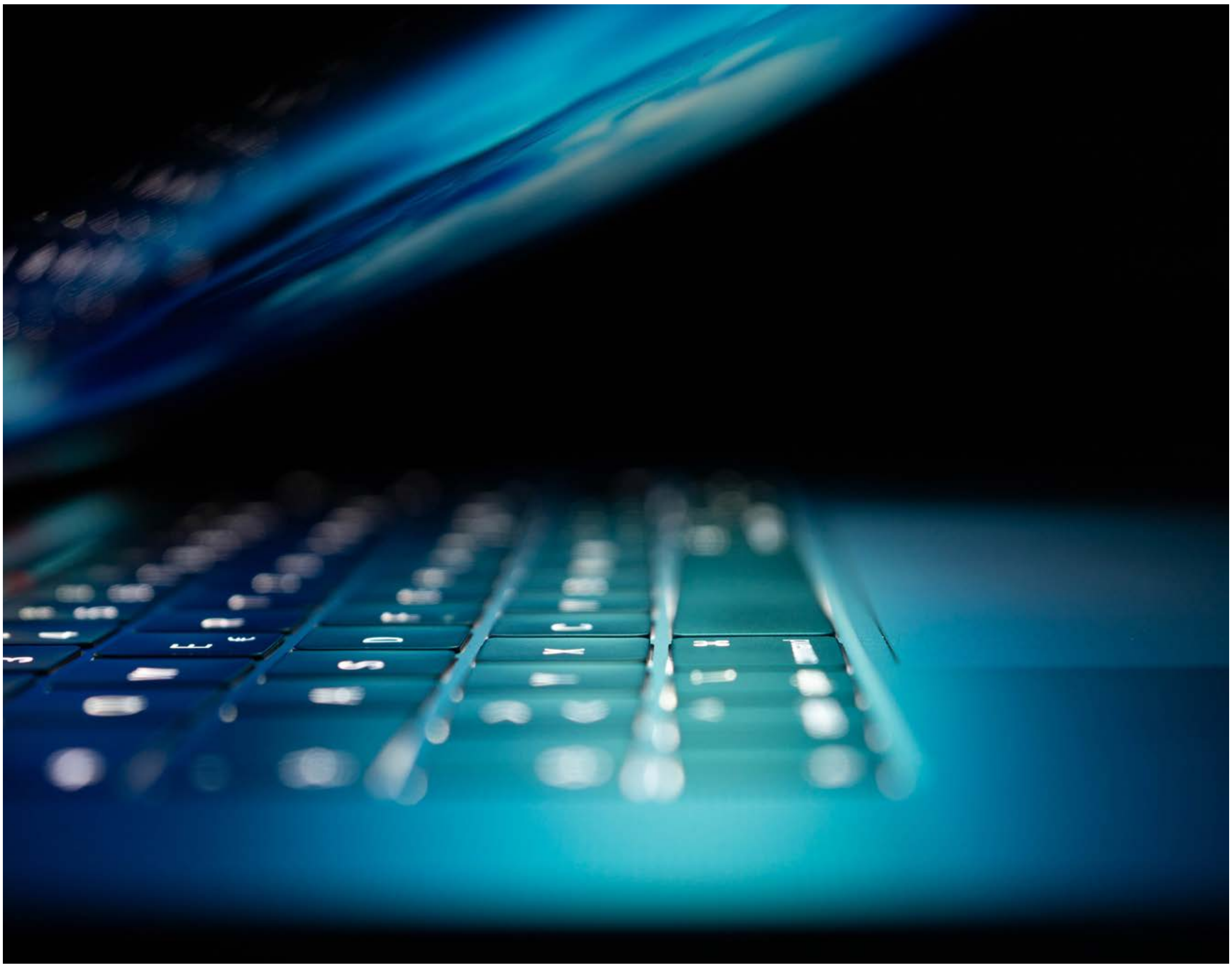
> "Holding on to as much goodwill as you can in the very worst of times is vital."

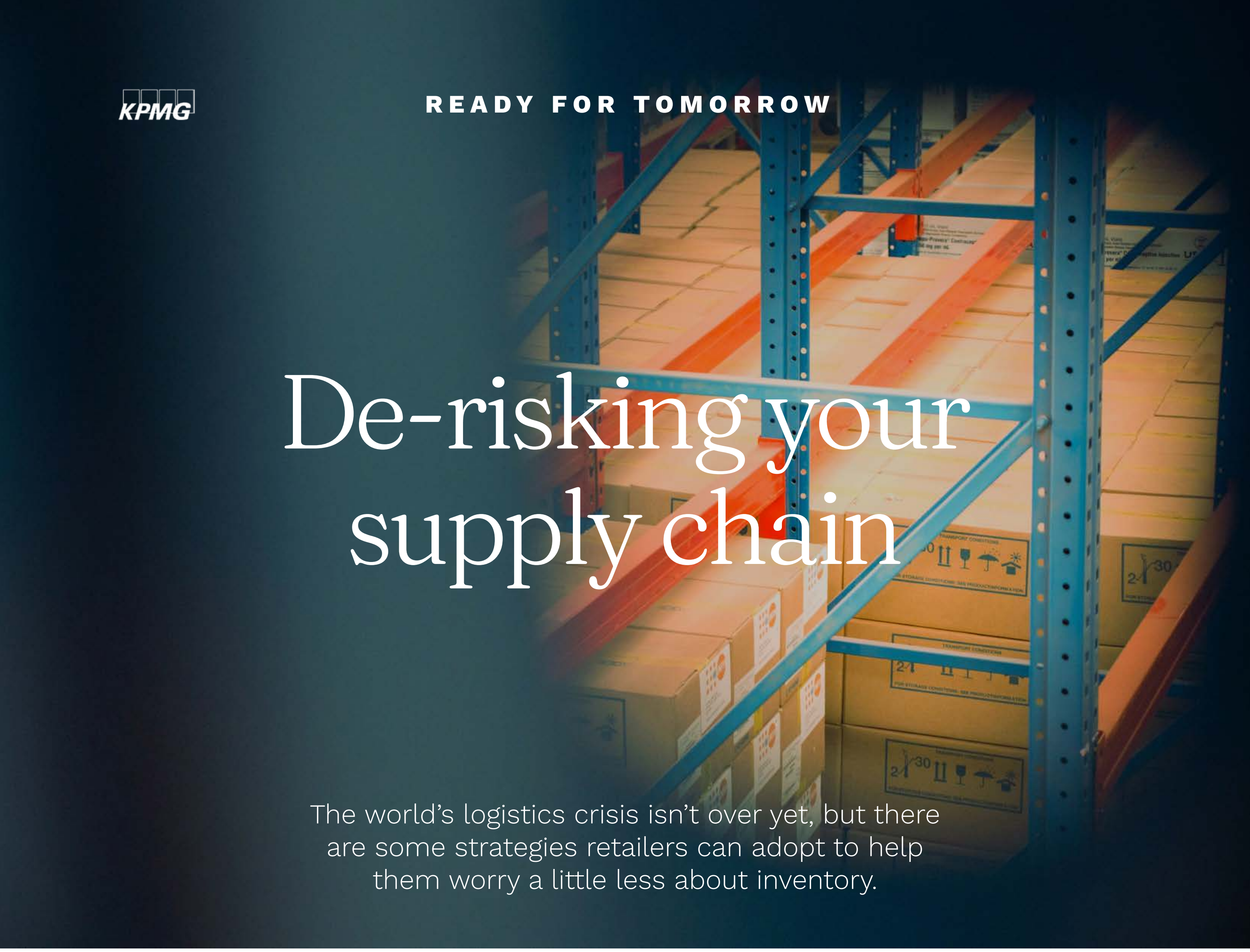
Preparing your own teams, from the board down, to know how to respond and communicate with your customers, your regulators and governments, third-party suppliers and the media in a crisis is make-or-break leadership. Getting ahead of the game allows you to be more proactive and methodical in your response, leading to clearer thinking and decision-making. It also gives you an opportunity to show your customers how, even in the worst of times, you respect them and that you will work to repay their trust in you right from the very beginning.

Along with the mock exercises that can help prepare you for these situations, there are also a growing number of helplines to call for support and guidance in a crisis; for example, **KPMG's own Cyber Incident Hotline (1800 316 767)** received a significant increase in requests over the last 12 months, as have others, such as IDCARE in Australia. Help is at hand, and more so now than ever before.

The bottom line for Australian retailers in 2023 is that while the threats posed by a cyber-attack are showing no signs of slowing down, preventing and being ready to respond to one need not be as much of a daunting prospect in the future as it has been in the past, if you prepare for it in the right way, right now. ■

[1] KPMG Cyber Trust Insights 2022 report





De-risking your supply chain

The world's logistics crisis isn't over yet, but there are some strategies retailers can adopt to help them worry a little less about inventory.

Peter Liddell, Partner, Global Operations Centre of Excellence Leader, KPMG Australia
Brendan Cottam, Associate Director, Supply Chain, KPMG Australia

AUSTRALIAN RETAILERS ARE RECOVERING FROM PERIODS OF widespread shortages rolling into high inventory levels on the back of supply-chain disruptions in recent years. While in 2023 the worst of the disruptions may be over, we expect local supply chains to be impacted beyond this year as global imbalances in transport and logistics take time to settle and the geopolitical environment remains uncertain. Best-practice retailers are already acting to build resiliency and responsiveness into their supply chains as a competitive advantage.

Geopolitical disruption

Rolling lockdowns in Asia have wreaked havoc on retailers, especially those with heavy reliance on manufacturing and distribution from China. While this is expected to ease over the coming year, the demand backlogs will take time to clear and continue to place pressure on replenishment lead times. With additional delays arising from the ongoing global trade and logistics imbalances, it all points to one key trend for 2023 – supply-chain disruption will be a factor for some time yet. Unfortunately, transport and logistics costs are not expected to return to pre-pandemic levels until demand patterns stabilise and global supply chains have a chance to reposition containers and process backlogged capacity.

Given the continuous disruptions, it is not surprising that 83 per cent of organisations surveyed stated that their commitment to managing supply-chain risk is now "medium" or "high".[1] This observation aligns with the fact that investment applied toward building enhanced supply chain resilience through the digitisation of operations is at its highest levels.

Nearly 75 per cent of global organisations experienced significant supply-chain disruption in the past few years, yet nearly half of these organisations have yet to establish stability for the future.[2]

Logistics costs (domestic and inbound ocean freight) are not expected to return to pre-pandemic levels until demand patterns have stabilised and pressure from rises in fuel costs begin to ease.

Ongoing geopolitical tensions, specifically in Europe, are impacting key supply routes and the costs of inputs. The recent US export controls on computing technology going to China will delay many consumer electronics, and also raise the likelihood of escalating trade and geopolitical tension that could spill over into other product categories, creating shortages of critical equipment and spare parts, tools and machinery, and more.

Planning remains challenging

Lead times will continue to be stretched and Australian retailers will need to maintain extended planning horizons, especially for items coming from Asia or Europe. This places increasing importance on the accuracy of forecasts and the quality of the data that underpins them. Leading global retailers are leveraging external data sources in real time and applying predictive analytics on daily transactional data from stores to maintain more accurate inventory holdings, helping to increase sales with greater on-shelf availability and reduce waste within their supply chains. The improved data management and real-time analytics enables a mature and capable supply-chain planning team with the right skills and technologies to analyse the data and make critical decisions in response to disruptions, supply inconsistencies and variations in demand.

Excess inventory remains a challenge for all retailers – the reactions to shortages include stock ups and 'just-in-case' supply strategies. Now we are seeing inventories well above historical levels, particularly for those based in the northern hemisphere. Economists are forecasting that consumer confidence will take a hit in 2023 on the back of inflationary pressures, with the immediate impact on spending. With a drop in consumer spending, many retailers will be exposed to margin pressures off the back of likely markdowns, especially in those product categories where shelf life is less than 6-12 months.

> "Excess inventory remains a challenge for all retailers."

It's not just about your Goods-for-Resale. The industry is also facing cost and lead time challenges across Goods-not-for-Resale, with inputs into construction and technology products of particular concern. For companies whose strategy is underpinned by network expansion, store refits or new supply-chain facilities, this represents a material risk to their 2023 growth objectives. Rigour in supply-chain risk management also needs to be applied to these GNFR categories.

The time is now

It is critical that retailers act now to build in resilience through greater agility and responsiveness within their supply chains. Reverting to an efficiency-focused supply chain or attempting to ride out the current conditions will cause them to fall behind market leaders.

