Australian Retail Outlook

2025

Powered by KPMG Inside Retail


KPMG
Everything retail is human. Everything human is digital.
Human connection is at the heart of retail, and in today's world, connection is powered by digital.
KPMG's insights reveal most of Australian shoppers are omnichannel, and 20% prefer online only for its prices, variety, and speed. Gen Z is leading the social commerce boom with 65% seeing social media as important to their shopping journey.
How do you stay ahead of these evolving demands? How do you stand out from the crowd?
KPMG is here to help.
Whether it's leveraging tech and AI, streamlining value chains or optimising your customer experience and loyalty, KPMG can help you navigate the relentless pace of change – focused on humans, driven by digital.
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Australian
Retail Outlook 2025

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

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Editor's note

As I write this, the first month of 2025 is not quite over, but already, the *Inside Retail* team has attended the National Retail Federation's annual conference in New York City, visited Levi's premium denim factory in Japan, sent multiple breaking news alerts (on Wesfarmers' decision to wind down Catch, shareholders voting on the Myer-Premier deal and the collapse of Mosaic Brands) and somehow found time to plan a few exciting features and goals for the year ahead. If this is an indication of what 2025 has in store, then I'd better prepare myself.

If you're feeling the same, then this year's edition of the *Australian Retail Outlook* is going to be a game-changer. Like our previous reports, this one is full of data and insights into consumer behaviour and business trends, with predictions from KPMG's team of experts and retail leaders to help you refine your strategy for the year ahead. However, we decided to change up our usual format to provide you with an even more holistic view of the critical shifts impacting every part of retail.

Starting last October, we hosted a series of roundtables with KPMG to understand the top priorities and concerns of senior retail executives from across the industry. You'll see their first-hand insights in our new 'Inside HQ' section, alongside relevant articles and interviews on first-party data strategy, bringing the voice of the customer into head office, supply chain trends to watch in 2025 and much more.

Also new to this year's report are the sections on 'International Insights and Trends' and 'Retail Property Hotspots' and our consumer survey. Flip to page 8 to see how consumers expect their spending to change in the coming year, the factors influencing their shopping choices and the retail innovations they find most exciting.

Whether you're a CEO, head of retail, operations specialist, marketing manager or e-commerce expert, the *Australian Retail Outlook* is your go-to guide for navigating retail in 2025. Happy reading!

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

A return to 'healthy' conditions ahead

The year 2024 was one many retailers would like to forget, as sticky inflation kept the elevated interest rate steady and the cost of living prompted consumers to tighten their spending, further squeezing the already subdued consumer sentiment to new lows.

The drawn-out macroeconomic conditions resulted in a stalled recovery in the second quarter of 2024, with the December 2024 edition of the KPMG Retail Health Index (RHI) forecasting a return to 'healthy' retail conditions from mid-2025.

With the possibility that conditions aren't going to improve in the near term, retailers took a hard look at their operations through 2024 to find areas to optimise costs, maintain margins, drive cash flow and find more efficiencies in their operations.

Many retailers also came to the realisation, however, that consumers may have moved on from strategies employed in previous downturns.

KPMG's 2024 report into seamless commerce in the Apac region found that 42 per cent of Australian shoppers surveyed are omnichannel (stores and digital), but prefer online shopping for its competitive pricing, product offerings and delivery speed.

There has also been a noticeable uptick in social commerce as the shopping gateway for the modern consumer, particularly Gen Z, with many consumers now preferring social media as their primary shopping discovery channel.

While technology investment continues to deliver productivity gains, and the promise of artificial intelligence tools to help manage data, improve customer service, and optimise supply chains appears significant, some retailers are also coming to the realisation that their existing tech stacks may not be fit for purpose, challenging their investment priorities and business processes.

Sustainability obligations also became more tangible in 2024, as Australia's sustainability reporting framework kicked in from 1 January. Many retailers developed actionable strategies and testing for their compliance reporting capability. The reporting framework is now in place for large businesses ($500 million-plus in revenue) and will be rolled out over a three-year period to medium ($200 million-plus revenue) and smaller ($50 million-plus revenue) businesses.

We have once again seen a paradigm shift in the retail landscape, as consumers have embraced social commerce, revisited the value of the in-store experience, and demanded so much more out of their favourite retail brands, particularly on digital platforms. Indeed, in many respects, the human experience of retail has now truly become a digital-first experience.