Three actions retailers can take to build resilience into their supply chains:

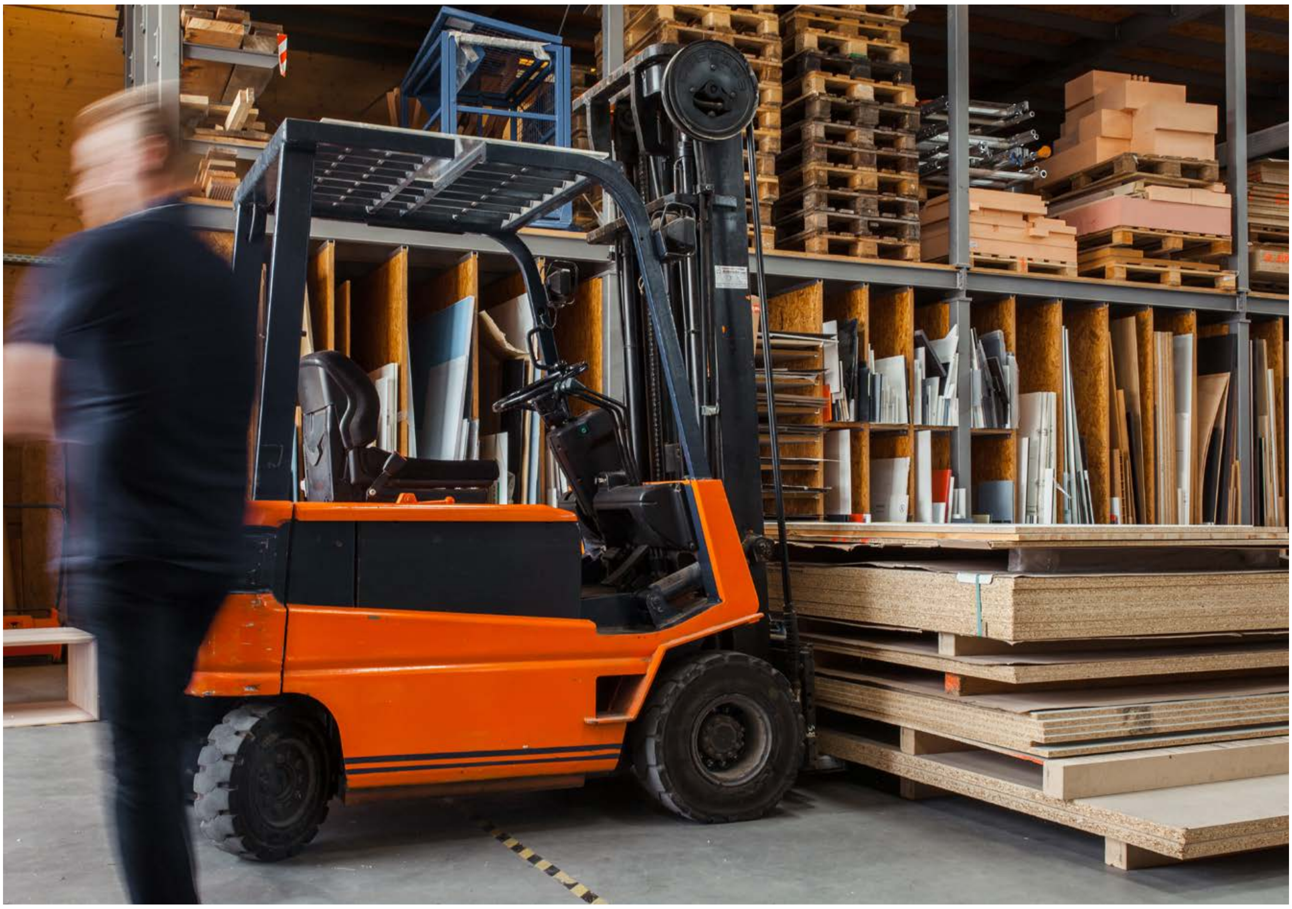
1 Digitisation: True digitisation of the supply chain goes beyond just implementing a new point solution or planning capability within your warehouse. While these are the building blocks, it involves the use of digital technologies to change part or all of the retail business model to support new revenue and value-producing opportunities, just as many Australian retailers supported sales growth during the pandemic by creating online platforms and enabling flexible delivery with new digital technologies.

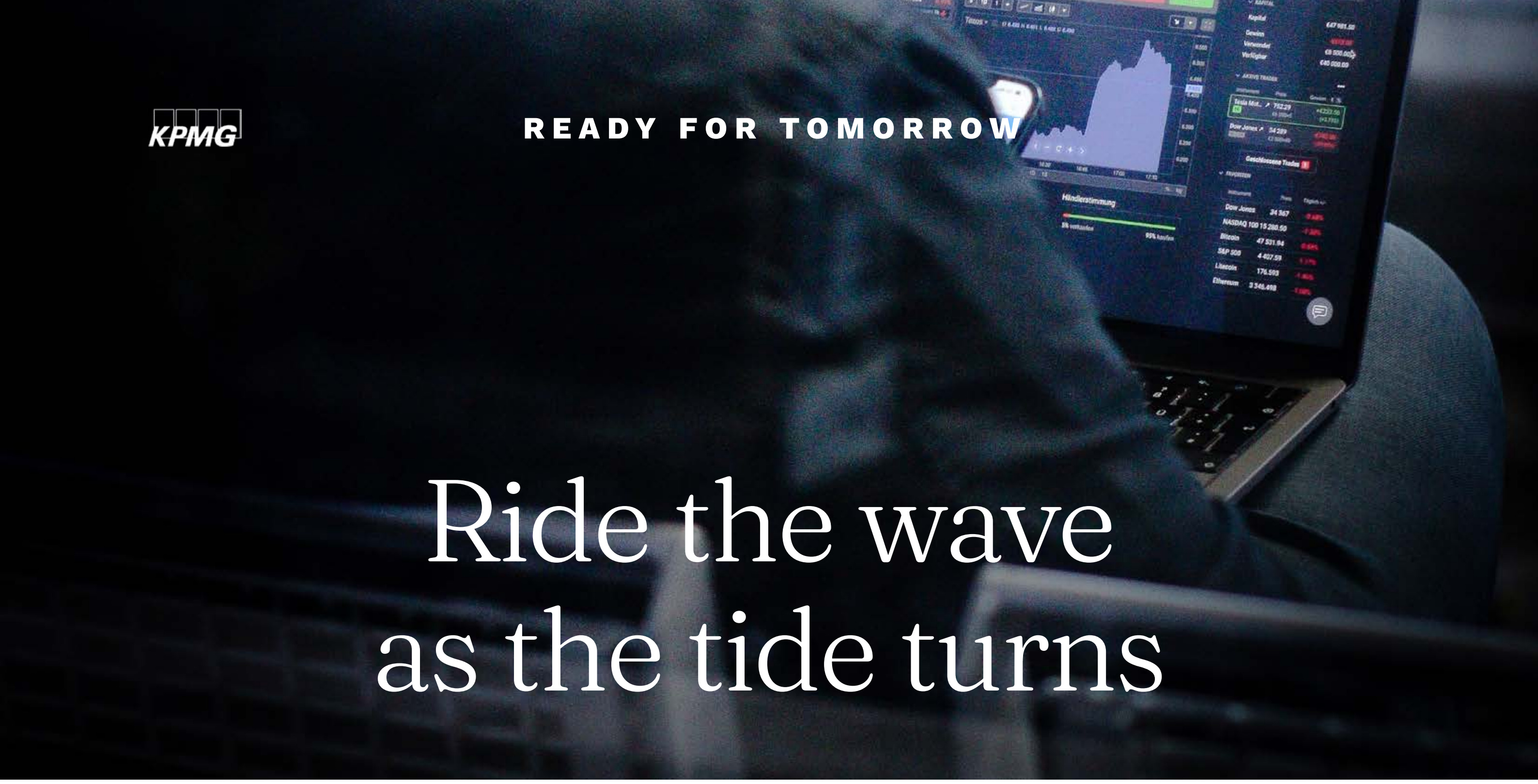
We've seen this done well. A European retailer developed a new AI-based forecasting and allocation tool for promotional items that factored in inventory levels at stores and sales history to increase the accuracy of promotional stock allocations across its network of stores.

2 Supply-chain visibility: The key to building resilience is understanding in real time how your supply chain is performing and where the potential disruptions lie. Many have achieved this through investment in digital tools, such as control towers that collate data from partners across the entire value chain, enhanced with predictive AI capabilities to help retailers identify and proactively manage supply and delivery risks.

3 Micro-supply chains: Supply chains of the future are more adaptable to meet customer demand. They have created more flexibility in their domestic and global contracts, production and delivery approaches and they have adopted strategies that drive supply efficiency and customer excellence, while balancing the cost of complexity with the value gained from offering variety. They have established mini operating models based around their customers within specific segments. ■

[1] KPMG Supply Chain Survey, October 2022
[2] KPMG Supply Chain Survey, October 2022





Ride the wave as the tide turns

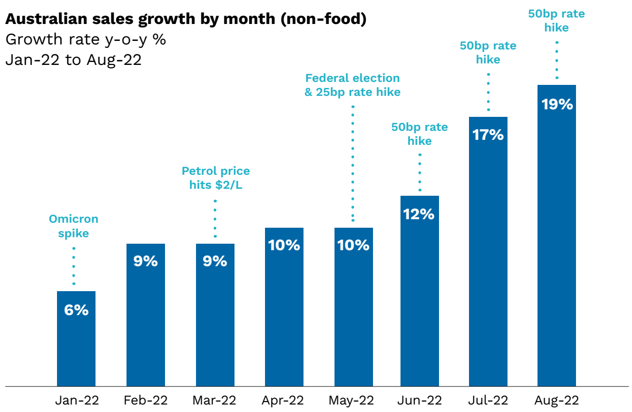
An unexpected slowdown in the year ahead doesn't have to limit growth in all areas of retail. With a focus on four key aspects of business, some categories can still thrive.

James Stewart, Partner, Global Retail Restructuring Leader, KPMG Australia
Trent Duvall, Partner, National Leader – Consumer, Retail, Industrials & TMT, KPMG Australia

AUSTRALIA'S RETAIL SECTOR STORMED AHEAD DURING the pandemic, off the back of economic stimulus not seen since World War 2 and a global shift to digital platforms that accelerated a transformation that had commenced before Covid-19. As we look towards 2023, the economy is now largely dry of stimulus and year-on-year retail spending is set to slow. Growth rates for discretionary retail are most likely to be affected as the effects of rising interest rates and inflation finally take hold. Amid the turning tide, growing a customer base and margins is expected to become more challenging; consumers will potentially return to a conservative spending pattern – this time without the aid of the government dollar.

In 2022, non-food retail sales continued to post year-on-year growth at record levels between January and September 2022. What's important here is that this was against significant headwinds: surging fuel prices and inflation, multiple interest rate hikes, a federal election – events we would typically expect to constrain economic growth.

Australian sales growth by month (non-food)
Growth rate y-o-y %
Jan-22 to Aug-22

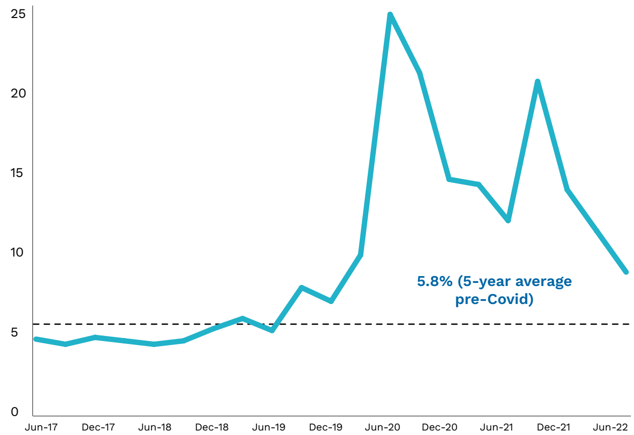


Source: Australian Bureau of Statistics, MST Marquee

So, what is going on? What has powered the retail sector's upward trajectory?

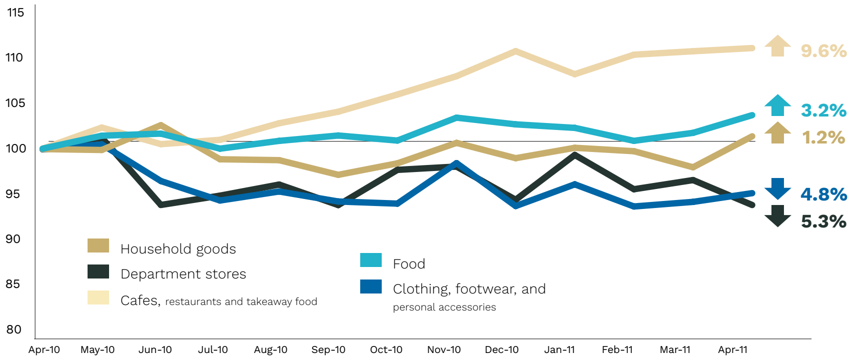
It is partly related to high household savings levels accumulated over the last two years, fuelled by government stimulus and a shift in consumer behaviour to a new domestic lifestyle on the back of extended lockdowns and closed borders. While savings remain elevated, they have now declined to near pre-pandemic levels. The interest rate hikes throughout 2022 will continue to cycle through to households, placing more pressure on customer wallets in the year ahead.

Household savings ratio
%, seasonally adjusted
Jun-17 to Jun-22



What does this mean for retailers in 2023?
Some clues as to how this will play out lie in the period following the Global Financial Crisis (GFC) over a decade ago. The non-food retail sector experienced a tumultuous period ▶

Retail spend from May 2010 following last round of RBA rate increases
Indexed, rebased to 100 at Apr-10
Apr-10 to Apr-11



> "In a slower retail growth market, consumers tend to fly to the retailers and brands they trust."

So, how can retailers protect margins and grow in an environment of depressed spending? There are four key areas where businesses can focus:

1 Range architecture: Product range architecture has always been a critical success factor for retailers. Indeed, in buoyant economic times, retailers often explore new territory in pursuit of growth. But this can lead to complex brand portfolios or product assortments that drain capital, shift management focus and sometimes confuse the customer as to what the retailer stands for.

During the pandemic, many retailers initially narrowed their product range, to focus on core brands, products or categories. This put those retailers in a good position to survive, and indeed thrive, during the pandemic, and protected sales and margin.

In a slower retail growth market, consumers tend to fly to the retailers and brands they trust. They want product reliability, items in stock when they need them, value for money when they buy, and a seamless customer experience, because money and time are both tight.

Ultimately, great retailers know that getting their product assortment right, to meet core customer needs and clearly communicate their brand proposition, will keep their customers coming back.

So what does this mean?

Basically, a hyper focus on range architecture and supply-chain agility is needed for a retailer to capture the elusive dollar of a customer who is more conservative in what they spend and more considered in what they buy. We encourage retailers to try out different trading environments as part of their budgeting process and closely examine range architecture and merchandise planning regime to identify opportunities to pivot quickly if trading conditions change.

2 Price architecture: While we expect the growth in consumer spending to slow, not all retail categories are equal in a low-growth environment; some will be more sheltered from any economic downturn. For example, food retailers typically are more resilient.

Indeed, those retailers who invested heavily in understanding their core customer, their behaviours and price sensitivity over the last few years will be at a real advantage as the market slows. More than ever, the digital revolution has enabled many retailers to develop bespoke personal profiles of their core customer and adopt a level of personalisation that was largely a pipe dream before the pandemic. Having a dynamic pricing strategy that is backed by data and responds to the ebbs and flows of customer demand is the new oil. Does your business have the data and tech stack to support a dynamic pricing strategy?

3 Customer engagement: The benefits of a highly engaged and loyal customer base are well known, regardless of economic conditions. This becomes even more pronounced in times of economic uncertainty.

We believe retailers looking into the future are asking themselves:

1. What does best-practice customer experience look like in a low-growth environment? And how does this change by channel?
2. How will our core customers be affected by prevailing economic headwinds? How will this impact our range and price architecture? What levers are available to help adapt accordingly and over what time frame?
3. How should our team and technology stack be set up to deliver the best customer experience in a physical and digital environment?

4 Operating model: Last but not least is operating model resilience. During the pandemic, many retailers took the opportunity to restructure their operating models to be more agile, with a lower cost of doing business driven largely by a reduction in fixed costs such as rent and head-office infrastructure and stronger adoption of digital technology. Many of these changes were possible only because of a temporary shift in the usual business environment, which enabled structural changes to be made to business models with a relatively low financial penalty compared with the potential economic crisis that loomed.

In 2023, operating model agility will again remain under pressure; however, with a few additional overlays:

- The return to economic and commercial factory settings after the pandemic means retailers will not be able to rely on government intervention if times get tough.
- Data security and cyber protection have rocketed to prominence in the eyes of customers as the world's hackers have turned up the heat on some of our most high-profile and vulnerable organisations. This will grab the attention of retail boards and business owners across the country, encouraging them to invest in better defence systems that protect not only their customers but also their brand.
- Environmental, social and governance matters will continue to grow in importance in consumers' minds, playing directly into their decision-making patterns, with the recent KPMG survey showing that 57 per cent of consumers pledged to shop at stores with a strong fair-trade commitment (factors included no child labour, tackling poverty and protecting against deforestation).[1]

The next two years may prove to be the retail trading environment we thought we would get in 2020. The key question for retail boards is, "Am I now future-fit to deal with what is coming?" ■

Real Impact
Real customers
Real results

Reflections on the future of Australian retail

As new trends continue to emerge and evolve from the upheaval of the pandemic, five CEOs share their reflections on what lies ahead.

JOHN GUALTIERI
CEO

KPMG: What do you see as the greatest challenge to Australian retail in the year ahead?
John Gualtieri: The Australian retail landscape, like all industries, has undergone significant change over the past few years. At Kmart, our focus has always been on being there for our customers by providing great products at the lowest prices in the market across a wide range of everyday items. We are conscious that in an inflationary environment, value becomes a stronger consideration for customers. For Kmart, this is why our relentless focus on keeping costs low becomes more important than ever. And we can keep costs low because we design our own products and get them made at low costs through our scale and direct sourcing capabilities. We know

> “Technology has enabled us to connect to our customers.”

that rising costs of living are being felt by everyday Australians and New Zealanders and we work hard to provide the lowest possible prices for Kmart customers on products that help make their everyday living brighter.

KPMG: What is a key investment opportunity or area for retail to thrive in the next 2-5 years?
JG: I believe the biggest key investment area for retail is digital technology. From online shopping and delivery to inventory management and better design processes, technology has enabled us to connect more closely to our customers, better manage the volatility and challenges of supply-chain disruptions or significant swings in demand, and help create a better customer experience. The importance of bringing great products to our customers in a fast and agile way has never been greater, which is why we are constantly looking to use technology to bring speed and flexibility to our supply chain and customer experience. One example of the ways Kmart is using technology is through our 3D digital product design, which enables designers to create animated 360-degree views of our product to see how the fabrics hang, move and look on differently sized models. Best of all, it removes the need to send physical samples across the world, reducing lead time and wastage. As well as improving our product development process, this technology can also have great benefits for customers – like access to more detailed fit and sizing information, a heap of analytics that allow us to improve our designs, and one day even the ability to browse digital avatars rather than 2D product photos.

ERICA BERCHTOLD
CEO

THE ICONIC

KPMG: What do you see as the greatest challenge to Australian retail in the year ahead?
Erica Berchtold: Understanding changes in customer behaviour will be one of the greatest challenges for retail in the months ahead. With rising interest rates and cost-of-living expenses, we know that some customers will slam on the brakes when it comes to spending, some will become a little more considered in their purchasing, and others may continue spending as usual.

> “We all have a responsibility to make genuine and lasting change, and it takes time, strategic thought and dedication to shift the needle.”

With this in mind, retailers will need to make sure they are nimble enough to ensure they are adjusting their offer to what customers want, and also to adjust their cost base to take into account a period of lower economic growth. Furthermore, we've seen the fashion and lifestyle industry as a whole clearing stock through Q4 of 2022, and for some, they may do that well into the first half of 2023, as the industry adjusts for lower growth and potentially a more value-/cost-conscious consumer. This won't be the environment to handle excess inventory. The Iconic will be focused on understanding our customers and their behaviour on an even deeper level than we already do to ensure we remain top of mind as they become more value-/cost-conscious in the face of a higher cost of living. This means understanding their behaviour, understanding their future needs, and maintaining the right balance of stock so we can pivot our offer based on those needs and wants.

KPMG: What is a key investment opportunity or area for retail to thrive in the next 2-5 years?
EB: We see sustainability, circularity and DIB (diversity, inclusion and belonging) as big areas of opportunity and investment over the next 2-5 years. The Iconic has a deep commitment to its people and planet-positive strategy, and has invested in these areas for many years now. However, we know we still have work to do and have ambitious goals in place to achieve by 2030. These areas cannot be for face-value or to simply 'tick a box'. We all have a responsibility to make genuine and lasting change, and it takes time, strategic thought and dedication to shift the needle. We encourage the wider fashion and lifestyle ecosystem to focus on progress in this space over the coming years, and welcome any discussion to support our counterparts.

Secondly, we see delivery as a key opportunity for development. We pioneered fast delivery when we first launched in 2011. For us, topics such as last mile, time-frame delivery and automation as a customer value proposition will be focal points for our investment in enhancing customer experience over the coming years. That said, we also need to find ways to reduce our environmental impact when it comes to delivery, while simultaneously servicing customer demand. This is a challenge the entire industry needs to focus on and something I truly believe can be revolutionised if our ecosystem comes together to evolve what delivery looks like in our country.

Lastly, and specifically looking behind the scenes at The Iconic, we will also be focusing on evolving our systems and processes to make sure they are stable and scalable given the size of our business now. Like any business, we continuously look to increase efficiencies. For us as an online retailer, this is of the utmost importance, given the speed at which we operate. ►

ANGUS McKAY
CEO

KPMG: What do you see as the greatest challenge to Australian retail in the year ahead?
Angus McKay: Considering rising interest rates, cost-of-living pressures and general economic volatility, it is no surprise that Australians are managing their budgets carefully. Keeping costs down and offering great value for money should be the priority. Retailers should emphasise investments that drive value and differentiate themselves for the customer. We understand the importance of this at 7-Eleven, which is why delighting customers is one of our four values. In doing so, we aim to stay relevant through the next year of economic uncertainty and weakened consumer sentiment.

“Delighting customers is one of our four values.”

KPMG: What is a key investment opportunity or area for retail to thrive in the next 2-5 years?
AM: The last two years of lockdowns have limited some retailers and consumers to an online shopping environment. Throughout this period, the role of online stores has evolved. Consumers now have greater choice as to where and how they want to shop, and we've invested in digital platforms to create a seamless way to transition across both our terrestrial and digital properties. Although some customers might engage with your brand through only one avenue, others may begin their journey through your app or website and then purchase in-store. Customers have choice and we need to respond with avenues that facilitate that desired choice.

Customers neither need, nor want, to know all about your business's back-end operations, but an effective back-end paves the way to high satisfaction. As a retailer, we must therefore be centred on the customer to drive better value and curate an exceptional shopping experience. Despite increasing financial pressures, discretionary spending isn't slowing down and that emphasises that consumers have a yearning for places with strong customer service and great value for money. Combining this understanding with comprehensive investments in digital has enabled us to push the boundaries of a traditional convenience store. We have extended our product range to meet the wants and needs of consumers, increasing offerings across food to provide greater balance in both indulgent and healthy eating.

I think the retail industry has already seen significant improvements in the variety of digital offerings but there is still considerable untapped potential, and we're excited to be exploring this at 7-Eleven.

ERIC MORRIS
CEO

KPMG: What do you see as the greatest challenge to Australian retail in the year ahead?
Eric Morris: There are a couple of challenges. The macroeconomic issues are the biggest; we predict they will hit us over the coming months. Further to this, in the retail world, the critical challenge is the shortage of staff, not only in-store but in the support office; roles in e-commerce and IT are really challenging to fill as well. I think that will get worse. We are pleased to see that the government has made initial moves on opening some visa categories, which should assist in lessening the pain.

For apparel retailers, the other big challenge is getting people back into the office. I feel strongly that working in a tactile industry and creating the products we do is hard when working from home.

Finally, how do we all regain the progress we made during Covid-19 in the online space? Brand Collective were fairly advanced, and then the pandemic gave an uplift, now we are considering how we continue to make improvements in this space.

> “In-store experience is now our greatest investment area.”

KPMG: What is a key investment area or opportunity for retail to thrive in the next 2-5 years?
EM: As people are wanting to get back into stores, in-store experience is now our greatest investment area. Ensuring our stores have great fitouts, and that our staff are well trained and knowledgeable, is so important.

We will also have a continued investment in online tech. It will play an advanced role in driving traffic in stores. Once the customer is in-store, the focus needs to be on completing the sale. There are many components to getting this right: loyalty programs, segmentation, targeted communications. It's the ambience of the store, it's the training of the staff, service, customer data segmentation and targeted communications.

DANIEL BRACKEN
CEO

KPMG: What do you see as the greatest challenge to Australian retail in the year ahead?
Daniel Bracken: People were starved of in-store experiences during the pandemic, and we are now witnessing a resurgence of physical retail. Customers want real-life experiences, they want to interact with staff in stores. The challenge here is that there has been such a focus by many retailers on online initiatives, which now need to be converted into an offline experience.

Most retailers think of multichannel simply as order fulfilment; however, at Michael Hill we have remained true to the meaning of omnichannel, thinking strategically about our various sales channels. We saw a price barrier online that people would convert at – approximately $1,000 – but most engagement rings are $4,000 and upwards. Instead of attempting to push the sale online, we created an option for customers to make an appointment to view the items in their cart in person. We did this before Covid-19 and we're now seeing other retailers adopt a similar approach. It goes to show brands need to consider the reversal to in-person experiences and clearly define what role their online store plays.

> “We are witnessing a resurgence of physical retail.”

KPMG: What is a key investment area or opportunity for retail to thrive in the next 2-5 years?
DB: Truly understanding the customer through data is undoubtedly the big investment area for retail. We have been working hard over the past 18 months to streamline our data and build a robust, fully integrated CDP at Michael Hill. Data has traditionally been maintained within marketing teams but we are shaking this up, bringing customer data to the forefront of our digital communications and interactions in stores. By arming our store teams with information such as customer purchase history, what customers have been interested in but not purchased and so on, we are able to offer a curated in-store shopping experience. ■

Selling your business? Focus on what matters to buyers

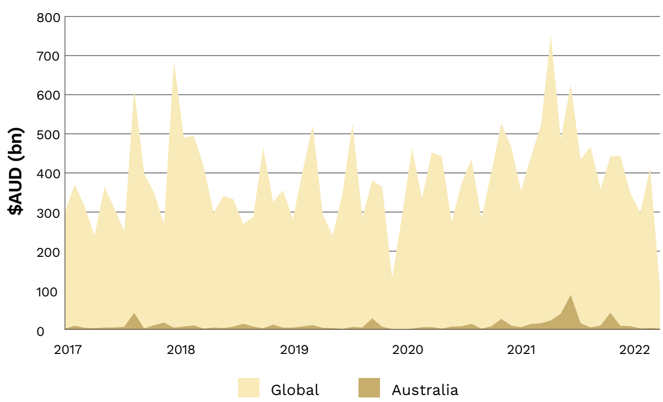
Many retailers have gone up for sale successfully over the last couple of years. Here are the 10 things to focus on to follow in their footsteps.