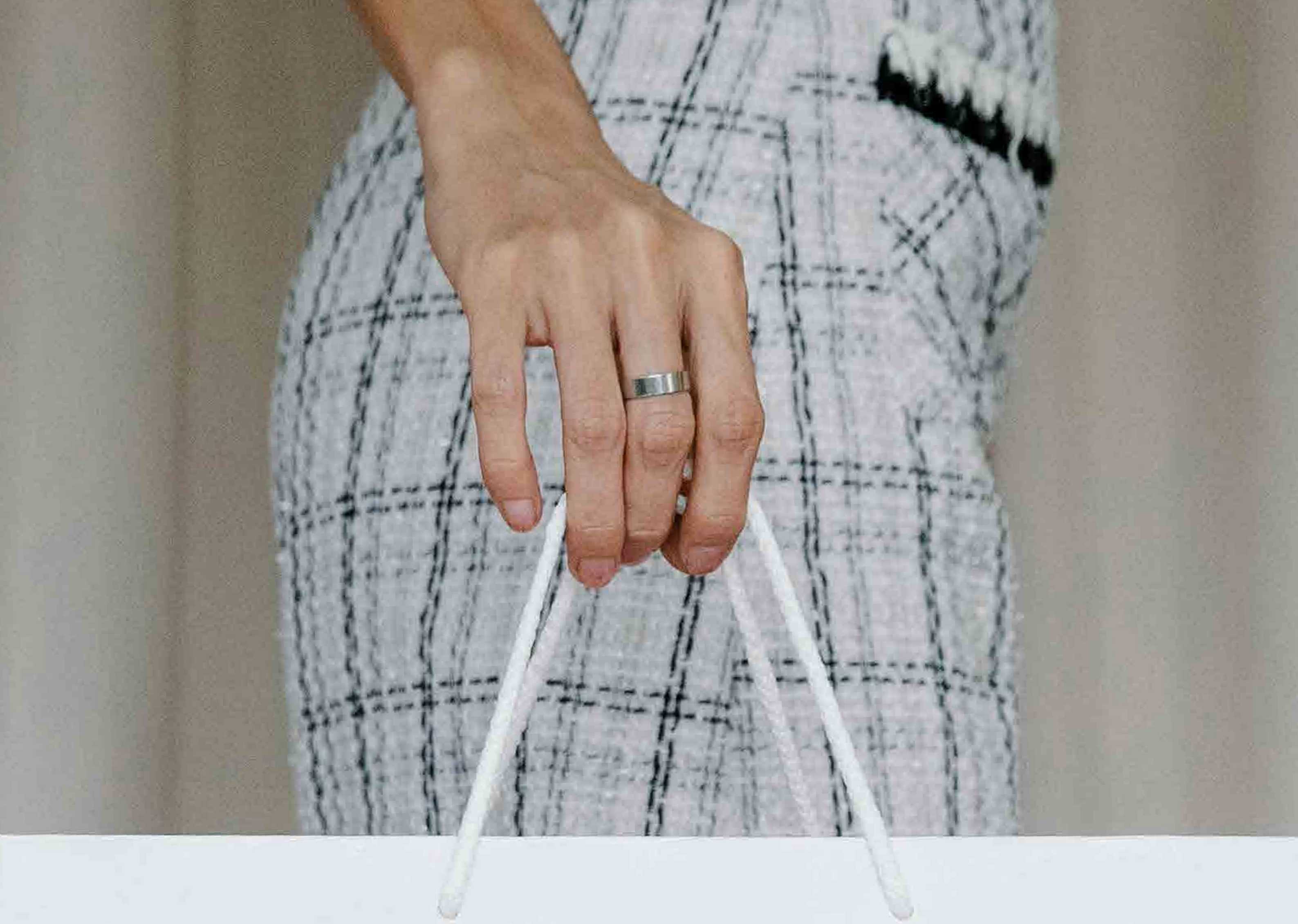
Nevertheless, 2025 brings hope that the rollback in interest rates seen in overseas markets will finally arrive in Australia and provide some much-needed breathing space for both retailers and consumers, stimulating retail spending again.

One thing is for sure: The relentless pace of change will not slow down in 2025. This means retailers will continue to face a consumer demanding more value and a greater experience (digital and physical), and competition who will continue to double down on value-chain efficiency, technology investments, and product differentiation.