Luke Lawrentschuk, Partner, Mergers & Acquisitions, KPMG Australia

THE PAST TWO YEARS BROUGHT AN UNPRECEDENTED BOOM in M&A activity across the retail sector. Many retailers not only enjoyed record profit margins, many of those that sold their business achieved extraordinary outcomes.

Now the economic landscape is changing, with the RBA lifting interest rates and the appetite for retail transactions slowing, compared with the highs of the immediate post-Covid period. While activity may be coming back to pre-pandemic levels, there remains a strong market appetite to buy good retailers that have adapted to the new normal and are future-fit, with strong digital DNA and clearly defined brand identities.

M&A activity*



*Note: M&A activity defined as acquisitions, mergers and divestments that closed between November 2017 and October 2022, undisclosed value deals are excluded. Source: Mergermarket as at 21 November 2022.

So how do you get your retail business ready for a transaction? Here are 10 areas to focus on to position yourself to become investor-ready today.

1 Know your target audience

Being able to define your target audience clearly and articulate how your brand is positioned to address this market is critical to any transaction. Buyers and investors will often compare you to other brands in the market, so being able to clearly define your brand's key elements is very important.

It's surprising, but some retailers assume people automatically understand their brand and target audience. When trying to sell your retail business or find an investor, interested parties won't have the same intricate knowledge of your brand.

Therefore, before commencing any transaction, retailers should:

- Be able to succinctly describe and define your brand. This includes your target customer, product range and price points.
- Have a clear point of differentiation from your competitors and be able to describe this relative to other brands.
- Know and understand your target audience and why they buy your brand.

2 Be clear on your objectives

Investors or buyers will almost certainly ask you the reason for any transaction. It is important to have a compelling response. You should be clear on:

- What you are looking for from the transaction. Do you want to sell down, exit, raise equity to fund growth, find a partner to add value?

> Corporations, investors, funds and their shareholders are increasingly looking for opportunities to invest in companies with positive ESG characteristics."

- Your preferred timing. Transactions typically take 6-9 months to implement, so work backwards from when you want to complete a transaction. Also, transactions are time-consuming so be conscious of key retail and marketing periods before you embark on a sale.

3 Financial information and growth strategy

Retailers that have a generic or unrealistic growth story are often marked down during any transaction process. Investors nowadays undertake a large amount of commercial due diligence before they invest and they are good at identifying genuine growth stories, particularly in the retail space. It's crucial that before embarking on any transaction, retailers:

- Develop a credible and realistic growth story that is tailored to their own circumstances. This may include new stores, new geographies/overseas expansion, new product categories, and growth for each channel, including digital sales.
- Have a credible set of financial forecasts (3-5 years) that supports their strategic plan and vice versa. Financial forecasts should preferably include a three-way model, dashboards with key information, key assumptions and outputs. These should allow potential buyers or investors to analyse the business at a channel, brand, geographic or store-by-store level.
- As part of any historical or forecast financial information provided to potential investors or buyers, make sure the key retail metrics that matter are captured. This will be different for all retailers, whether traditional bricks-and-mortar, pureplay online or omnichannel. Be able to provide things such as:
    - Store numbers, including new store openings/metrics
    - New store opening costs, capital expenditure/fitout costs and working capital
    - Demographic analysis on customers and new store locations
    - Customer data – retention/churn, basket sizes, loyalty
    - Company growth and 'four wall' P&L
    - Gross margins, at various levels (channel, brand, store)
    - Online metrics (unique visits, average order value, conversion rates) and omnichannel metrics
    - Inventory performance by category and SKU, stock turns, regular/clearance stock
    - Head-office costs and infrastructure to support growth
    - ROI for marketing, ROAS
    - Key overheads by category (e.g. selling expenses, labour)
    - Profit margins on a group, channel, geographic and brand level.

4 Management team and resources

Potential investors and buyers will want assurances that you have the right team and resources to deliver on your future strategy. Areas that are often underestimated or overlooked are finance, senior management, marketing, store management and merchandising. As a retailer scales, these are the positions that often require further depth and resources.

Questions you need to be asking before any transaction are:

- Do you have the right team to support your 3- to 5-year strategic plan, particularly in key areas that are crucial to the execution of the strategic plan?
- Do you need to bring in any additional talent or resources to deliver on your plan?
- How will the founders be involved in the company after the sale? Many buyers will demand the owners' ongoing involvement (in some capacity) if they are seen to be the 'secret sauce' behind a brand, especially in a creative, fashion or design-led retail business.

5 Security around supply chain

The Covid-19 pandemic and geopolitical tensions have emphasised the importance of retailers shoring up their supply chain. Retailers should ask themselves:

- Do we have good relationships with our suppliers and manufacturing partners? How can these be improved to provide greater security around the supply chain?
- Are the forecasts deliverable from a supply-chain perspective – for both pricing and the ability to scale?
- What price certainty do we have over manufacturing costs that will underpin our margins?

6 Stock

In light of recent impacts and disruptions to supply chains globally from the war in Ukraine, investors are looking more critically at a retailer's stock when assessing a potential transaction.

With the aid of digital tools and analysis in due diligence, investors are diving deeper into the data around stock. Consequently, they have become more sophisticated at identifying any underlying stock issues in retail targets. Some of the key points that retailers need to address:

- Having 'clean' stock (low obsolescence, current season and on-trend) will be critical to any interested parties. Make sure any obsolescence and provisioning is correctly reflected in your balance sheet and P&L before commencing any sale.
- Stock levels should be adequate for current trading, including in terms of seasonality and fashion trends, and should be able to support growth to deliver on your strategic plan.
- Retailers should be able to explain to any buyers the volumes, mix and ageing of their stock in the context of current trading and future needs.
- Being able to show a breakdown of stock by season, basic lines and new products is important. Also, being able to explain stock volumes in the context of stock production cycles and seasonality factors is key. If these issues ►

cannot be adequately explained to an investor, they will err on the side of discounting stock values and a company's maintainable margins, which has a direct impact on transaction value.

7 Cyber-security and data health

Recent examples of high-profile data breaches have emphasised the importance of cyber-security and highlighted the adverse impacts of any breach. Accordingly, the potential brand damage (or even class actions) to any retailer from a data breach is a real risk that will be front of mind for all investors as they assess a potential transaction.

As more retailers move online or decide to capture customers' personal details for marketing and loyalty purposes, this creates more potential risks.

It's crucial to ensure retailers have strong data health and security around customer details. Retailers should consider getting an independent health check of their cyber-security to identify any weaknesses prior to commencement of a transaction.

8 Key agreements in place and compliant

While preparing for any transaction, all key store leases, employee contracts and supply agreements should be up to date and signed. Interested parties will request copies of these key documents and often we see that these are out of date, unsigned or can't be located upon request. Get your 'housekeeping' on key agreements done well ahead of a sale process, as this can often take time, particularly if you're dealing with larger landlords or multiple suppliers and employee groups.

Compliance around employee contracts and industry awards has become a hot issue in the retail sector over the last five years. This has been underscored by several high-profile cases of non-compliance in this area. Investors are very aware of potential employee contract/award compliance issues and are spending a lot more time on this matter in due diligence. Common compliance issues we see include:

- Incorrect calculation of employee hours and wage payments
- Incorrect classification of employees
- Underpayment of penalty rates
- Underpayment of employee allowances.

9 Environmental, Social & Governance (ESG)

Consumers are demanding greater accountability on ESG considerations, particularly from retail and lifestyle brands that in many ways represent a customer's identity and ideology. Whether it's climate change, sustainability, pollution of the oceans, inclusiveness, ethical sourcing, gender/religious/ethnic oppression or other social matters, consumers are voting with their wallets.

Likewise, corporations, investors, funds and their shareholders are increasingly looking for opportunities to invest in companies with positive ESG characteristics. Investors are now scoring retailers on ESG attributes during due diligence.

Retailers need to be clear on their brand's ESG impact, priorities and strategy. This captures the end-to-end impact of your business, from sustainability of sourcing to the final product. As investor and consumer expectations and preferences shift, you need to make sure you are conscious of what your target consumers or potential buyers of your company want (and expect).

10 Appointing the right advisers

Choose a trusted team with retail or consumer transaction experience. This includes M&A and legal advisers, accountants, and due diligence advisers. Your advisers are the mouthpiece for your brand, so pick ones that know retail and consumer brands well so they can clearly articulate your brand's unique value proposition.

Seek advice on your current business structure and your ability to execute any transaction (tax, corporate structure).

To maximise the potential outcome, your chosen advisers can support preparing your business for sale prior to taking it to market – from structuring it to evaluating potential areas of improvement or risk, to collating the right information for due diligence. ■

Kiwi Corner: what to expect in 2023

New Zealand retailers have an opportunity to tap further growth in online sales, but wage increases, dips in consumer demand and supply costs will all be challenges.

Leon Bowker, Partner, Deal Advisory, KPMG in New Zealand

NEW ZEALAND RETAILERS HAVE BEEN ON A ROLLER-COASTER ride for the past few years. In 2020 and 2021, trading conditions supported strong trading performance for many retailers. Over this period, low interest rates contributed to rapid house price inflation, driving an increase in household wealth. The effect of more money in consumers' pockets, combined with restrictions on international travel, resulted in a rise in discretionary spending, with retail sales growing 10.2 per cent between 2020 and 2021. The year 2022 told a different story.

Last year, economic conditions were dominated by the cost-of-living crisis (with annual inflation running at 7.3 per cent at June 2022[1]), a softening of the housing market (house prices were 8.1 per cent lower in September 2022 than in September 2021[2]) and continued growth in interest rates to manage inflation. This has placed financial pressure on many households, leaving less discretionary money available. Meanwhile, as in Australia and many other countries, New Zealand retailers are facing operating pressures, with rising wage inflation, staff shortages and increases in the cost of goods.

As we approach 2023, there are many key challenges and opportunities for New Zealand retailers to manage.

> "Digital transformation remains a journey for many retailers, requiring future investment."

Supply and stock: After years of lean and just-in-time supply-chain management, businesses have been severely disrupted, with freight time and costs still well above normal levels. To manage the continuing uncertainty around timeframes, retailers have had to invest in additional stock levels. This investment has come at a time when the cost of goods has been increasing. As a result, at June 2022, stock levels were about 12 per cent higher, by value, than in June 2021 for core retailers, excluding fuel, motor vehicles and parts.[3] However, electrical and electronic goods (25 per cent higher), hardware, building, and garden supplies (24 per cent higher), and department stores (18 per cent higher), have had even greater increases, which has made an impact on cash flow for retailers. There are signs, however, that some of the supply-chain disruption is easing. A key focus for retailers in 2023 will be unwinding some of the investment in working capital and optimising inventory levels.

Online: Online shopping has increased substantially over the last two years (52 per cent higher in 2021 than in 2019[4]), with a total online spend of NZ$7.7 billion in 2021, albeit that represented only 11 per cent of total retail spending that year[5]. While this remains below other international markets, more growth is forecast in New Zealand. Of the country's online spending, 71 per cent is captured by domestic retailers. As a result, retail businesses are continuing to invest in digital transformation to improve online customer experience with fulfilment and data tools that increase consumer engagement and spending. Digital transformation remains a journey for many retailers, requiring future investment to meet their ambitions and remain competitive. KPMG's global CEO outlook[6] indicated that many CEOs have paused or are expecting to pause digital transformation strategies to prepare for a recession. But retailers considering pausing ongoing digital investment will need to examine the potential impact on growth and long-term competitiveness from these decisions, particularly given the growth in online trading and the expectation that further international retailers will expand into New Zealand.

Labour: Labour remains top of mind for many retailers. With underlying wage inflation and current cost-of-living pressures, the living wage – which many retailers sign up to, including the Warehouse Group – has increased to NZ$23.65/hr, compared with a minimum wage of NZ$21.20/hr. Staffing shortages resulting from historically low unemployment and immigration restrictions are also hampering many retail businesses' efforts to meet customer demand. Existing cost pressures are likely to be exacerbated by new fair pay legislation coming into force in December 2022 that introduces sector-wide collective agreements that set minimum terms for workers. With the continued inflationary pressures and staffing shortages, retailers can expect to face continued wage increases this year, which will put further pressure on margins.

Retailers are facing challenging economic conditions this year, which are expected to affect consumer demand and drive continued cost pressures. We believe retailers in New Zealand should be focusing on:

1. Carefully managing inventory levels to balance supply and demand side risks. Optimising inventory levels will be critical for retailers as consumer demand and spending are challenged.
2. Mitigating wage inflation and staff shortages. Best-in-class retailers will be focusing on recruitment strategies and leveraging increased immigration following the pandemic, as well as clearly understanding and implementing staffing structures that drive down costs while still allowing the business to achieve its targets.
3. Continuing to invest in digital transformation programs. There was a clear step change towards online trading during the pandemic and New Zealand is poised for even further growth in online trading. As more international retailers expand into the country, having strong digital DNA will provide some defence against new entrants into the market. ■

[1] Consumer price index: June 2022 quarter, Stats NZ
[2] REINZ residential statistics report for September 2022
[3] Stats NZ, based on seasonally adjusted retail sales values excluding motor vehicles and parts, and fuel
[4] 'Kiwis spend $7.67 billion online in 2021', NZ Post
[5] '2021 New Zealand Commerce review', NZ Post
[6] KPMG 2022 CEO Outlook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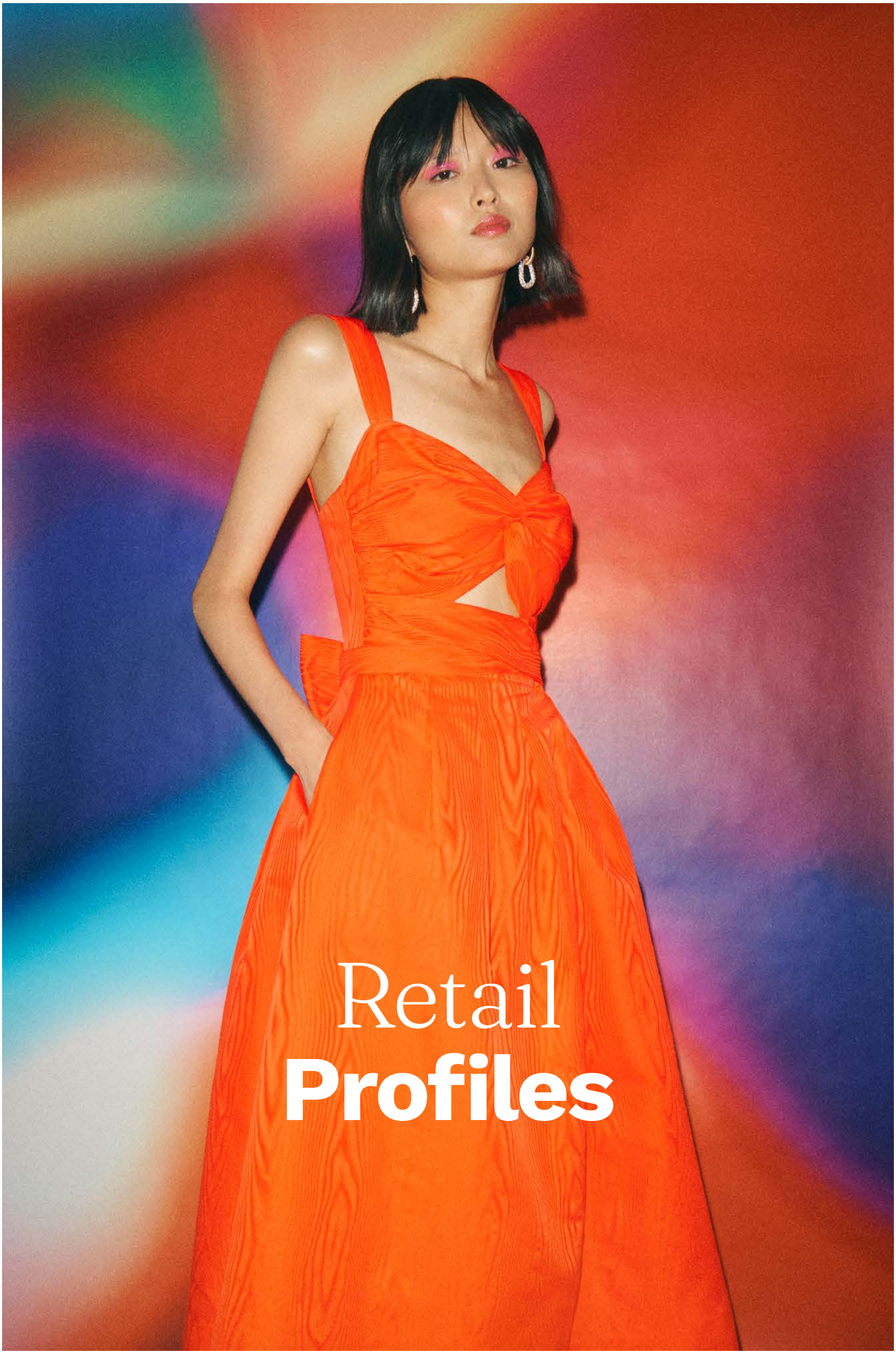


Retail **Profiles**

Fun with colour and growth

Rebecca Vallance explains how her latest collections will help maintain her connection with customers as her label moves onto shelves overseas.

By Heather McIlvaine

***Australian Retail Outlook:* You recently won the people's choice award at the 2022 Australian Fashion Laureate. Congratulations! Why do you think your brand is so beloved by your customers?**
Rebecca Vallance: I am so honoured to be the recipient of the People's Choice Award at the Australian Fashion Laureate 2022. Over 12 years ago, when I started Rebecca Vallance and was living in London, I would never have dreamed that the business would be where it is today, and it's all thanks to our customers.

Our customers are truly what drive me. When designing, I always have them front of mind. I want them to always feel the best version of themselves when wearing a Rebecca Vallance piece.

I am also so grateful to have such incredible and talented people in my team. Some have even been with me since the early days around my kitchen table as young people and now head up departments 12 years later. I want my customers to feel as though they are a part of a community when purchasing a Rebecca Vallance piece.

ARO: What has the past year been like for Rebecca Vallance?
RV: This past year has been a big one for growth at Rebecca Vallance, both in Australia and internationally. We recently became stocked in the UK. We are also looking to expand our retail presence internationally, with bricks-and-mortar stores in London and New York.

ARO: How has the luxury fashion space changed since Covid-19? What new opportunities or challenges do you see in this space?
RV: The fashion industry was one of many badly affected by Covid, it was a great time for us to sit back as a business and look at everything we were doing. As a brand, we did pivot during this time, to launch a casual and sportif line. However, in a post-Covid world, we are seeing a return to celebrating occasions, big and small, as well as dressing up and having fun with fashion, bringing a whole new dimension to the joy of getting dressed. For our post-pandemic collections, think sequins, diamante trims, exaggerated silhouettes, and pops of colour. We want our customers to feel like they are the most glamorous person in the room.

ARO: You recently launched your first collection of children's clothing. What was the thinking behind that? And do you plan to enter any other new categories in the future?
RV: Creating a line of little girls' dresses to sit alongside our ready-to-wear collections was always a dream of mine. When designing our most recent Resort collection, I found our palette and prints easily lent themselves to a childrenswear capsule. They are fun and adorable adaptations of our Resort collection that can be enjoyed by mother and daughter. I have two little boys but the natural progression for the brand is a little girls' collection, also to be tied back to our Resort collection.

“We continue to see huge growth in the US and European markets.”

For every brand extension that we do, it's always important to me that it's a natural evolution. This year, we are launching an Essentials category, which will include our signature structured tailored suits in more neutral, classic tones, as well as camisoles and tanks to be paired with some of our bolder pants or skirts.

ARO: What are your top priorities for the business in 2023?
RV: Rebecca Vallance continues to grow globally. It has recently been stocked in Joseph in London, and soon will be in Selfridges there as well. We continue to see huge growth in the US and European markets. It's exciting for an Australian brand to have continued success on a global scale.

We also have an international retail roll out coming for 2023.

ARO: What is your overall attitude about the year ahead and why?
RV: We are very optimistic at Rebecca Vallance. We have an amazing team that is growing each day and working hard to deliver the best for our customers. Long term, we'd love to continue to build on our international presence as we commence our international retail roll out. ■

Making the bed better: Sheet Society

From bootstrapping with $20K in 2017 to a $30 million turnover today, Sheet Society is on a mission to change the way we think about and buy our bedding.

By Joshua Gliddon

HAYLEY WORLEY WAS UNHAPPY. AROUND 10 years ago, she was shopping for sheets at Myer and couldn't find anything she liked. The sheets came in a big plastic block and included products like a flat sheet, which she didn't use. They were scratchy, she recalled, and were not something she was proud to have spent $500 on.

With a background in the fashion industry, Worley had skills in dealing with fabrics, colours and textiles and had regularly travelled between Australia and China, working with fabric mills and manufacturers.

But fashion is a fast-paced world and she wanted to find a role where she could apply those hard-won skills in a business that moved a little more slowly. The Myer experience was a lightbulb moment. Worley said she found it hard to reconcile the fact the process of buying clothes and sheets was so different.

"If you take some clothes into a fitting room at a store, you can take off what you are wearing, try them on and see if you like them," she said. "But with sheets, it was kind of missing that personalisation step."

So she decided to do something about it.

Mix and match – the choice is yours

In 2017, Worley and her life partner, Andy, founded Sheet Society in Brunswick, Victoria. Like all great ideas, her concept was a simple one: let people choose the pieces of bedding they needed and ignore what they didn't require, make the product sustainable, and use only natural fibres and dyes.

The couple bootstrapped the business – which is still privately held – with $20,000 in savings, and they were on track to turn over $30 million in 2022, Worley said. They've also expanded into international markets, with a presence in New Zealand, Canada, the US and the UK. Add to that two bricks-and-mortar retail locations, with more under consideration, and Sheet Society is in a perfect position to capitalise on a growing consumer base that cares about quality, style, choice, and sustainability in their bedding.

"Even with a slowing economy, when we talk to consumers, they are really focused on more considered and thoughtful purchasing decisions," Worley said. "They want products that will last longer and are of a higher quality, and that aligns very closely with our brand values."

It's all about the bed

Before Covid-19 hit, Worley's team

consisted of three people. But during lockdown, Australians moved into online shopping with a vengeance and Sheet Society saw massive growth. Its team expanded to 35, with about the same number of contractors and part-timers.

"We were really well positioned with the right product at the right time," Worley recalled. "The year 2022 was [about expanding] our resourcing capability in line with being a mid-sized business, and so I think we're really well positioned to make a big impact in 2023."

Worley said Sheet Society's mission is to make the bed better, observing that in business sometimes what you decide not to do is more important than what you do.

This is why the company isn't going to expand its product line up beyond bedding. There will be no tableware, no candles, and no towels. For Sheet Society, it's all about the bed.

And while they're not expanding beyond bedding, Sheet Society is launching products true to its ethos.

"We launched a new category in January [2023] that we're calling bed basics," Worley said.

Bed basics is a range of mattress and pillow protectors made with 100 per cent natural fibres. They are not sexy products, Worley said, but they are something she and the team really believe in because they help prolong the life of a customer's bedding.

By extending the life of sheets and pillowcases, Sheet Society is also fulfilling its sustainability mission, keeping old product out of landfill for as long as possible, and delivering long-term value to its customers.

"That's why I love e-commerce so much," she said. "Customers can shop with brands that are experts at doing one thing really well.

"We're experts in things for the bed, and that's good enough for us."

A unified customer experience

Although Sheet Society has only two retail outlets, it doesn't view online and in-store shopping as different experiences for customers. Some shoppers will want to come to a store and look at the product, then go home and order it. Others will buy on the spot. And an even greater number simply go to the website and shop there.

"When you're in-store, the person standing in front of you is really important and it's also critical to look at the online sessions in the same light." Worley explained. "Although that person is not looking you in the eye, they have still chosen to come to your website to buy something."

> "We're experts in things for the bed, and that's good enough for us."

She said it all comes down to making sure the customer has the right journey. Sheet Society is investing heavily in its online presence to improve the shopping experience. The retailer wants customers to feel inspired and confident about mixing and matching products, and Worley has observed that what shoppers want has shifted. A couple of years ago, it was all about the one or two colours everyone was buying that season. Now it's more spread out, with customers seeking to buy sheets reflecting their personal style.

The company is also leaning heavily into augmented reality (AR), with an app that lets customers dress a 3D bed in the sheets and pillowcase styles and colours of their choosing so they can get an idea of what the product will look like in their home.

But Worley also admits its early days for AR. "I don't know that it gets customers across the line, but it was important to position ourselves as experts," she said. "Investing in that sort of technology brings credibility to the brand." ■

Why July is full of optimism about the journey ahead

Coming off a strong rebound from Covid in 2022, the luggage retailer's founder Richard Li sees a big year ahead due to surges in travel.

By Aron Lewin

***Australian Retail Outlook:* What was July's performance like in 2022?**
Richard Li: 2022 was an incredible year for us. Following two years of lockdowns and travel restrictions, it's been so exciting to see how much we've grown in the past 12 months. During Covid-19, we lost over 95 per cent of our revenue.

Since then, we've grown enormously, over 640 per cent in FY22, and are now doing more than 10 times the pre-Covid revenue. In 2022, we launched nine new products, opened additional retail stores across Melbourne and our first in Sydney, held an in-person press event in the US and achieved our best day of sales ever in November.

ARO: Looking back, are there any high and low points that stand out to you?
RL: After the past two years with Covid, it's hard to see anything from 2022 as a low point – it was a fantastic year. The resurgence of travel has driven our growth to unprecedented levels and we're reaching new heights every day. We've grown the team, opened new stores and repeatedly smashed sales targets.