James Stewart
National Leader, Consumer and Retail, KPMG Australia

Peter Marczenko
Mid-Market Retail & Consumer Leader, KPMG Australia

Linda Chai
National Leader, Enterprise Technology Enablement, KPMG Australia



Setting the scene

To understand what is top of mind for shoppers in 2025, *Inside Retail* asked more than 500 Australian consumers in January to share their views on pricing, personalisation, customer experience, emerging technologies and more.

We explored their responses in detail in our consumer report. Then, we took it one step further and analysed how retailers can leverage these insights to grow in the coming year.

In ‘Setting the scene’, we unpack:

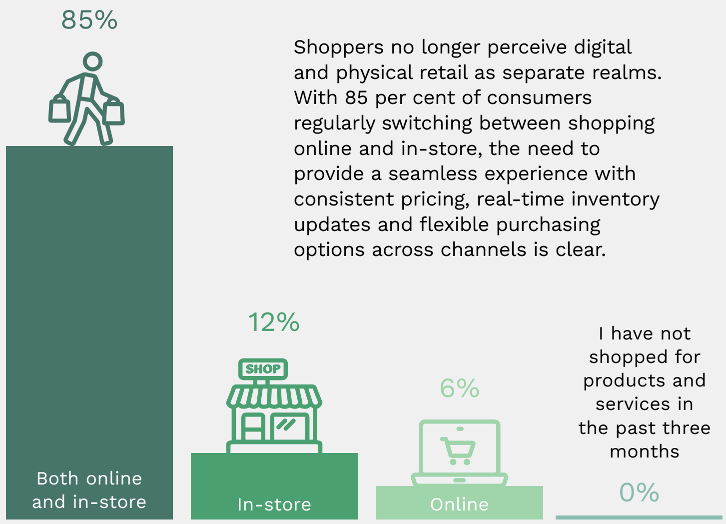
- Consumer spending predictions for seven key retail categories
- Which aspects of the retail offering really matter to shoppers
- The changes retailers need to make to adapt and thrive in 2025

Inside the mind of the Australian consumer

Discover how 500 Aussies expect their spending to change in the year ahead and what they really think about seamless shopping experiences, personalisation, sustainability and innovation.

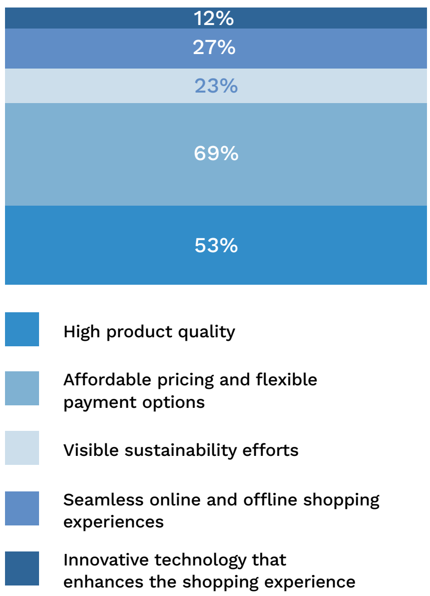
By John Williams

Q.1 In the past three months, where have you shopped for products or services?