The problems we have are great, as they come from growth, but they're still problems. Notably, we've had to expand the team to meet the demands of our growing business, and that's been a challenge in the current market. In our retail stores, we've even been flying Sydney team members down here to Melbourne for retail shifts. We're proud to have an even bigger team now that is agile, dynamic and solutions focused. We can't wait to see what this new cohort at July achieves.

A highlight from 2022 was our partnership with the Olympics and Commonwealth Games. It's been a huge achievement and an honour for our business to provide July cases to Aussie athletes representing our country across the globe. We're just four years old, so this partnership felt like a coming-of-age moment for us.

ARO: How did you adapt the business to get through the pandemic?
RL: Covid was incredibly hard for us. In early 2020, we had just opened our first retail store at QV in Melbourne and had plans to open more, and we had countless products coming down the pipeline. We were feeling so good about the year ahead, until March, when it all came crashing down. The last few years have truly tested our resilience, but we used the down time to focus on product development, as our mission at July has always been to create great products.

In July 2021, we launched in the US, as they were back travelling so much faster than us here in Australia. The market is huge over there but we made an impact, and quickly we sold 10 times more cases than we'd predicted. That growth has only accelerated over the past year and it supported us back at home whilst we dealt with ongoing travel restrictions in the latter half of 2021.

> “All the people I've spoken to have made plans to travel in 2023 or the year after.”

ARO: What is your approach to e-commerce and bricks-and-mortar, and where do you see in-store shopping going in 2023?
RL: We launched as an online-only business, but our retail stores have played a key role in our growth. We've found that customers love being able to interact with the products, feel the multi-stop handle and the SilentMove wheels, and meet our amazing team.

We opened our first store outside of Victoria in September 2022 – our new space at The Galeries. We have more website visitors from Sydney than any other city in the world, so it was only natural that we would open a retail store there. Since then, we have seen hundreds of new and returning customers come through the doors and have been thrilled to bring them the July experience in person.

We've certainly seen an increase in the number of customers shopping in person, across all age groups and demographics. Our bricks-and-mortar stores have been extremely profitable and we plan to open more across Australia and internationally in the future.

ARO: How do you think the cost of living and other economic challenges will affect July in 2023?
RL: We use publicly available airline booking data to predict how busy we anticipate being, and currently the data is showing that Australians will be travelling extensively this year. The way people travel is constantly changing and evolving, but excitement and exploration is truly a part of our DNA as Aussies.

We don't think the increases in cost of living will affect July's performance in 2023, because people were not allowed to travel for the two Covid years. All the people I've spoken to have made plans to travel in 2023 or the year after.

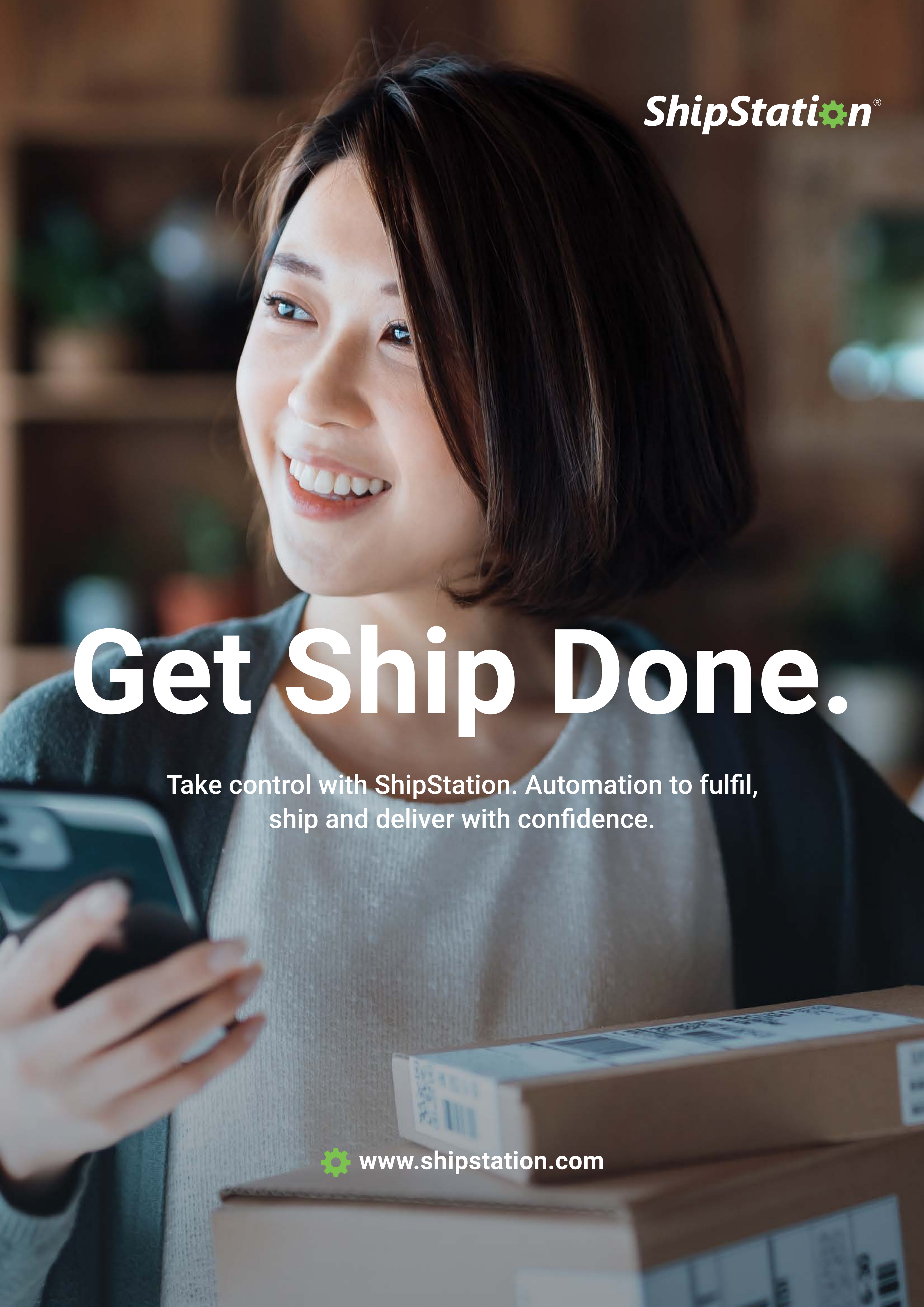
ARO: How do you plan to expand the business in 2023?
RL: Global expansion is an important part of July's strategy and in June 2023, we're planning to enter the European and UK markets [online]. We don't have international retail stores just yet, but they're certainly in our plans.

Any stores that we open across Australia and internationally will have the same look and feel as our current spaces. It's important to us to maintain the essence of the July brand as we move to a global stage.

ARO: Do you expect to face any major challenges in 2023, and if so, how will you navigate them?
RL: We predict that further international expansion will be our biggest challenge in 2023. Learning new markets and making a splash in some of the most competitive commercial settings worldwide won't be easy, but we're really excited for the challenge. We'll engage with experts we can learn from and spend time on the ground wherever possible.

Additionally, the international difficulties with supply chains have been well documented, but they are an ongoing issue. We're predicting that procuring stock may be a concern, so we're planning and ordering much earlier than we have previously.

ARO: Are there any other goals or future plans that you'd like to share?
RL: We want to open more stores across Australia and keep developing great products that our customers love. Our mission is to become an iconic Aussie brand and export – and we're well on our way to achieving that goal. ■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Dan Murphy's sees plenty to toast in 2023

The economy might be slowing, but the alcohol retailer's MD says an omnichannel strategy, premium sales and growth in low- and no-alcohol will buoy a strong year.

By Joshua Gliddon

IT TURNS OUT DAN MURPHY WAS A REAL person and not just a corporate avatar designed to make customers feel they're buying local when, in fact, they're getting their alcohol from one of Australia's largest liquor retailers. Endeavour Group was previously part of Woolworths and subsequently spun off and listed (along with BWS, and hotel and gambling assets) on the Australian Securities Exchange in 2021.

Murphy opened his first bottle shop in 1952 in Chapel Street, Prahran, Victoria, and differentiated the business by offering a guarantee to beat competitors' prices. He was also a winemaker and journalist who founded the first wine club in Australia.

Although he eventually expanded to five stores in Victoria, his methods were controversial, with claims he achieved his low prices by avoiding sales tax (there is no suggestion Endeavour Group uses this tactic). Murphy sold his business to Woolworths in 1998, and the company has expanded its footprint to 262 stores right across Australia. It also has a significant online presence, claiming 50 per cent of all online Australian liquor sales.

Economic headwinds don't worry Dan Murphy's

Dan Murphy's managing director Agi Pfeiffer-Smith said the retailer hasn't seen any evidence of customers choosing cheaper drinks, despite the slowing economy and poor outlook for economic activity in 2023.

"We haven't seen any indication of customers trading down when it comes to the products they shop for with us," Pfeiffer-Smith said.

Pfeiffer-Smith stepped into the MD job in July 2022, shifting across from a role as Endeavour Group's chief strategy ▶

officer. She started her career with Boston Consulting Group in 1998, and has previously worked with Wesfarmers and David Jones.

The company makes a big play on its lowest liquor price guarantee and reviews prices every day to stay competitive, using automatically updated electronic price tags with an estimated 10-year battery life.

Pfeiffer-Smith said this concept was designed to "break the compromise between value and discovery for [our] customers...because everyone deserves to drink better, even in more difficult economic times".

"We feel confident that [this] year we can help customers find drinks they love, no matter what their budget is," Pfeiffer-Smith said, adding Dan Murphy's extensive portfolio means there's a product for every budget and every occasion.

Growth in 2023

Omnichannel is a big focus for this year, along with the My Dan's membership program, digital offerings and a drinks-focused publication, Dan's Daily.

But it's omnichannel getting the bulk of the company's attention. Dan Murphy's is investing in both the online and offline consumer experience. "Digital channels have become the new front door to Dan Murphy's," Pfeiffer-Smith said. "This means for the majority of our customers, the first interaction they have with us is through our app or website."

Customers are going online to research products before heading in-store to buy, or they are going totally online, getting their alcohol delivered to their front door.

"In the future, we believe customers will still want to visit physical stores, but they will do so for experiences and to engage with others, rather than just picking up a bottle. [This is why] we are focusing on format innovation to meet the changing needs of customers."

> " We also saw our biggest week for zero-alcohol drinks during Cyber Week."

Low- and no-alcohol, premium products

A Brewers Association of Australia budget submission states that the beer industry is in decline. Beer consumption has fallen almost 15 per cent in the last decade. The submission also notes Australia has the fourth-highest beer tax in the industrialised world.

Pfeiffer-Smith did not directly address the decline in beer sales and its effect on Dan Murphy's; however, she did note there is a great opportunity for all drinks categories, including beer, to innovate to meet changing customer needs.

Dan Murphy's has also observed a trend towards customers wanting to try new products, with 40 per cent of Endeavour's retail sales coming from categories that did not exist eight years ago.

One of the innovations she pointed to is the introduction of fruity beer, which is characterised by low bitterness and a sweet, dominant fruit flavour that is stronger on the palate than most craft beers.

"[This] overcomes the flavour barrier, that beer is perceived as bitter by some consumers, [and it] allows us to engage with a whole new customer base."

The 2021 IWSR Drinks Market Analysis No- and Low-Alcohol Strategic Study states that the volume of these categories in Australia increased by 2.9 per cent in 2020. Overall, the no- and low-alcohol market outperformed regular alcohol, which registered a volume decline of 1.4 per cent over the year.

Dan Murphy's has also noticed this trend, with Pfeiffer-Smith saying Australians are generally committed to "drinking better", be it at the premium end of the market or in the low- and no-alcohol segment.

"We offer Australia's biggest range of no-alcohol options," she said. "We also saw our biggest ever week for zero-alcohol drinks during Cyber Week, which goes to show this category is growing in popularity."

Giving back, sustainability, and local sourcing

Pfeiffer-Smith said Dan Murphy's is focused on working with local suppliers, meaning the shelf mix differs depending on where the store is located. A store in one area might stock products from local brewers or distillers, which might not be available at another store in a different location.

Tasmania exemplifies this – local winemakers and distillers there are represented on Dan Murphy's shelves.

Dan Murphy's has also partnered with GIVIT, raising $1.2 million for people in need in conjunction with its customers. "We are passionate about leaving a positive imprint in all the communities we are part of," Pfeiffer-Smith said.

Sustainability also hasn't been forgotten, with 20 per cent of all stores having solar panels and more panel roll-outs planned this year. ■

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For TerryWhite Chemmart, pharmacy means more in 2023

The scope of practice in the communities the chain serves is now broader than ever, and executive GM Nick Munroe says the business is ready to meet this challenge.

By Dean Blake

***Australian Retail Outlook:* What were some of the highlights of 2022 for TerryWhite Chemmart?**
Nick Munroe: Last year, the TerryWhite Chemmart (TWC) network focused on improving the health outcomes of all patients and our ambition to support a better future for Australian pharmacy. This was achieved through greater access and extended health services, which now include hearing clinics, palliative care support, medications by injection, asthma screening support, diabetes health checks, vaccinations, sleep services, and UTI prescriptions in QLD and soon to be in NSW. This expanded scope of practice has required training, investment in even more clinic rooms, operational changes at a store level, and CPD for pharmacy teams.