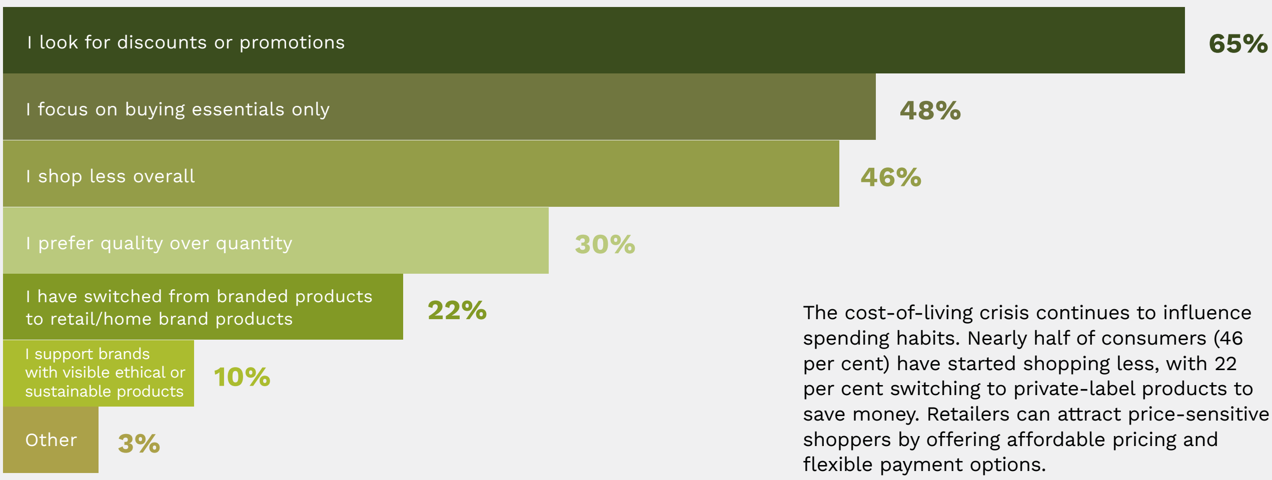


Shoppers no longer perceive digital and physical retail as separate realms. With 85 per cent of consumers regularly switching between shopping online and in-store, the need to provide a seamless experience with consistent pricing, real-time inventory updates and flexible purchasing options across channels is clear.

Q.3 What factors would encourage you to support a specific retailer in the future?



Q.2 How have your shopping priorities changed in response to economic conditions?



The cost-of-living crisis continues to influence spending habits. Nearly half of consumers (46 per cent) have started shopping less, with 22 per cent switching to private-label products to save money. Retailers can attract price-sensitive shoppers by offering affordable pricing and flexible payment options.

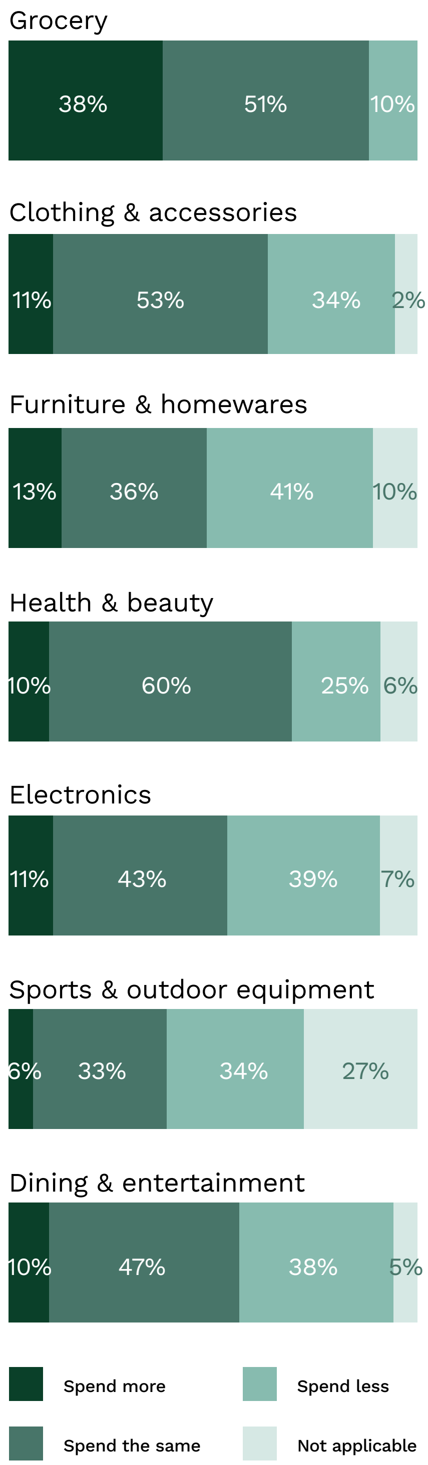
Q.4 What factors are most important to you when choosing where to shop?

Price is the top priority for a significant 84 per cent of shoppers, with many actively seeking discounts and turning to essential purchases. Brands that prioritise competitive pricing, loyalty rewards and value-focused promotions will keep customers engaged.

Q.6 What challenges prevent you from enjoying your ideal shopping experience?

Consumers anticipate shopping to be seamless, whether online or in-store. Retailers need to invest in efficient logistics, strong inventory tracking and adaptable fulfilment options to ensure a great customer experience.

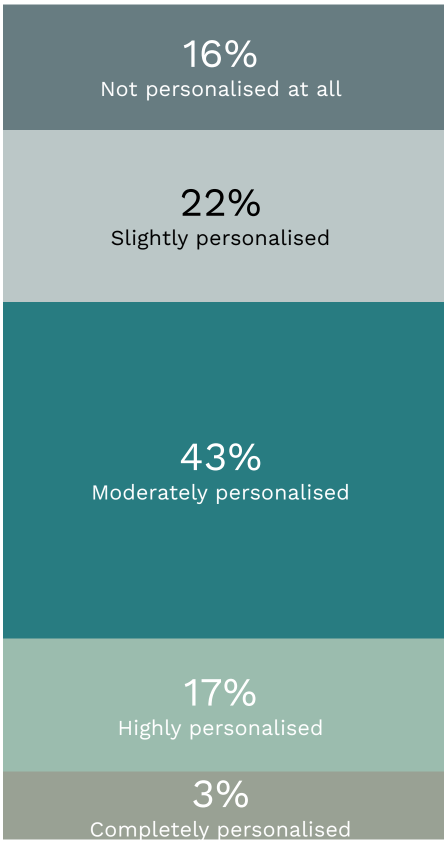
Q.5 How do you expect your spending on the following categories to change in the next 12 months?



Across categories, nearly three-quarters of shoppers (72 per cent) expect to spend the same or less in 2025.

Q.7 How personalised would you like your shopping experience to be over the next two years?

As retail competition intensifies, personalisation has become a key differentiator. Consumers want personalised experiences tailored to their unique preferences, but they also value control over how their data is used. Retailers must strike the right balance between automation and human engagement.



Q.8 Which types of personalisation would most improve your shopping experience?

Personalised loyalty rewards 59%

Tailored promotions or discounts 51%

Recommendations based on past purchases 28%

Dynamic pricing based on my shopping habits 27%

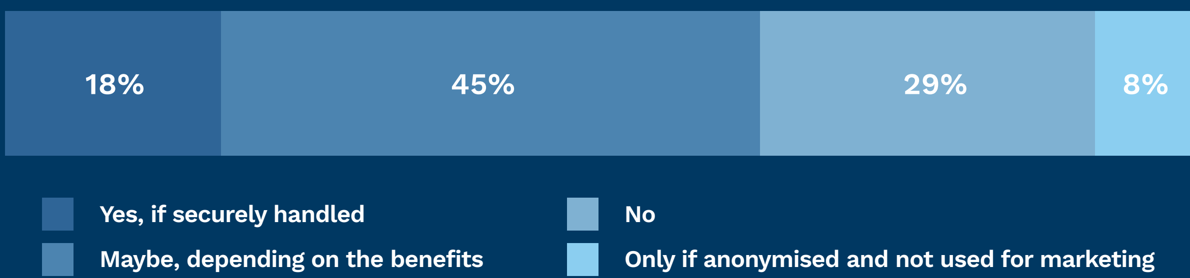
Customised delivery options 26%

In-store product locating based on my history and preferences 19%

A shopping assistant that learns my preferences 16%

While personalised recommendations have their place, 59 per cent of consumers favour tangible loyalty rewards like cashback, discounts and exclusive member perks.

Q.9 Would you be willing to share more personal data for a better shopping experience?



Q.10 What delivery options would you like retailers to prioritise over the next two years?

The convenience economy is speeding up, and consumers now anticipate faster, more transparent and flexible delivery options. With the rapid growth of e-commerce, logistics and fulfilment have emerged as key battlegrounds for retailers aiming to differentiate themselves.

42% Faster home delivery

33% Same-day delivery

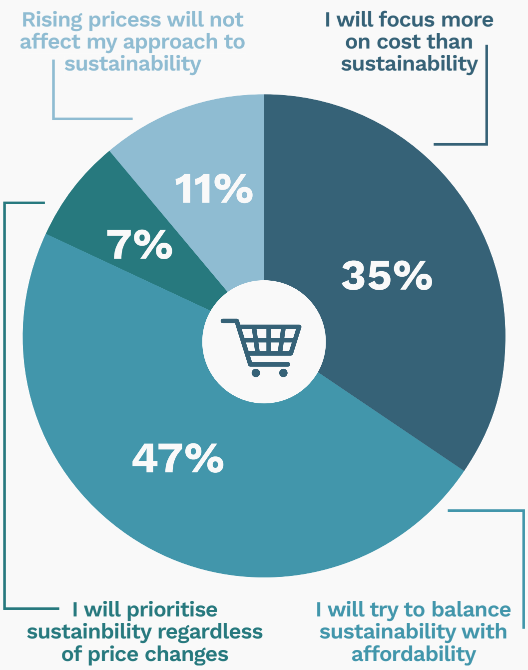
33% Reliable in-store click-and-collect

32% Carbon-neutral delivery options

17% Scheduled deliveries at my convenience

Q.11 How will rising prices influence your approach to shopping sustainably?