The growth of the TWC network to more than 500 pharmacies has created economies of scale in operations and procurement, the benefits of which have been passed on to our network.

On the frontline, TerryWhite Chemmart pharmacies have reoriented their businesses to manage the influx of community vaccinations, and they've done this in a resilient, determined, and compassionate way. In the last two years, our network has delivered over two million Covid-19 and flu vaccinations.

ARO: How is the rising cost of living changing the way your customers are shopping?
NM: Our national marketing approach communicates the value of health, with an ongoing promise of providing real value every day and three weekly real

deal promotions. We have seen a strong uplift during our regular sales events, and our three weekly promotions are showing a significant year-on-year increase in customers looking for great value.

The commitment of our pharmacy network has led to continued strong growth, with total sales up 13.9 per cent and like-for-like sales up 11.9 per cent, underpinned by script growth of 6.7 per cent, total, and 4.8 per cent like-for-like.

ARO: Have you had to update your pricing due to the increased cost of goods? If so, how do you balance price vs value in your offering?
NM: At TerryWhite Chemmart, value is more than just a price and quality equation. Consumers are loyal to brands that match their values and service expectations. Our network partners have an unrelenting commitment to improving health in their local communities, and the reward for this is an increasing number of people choosing to shop our pharmacies.

Our private-label brands are ranged and promoted to provide great value to customers and improve margin to our pharmacy owners. With ranging to suit the pharmacy footprint, and the industry-leading iHUB ordering system, our pharmacy teams achieved strong gross profit margins through private-label product sales in 2022.

> “Value is more than a price and quality equation. Consumers are loyal to brands that match their values and service expectations.”

ARO: Are there any new initiatives or projects that you're keen to launch this year?
NM: This year will bring many opportunities to pharmacy, as pharmacists expand their roles in community health. Our main focus will be to support our network with tools to improve the health outcomes of patients. This will include supporting our pharmacists in expanding their scope of practice, and the launch of our new digital customer platform – myTWC.

The increased scope of practice occurring across the country is a taster for bigger things to come. As a business, we are prepared for this shift, and our pharmacy teams are chomping at the bit. The changes we've made to our clinic strategy over the last two years lay a strong foundation for taking advantage of this industry-wide change.

MyTWC offers the convenience of a one-stop destination where customers can manage their health online by enabling e-scripts and booking pharmacy services. As we learn more about our customers' digital behaviours, we will continue to evolve this platform.

At TWC, our pharmacists and pharmacy teams will always be central to our proposition. Recruitment has become a major challenge for pharmacies in recent times, and we are supporting our network partners with a suite of services, including recruitment marketing, education and intern programs, a centralised recruitment portal, job ad placements and a dedicated careers team to find top-quality pharmacists and pharmacy teams.

We are also partnering with pharmacy schools to promote community pharmacy as a meaningful and rewarding career option, to secure their long-term commitment to the industry. ■

Salvos Stores: more than just charity

As the economy weakens, Australians will seek out even more value and sustainability. These charity shops invest in an omnichannel experience that provides it all.

By Joshua Gliddon

THE AUSTRALIAN – AND GLOBAL – economy look like it's in for some heavy weather in 2023. Rising inflation, stagnating wages and supply-chain issues will all contribute to Australians having to tighten their belts over the next 18 months. In recessionary times, there's a flight towards value for money as consumers seek to make the most out of their hard-earned dollar.

This is where Salvos Stores comes into play, CEO Matt Davis said. The 362-strong network of charity shops, found in all states and territories, meets a particular need for affordable consumer goods – much like the charity sector in general.

"That's where we really play a key role for people who are trying to make ends meet," Davis said. "But shopping with us is also a good environmental choice."

What you might not know about Salvos Stores is that it has a significant online presence, with more than 70,000 items listed either on its site or through an Ebay shopfront. Online represents the first major plank in the organisation's growth strategy in 2023, and it is seeking to establish e-commerce hubs in all major capital cities over the next 12 months.

Online to bricks-and-mortar, seamlessly

"Customers in Western economies now expect a seamless [transition] between what happens online and what happens in-store," Davis explained. "Even in the charitable sector, this is becoming the new normal."

That said, Salvos Stores' online offerings are a little different to what a customer might find when they visit a physical location. On the web, customers are searching for name brands and activity-focused goods like hiking clothes and boots, as well as fashion labels.

"We also sell small electrical goods and collectables, but the vast majority of our online volume is fashion," he said.

Online is also critical to Salvos Stores for logistical and customer service reasons. Customers will use the internet to check store locations and opening hours, as well as the types of donations being sought. Then they might book a home collection online, Davis said, or donate through the online portal.

"For us, it's about making sure the experience is seamless across all channels," Davis said. "And it's also about bringing the typical retail experience to life in the charitable sector."

> " It's also about bringing the typical retail experience to life in the charitable sector."

Adding community stores to the network

The second plank in Salvos Stores' growth strategy for 2023 is building out its network by bringing community charity stores into the fold and rebranding them within the corporate format.

There are literally hundreds of non-aligned charity stores in Australia, and Davis wants to make them part of Salvos, upgrade their customer experience, relocate them into higher traffic areas, and give those community stores a new brand.

"In corporate-speak we are essentially acquiring another retailer," Davis said. "But in our case, it's all under one banner."

Salvos Stores isn't the only network of charity shops. Well-known chains such as Red Cross and Vinnies also have a retail representation as a way of raising funds for their work helping vulnerable Australians.

But Davis doesn't see them as competitors, noting they all share the same mission. "So in a sense, we are more like collaborators."

Which isn't to say there are no points of difference between chains. Customer feedback tells Salvos Stores its charity shops have a friendlier retail environment than others, its stores are well-presented, and their product quality is generally better. Salvos also puts a greater emphasis on customer service, placing it a nose ahead of its contemporaries, Davis said.

He's also quick to note Salvos Stores isn't visited only by people on low incomes, such as students, the unemployed and retirees. Only 5 per cent of Salvos Stores' customers shop there out of necessity, meaning 95 per cent make a conscious decision to buy from there for other reasons, including sustainability.

"When we do our research we find all types of Australians, from all walks of life, are engaging with charity stores," he said. "And that's a really encouraging shift in our market."

Investment in technology

Effective technology, from supply chain to warehousing, as well as an easy-to-use e-commerce site, are table stakes for retailers, and Salvos Stores is no different. Davis said over the next two years the organisation will make a significant investment in its retail IT infrastructure, to support a genuine omnichannel experience.

This means co-ordinating logistics, warehouse and donations, along with the retail front end, under a single, flexible system. "It's all about getting the right product to the right place at the right time," Davis explained.

Investing in technology, rolling out new stores and bringing others under the corporate umbrella, as well as having an effective e-commerce strategy, won't distract Salvos Stores from its reason for being, Davis said. Those investments will simply make it easier for the chain to carry out its mission, which is to support Australians in need.

"The fact is, Australia is about to enter a season when a lot of people who haven't done it tough in the past are going to do so," he said. "It's important for the Salvation Army and other like-minded organisations to do what they can to support Australians as they go through the next chapter.

"It's something that's a shared responsibility and we are looking to work with other partners to make sure we play our part, particularly over the next 12 months or so." ■

Ebay's success: a matter of trust

Through challenges from a tough economy to cyber-security threats, providing safety for sellers and buyers gives the platform the edge, MD David Ramadge says.

By Anil Prabha

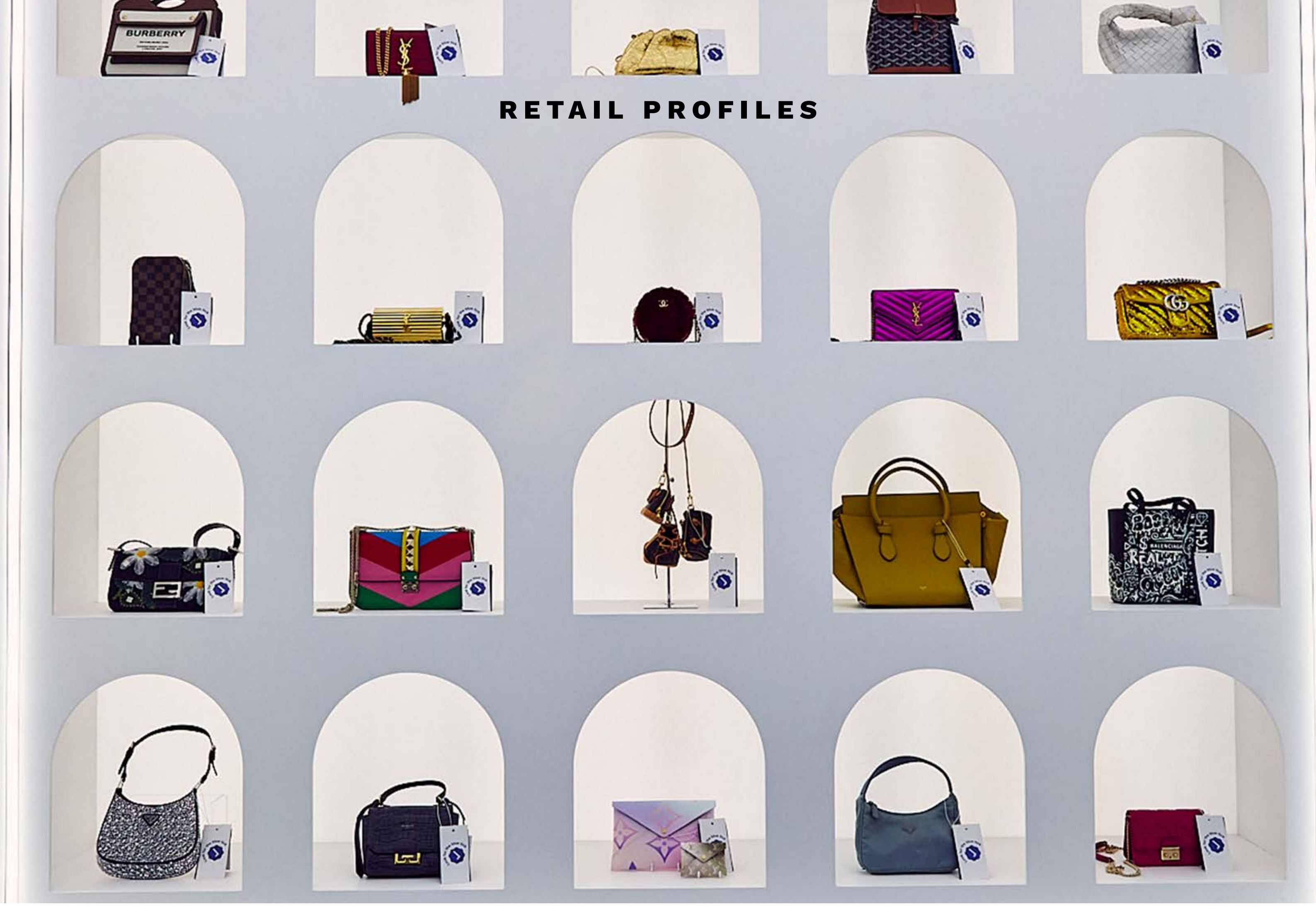
***Australian Retail Outlook:* What are your expectations for the year ahead?**
David Ramadge: As inflation and interest rates continue to rise, we are starting to see these macroeconomic factors affect the industry.

Value will be a top priority for consumers throughout 2023 and buyers will be increasingly savvy about finding the best savings. In 2022, some retailers overstocked their products so the start of 2023 will see retailers selling through their remaining goods and offering steep discounts to move merchandise. This environment of price fluctuations will create challenges for SME retailers as they try to stay competitive and navigate pricing while they sell their excess stock.

We will see pockets of resilience in categories consumers are passionate about, such as car parts, luxury handbags, and sneakers, and we expect these to grow.

The circular economy will play an increasingly important role in 2023 as Australians become more environmentally conscious and Gen Z will drive the trend. We expect pre-loved to become part of the mainstream as consumers make more sustainable purchase decisions.

ARO: Are there any major projects or initiatives in the works?
DR: Looking ahead, we know that trust remains crucial to both our buyers and sellers. We will continue to invest in trust initiatives, like Ebay's Authenticity Guarantee and Money Back Guarantee, while improving selling tools that will enhance the experience for buyers and sellers.



Ebay partners with sellers, it does not compete with them – we are a platform for sellers, by sellers. In 2023, we're looking at finding more ways to enhance our connection with the seller community, enabling people to grow and scale their businesses with helpful resources and sharing their inspirational success stories.

ARO: Are there any potential challenges on your radar?
DR: Regulators in Australia and around the world are continuing to focus on issues like data protection, privacy, and consumer safety, which is something we welcome and take extremely seriously. While any change can complicate operations, we find that when these issues emerge, consumers default to what they know and trust.

With an established presence in the Australian market for over 20 years, Ebay has built trust, credibility and expertise in the market and is committed to growing economic opportunity for B2B, B2C and consumer-to-consumer business alike. We will continue to invest and innovate to ensure buyers and sellers can transact with confidence online and drive steady innovation.