Although 47 per cent of consumers consider sustainability when shopping, most are unwilling to absorb the extra cost. For example, while 62 per cent prefer sustainable packaging, only 21 per cent are willing to pay more for it. The takeaway is clear: retailers should embed eco-conscious practices as standard, not premium, features.



Q.12 How likely are you to support retailers that actively pursue sustainability initiatives in the next 12 months?

43% Neutral

37% Likely

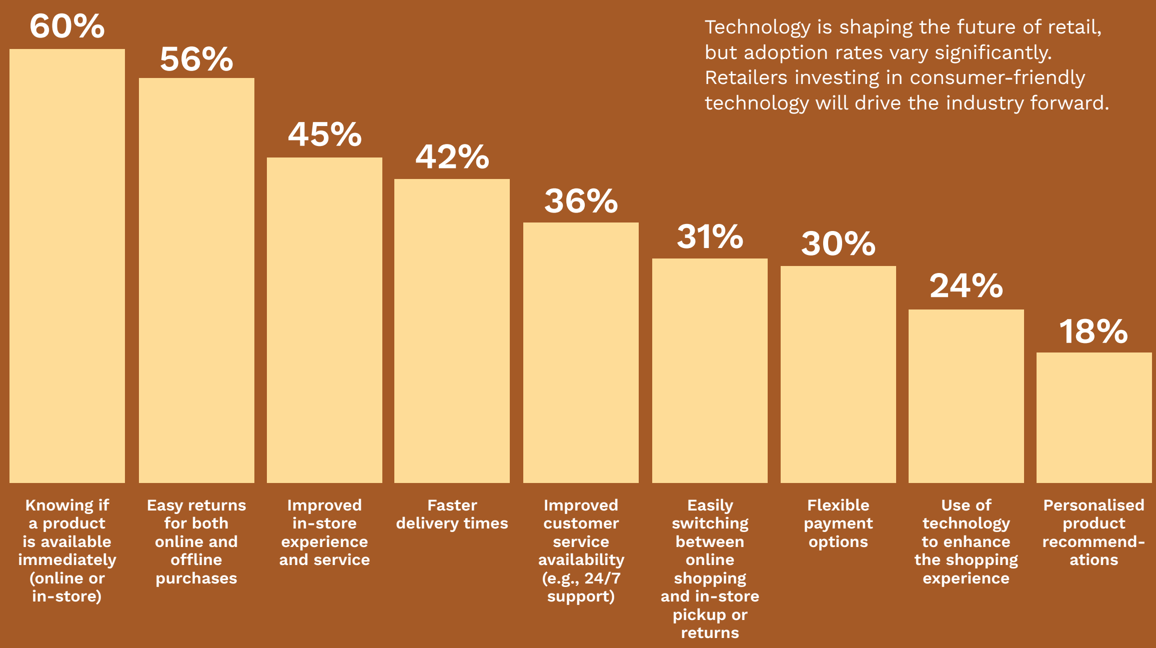
10% Very likely

6% Very unlikely

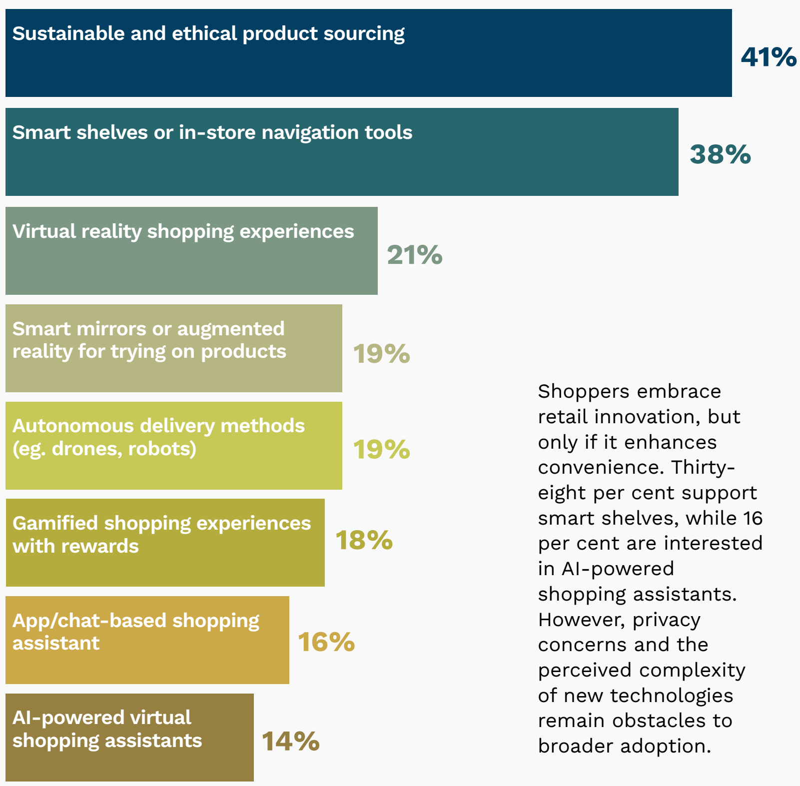
5% Unlikely

Q.13 How important are the following advancements to your shopping experience by 2025?

Technology is shaping the future of retail, but adoption rates vary significantly. Retailers investing in consumer-friendly technology will drive the industry forward.



Q.14 Which of the following future innovations excites you the most?

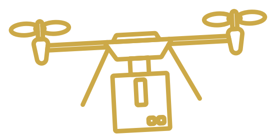


Shoppers embrace retail innovation, but only if it enhances convenience. Thirty-eight per cent support smart shelves, while 16 per cent are interested in AI-powered shopping assistants. However, privacy concerns and the perceived complexity of new technologies remain obstacles to broader adoption.

Q.15 How aware are you of the following retail technologies?

66% Contactless payment systems

22% Autonomous delivery methods (drones, robots)



20% Virtual or augmented reality shopping tools

20% AI-powered shopping assistants

16% Smart fitting rooms

Q.16 How likely are you to try the following retail technologies in the next two years?

In-store navigation apps	42%
Interactive digital screens in stores	39%
AI chatbots or personal assistants	31%
Virtual reality shopping	31%
Biometric payment systems (e.g., facial recognition)	28%

Q.17 What benefits would encourage you to use retail technologies?

Cost savings or discounts 76%

16% Enhanced shopping experience

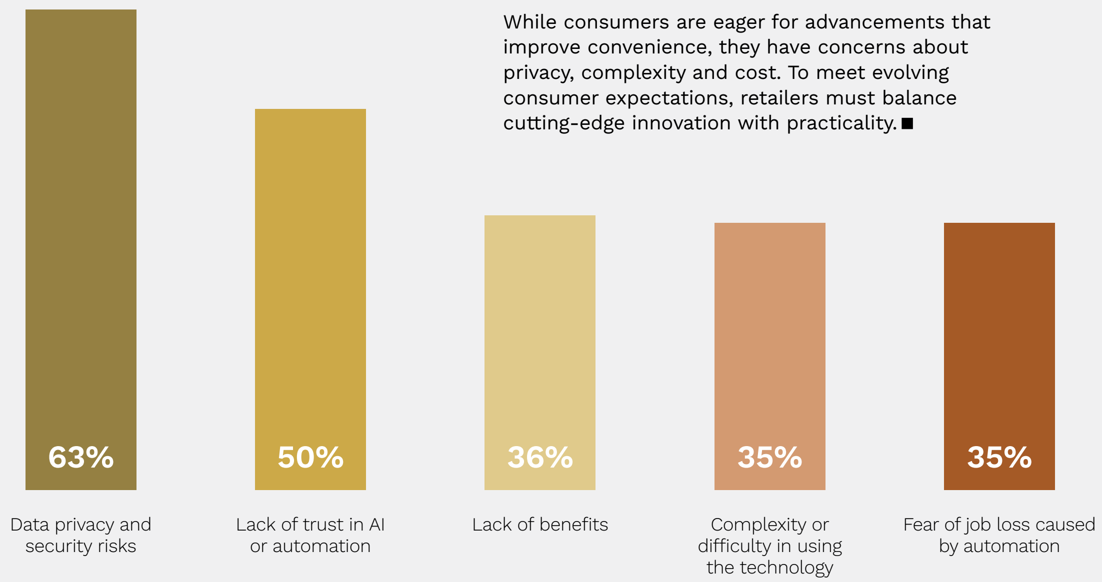
Improved product discovery 22%