ARO: Looking back on 2022, what were some of the biggest obstacles you faced?
DR: In 2022, we saw that trust continued to be important for our customers and that shoppers were engaging more with initiatives like Ebay's Authenticity Guarantee, available on sneakers and luxury handbags. Trust, along with safety and protection for our buyers and sellers, will remain paramount.

> “We will see pockets of resilience in categories consumers are passionate about such as car parts, luxury handbags, and sneakers, and we expect these to grow.”

Over the last two years, Ebay Australia has been working hard to become the platform of choice for sellers, designed by sellers. To better connect with our seller community, we co-created a seller advisory panel, which enables us to get direct, regular feedback from the community so we can continue to enhance the seller experience. Our seller Net Promoter Score has jumped 20 points in just a year. While we're pleased with what the team has achieved in partnership with the panel, we can't wait to see how we can continue to grow our partnership with our sellers and continue showing up in better ways for our seller community.

ARO: What was the biggest highlight of 2022 for Ebay?
DR: In addition to the launch of our Authenticity Guarantee service on sneakers and handbags, we also launched a Fitment Guarantee for car parts, to help Australians find and buy parts compatible with their car.

In the current climate of increasing scams and fear about safety online, the most important things we continue to invest in are safety, protection, and trust. If you buy or sell on Ebay, you will be protected with Ebay's Money Back Guarantee.

Our protection for both our buyers and sellers makes Ebay the perfect place to buy and sell things people love and are passionate about.

ARO: Businesses are preparing for a possible recession, rising inflation and supply-chain bottlenecks in 2023. How do you plan to insulate Ebay from all these factors?
DR: Ebay offers everything from new, to pre-loved and refurbished, and that diversification is extremely valuable in times of economic shifts. Having that full spectrum of product offerings puts Ebay in a good position to cater to the changing demands of consumers. ■

General Pants: bigger britches to fill

The youth clothing retailer has plans for multichannel growth, overseas expansion, and an internal digital transformation in 2023.

By Joshua Gliddon

RICHARD FACIONI, FOUNDER AND CEO of ACTA Capital, which counts Alquemie Group in its portfolio, isn't alone in thinking the economy is facing a fair bit of uncertainty in 2023. Alquemie Group is the holding company for Lego Certified Stores, SurfStitch and more – including long-standing youth-focused clothing retailer General Pants.

"We're going to see a slowing of the economy and while I believe we'll avoid a hard landing, everyone's concerned about what that means," Facioni said.

He expects the impact to be different across consumer groups, but he's confident it won't affect the target General Pants customer group too much, saying they tend to be mortgage-free and fully employed. "Nevertheless, there will be an impact and we're looking at what we can do that's within our control to mitigate the effects [of the slowing economy]," he explained.

Growth in 2023

Despite the headwinds, General Pants is focused on expanding its number of stores this year, with 60 already in place across Australia and New Zealand. Facioni said General Pants was "underpenetrated in a number of key markets" and noted online sales tend to follow store growth.

He added that the organisation now has a store format it's happy with and one that is easily rolled out. But it all comes down to finding the right sites and agreeing to acceptable commercial terms. "We have a strong pipeline of identified sites that are either under negotiation or have been agreed upon and will be opening in the coming months," he explained.

The company also sees potential in building its in-house brands as direct-to-consumer and third-party wholesale brands, both domestically and internationally.

Facioni thinks these brands can go into the US and said General Pants is testing the waters in this new market through a combination of online direct-to-consumer and wholesale.

"Childrenswear is [also] something we're looking at and we have recently acquired a small childrenswear brand to help with that strategy," Facioni said. He's also looking at adjacent categories, including accessories, to help General Pants achieve its growth goals.

Online has a solid ramp

Online represents a significant growth opportunity for General Pants, as the channel currently accounts for only around a quarter of the brand's sales.

Like many retailers, General Pants is building a multichannel strategy encompassing in-store and internet sales and Facioni called this mix critical to business success. "They're clearly both important and we don't think of them as separate channels," he said.

Multichannel is essential to the General Pants offering because it allows customers to shop when, how, and where they want. It also informs in-store buying, as the company has observed customers will research products online before purchasing them in a store.

"Stores are also important for online fulfilment, through click-and-collect or ship from store," he said. And social is also a key plank for revenue growth and transactions for the company's target customers.

> "General Pants is focused on expanding its number of stores."

Digital transformation and business collaboration

To grow its online and social channels, General Pants is undertaking a digital transformation, re-platforming from a legacy system to a cloud-based solution. Along with this roll-out, the company is introducing a new ERP system fully integrated with online to create a seamless customer interface across channels. These initiatives will make General Pants a better functioning business, he says, while also doubling down on its investment in both its people and its digital team.

This re-platforming isn't limited to General Pants. It's a company-wide roll-out for Alquemie Group, and all member companies will reap the benefits, Facioni said.

"We also see continued store growth, and online growth, for our Lego Certified stores and our Ginger & Smart businesses." The group is also launching new businesses in 2023 to further drive growth, including National Geographic Apparel in partnership with Disney. "We are also continuing to explore collaboration opportunities across our businesses," he said.

Hopes for 2023

Facioni says after the events of the last few years, the community is hoping for an uneventful, benign 2023.

But that doesn't negate the many headwinds Australia and the economy are facing this year, including inflation, the war in Ukraine and the ongoing Covid-19 situation, which just doesn't seem to be going away.

"We need to stay on our toes," Facioni said. "I think a return to some sort of normality would be on the top of my 2023 wish list." ■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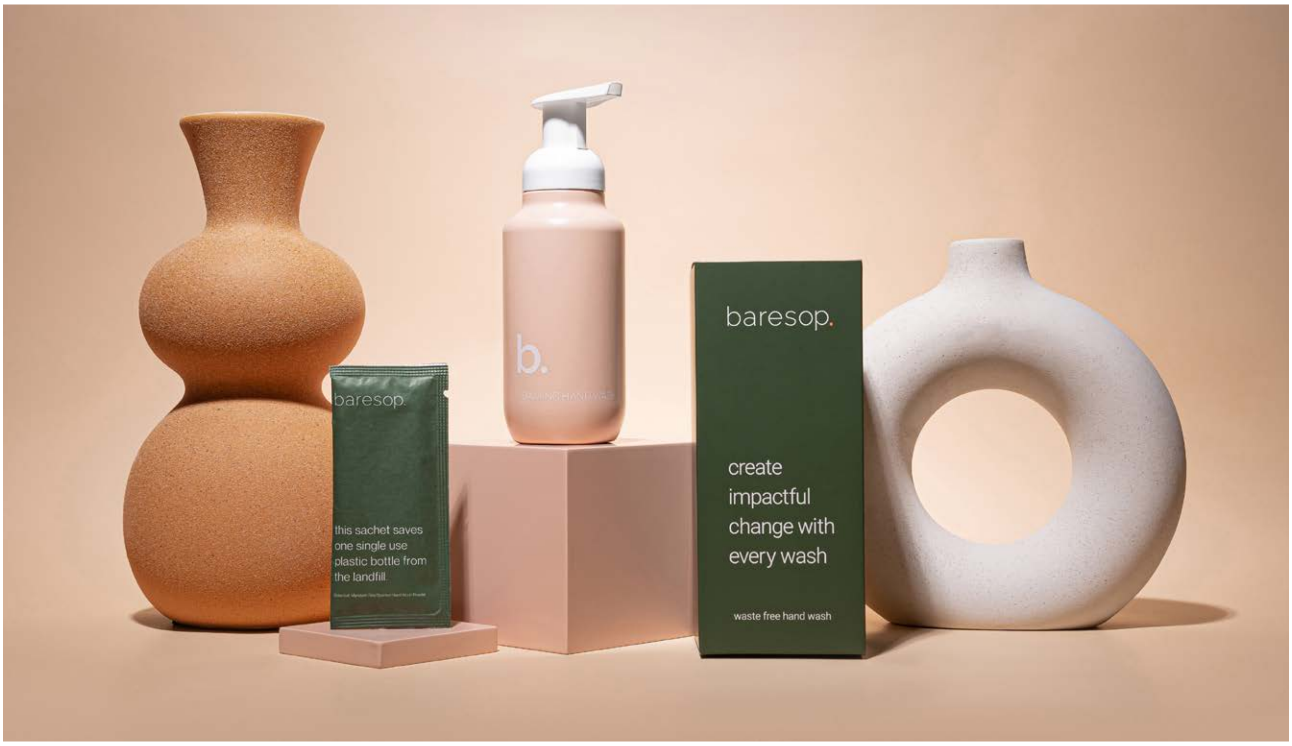

Single-minded about single-use plastics

Personal-care brand Baresop has big plans for expansion, but it's all within the context of an ambitious plan to cut landfill and bring water to places that need it.

By Heather McIlvaine

***Australian Retail Outlook:* What's the idea behind Baresop and what prompted you to start it?**

Prisca Ongaonga-Daehn: A few things came together and compounded my journey to the Baresop concept, which is to provide a solution that makes it easy for everyone to create change without compromising their everyday lifestyle.

I had just returned to Australia after living in Southeast Asia, where I witnessed first-hand how much single-use plastic was immersed in our everyday lives. I also have an outspoken daughter whose main wish in life is to be able to find a solution to cleaning the Pacific Ocean Garbage Patch. Wanting to own the narrative and do the bit we could to be part of the solution to this big problem, we went on a journey to shift our consumption habits.

Whilst it was easy to find solutions for the kitchen space, it was a challenge to find solutions for the bathroom. Research on how much waste we were creating from personal-care products – along with the difficulty we had finding an easy, convenient solution that was fully closed loop and not greenwashing – made me feel that I had a responsibility to create the solution I wanted and bring the community along with me to generate positive change.

ARO: What have been some of the biggest highlights of your growth journey so far?

POD: We've made very quick progress within a very short time, further solidifying our conviction that our purpose is valid. Here are a few examples.

- Patenting our unique active ingredients formulation
- Building a loyal community that is engaged with why we exist
- Closing a successful SAFE note seed raise in 2022
- Eliminating approximately half a tonne of carbon emissions
- Bringing onboard a strong management team, including former executives at L'Oréal and Jurlique and the ex-founder of Baby Bunting
- Expanding into retail

ARO: What are your top priorities for the business in 2023?

POD: We want to expand our offering ►

to service more people, which will move us closer to our mission of eliminating 1 billion single-use plastic bottles from landfill by 2035. This equates to 50,000 tons of CO2 avoided and 600,000 litres of water conserved. Each litre of water we conserve, we plan to make accessible to communities that are running out of safe and clean water. Because without water there is no life. We also aim to increase our distribution, expand into the China market, and release innovative, waste-free personal-care products that challenge how people see the sustainability of the personal-care category.

ARO: What are the biggest challenges you expect to face in 2023, and how do you plan to address them?

POD: With increasing demand for the Baresop concept across markets, our biggest challenge is ensuring that we have a sustainability-friendly supply chain as we establish large retail partners in other markets, like the US and China. Does this mean we need to set up manufacturing closer to these markets? What does that look like in terms of logistics and capital?

The other piece is how we keep pushing the boundaries and challenging ourselves to be a market leader in innovating waste-free personal-care products that are focused on the key user experience, empathetic to the modern lifestyle, and relevant to the present time.

Last but not least is purpose, how do we ensure that our solutions are having a positive impact on our planet and our shared humanity?

ARO: Sustainability is clearly at the heart of your business. Do you have any tips or advice for brands that are at the beginning of their sustainability journey about how to ensure it is more than just a buzzword?

POD: We realised early on that the only way we were going to know if or how we were creating change and truly making an impact was by having an external audit on our waste, such as shipping and supply chain, and then offsetting those.

Here are some ways businesses can make sure their sustainability goals are more than just talk:

1. Set goals that are specific, measurable, attainable and time bound (SMART) This will help you track metrics that are impactful and meaningful.

2. If you can, build your revenue and link it to your sustainability goals, this will help you avoid being another greenwashing sustainability brand.

3. Have a third party regularly audit the waste you're generating (carbon, plastic and other types) and offset it.

ARO: Longer term, what's your overarching vision for Baresop? Where would you like to see the brand in the next three to five years?

POD: We want to realise our vision of eliminating 1 billion single-use plastic bottles from landfill by 2035. Positive impact is one of the key factors of why we exist and came to be. From 2023, we plan to spend a lot more time working with local grassroot communities to create in-person impact for our shared humanity and our planet. Watch this space. ■

“Our biggest challenge is ensuring that we have a sustainability-friendly supply chain.”

2023 *Consumer Trends* Index

Explore global consumer attitudes and trends in personalisation, privacy, messaging, advertising, brand loyalty and the rising cost of living.

Did *you* know in *Australia?*

55%

Email reigns supreme for the channel consumers purchase from most (55%) followed by social media advertisements (44%) and social media posts (37%)

47%

Consumers are doing more research this year than last, with 47% of them taking to the web to discover whether products meet their needs before purchasing

52%

When it comes to brand communications, the single most frustrating experience for consumers is receiving irrelevant content and offers

41%

In the last 12 months, 41% of consumers have used an ad blocker – meaning that all of that ad spend is less effective than years past

Discover the trends that will impact your bottom line in the coming year, download the 2023 Digital Consumer Trends Index here: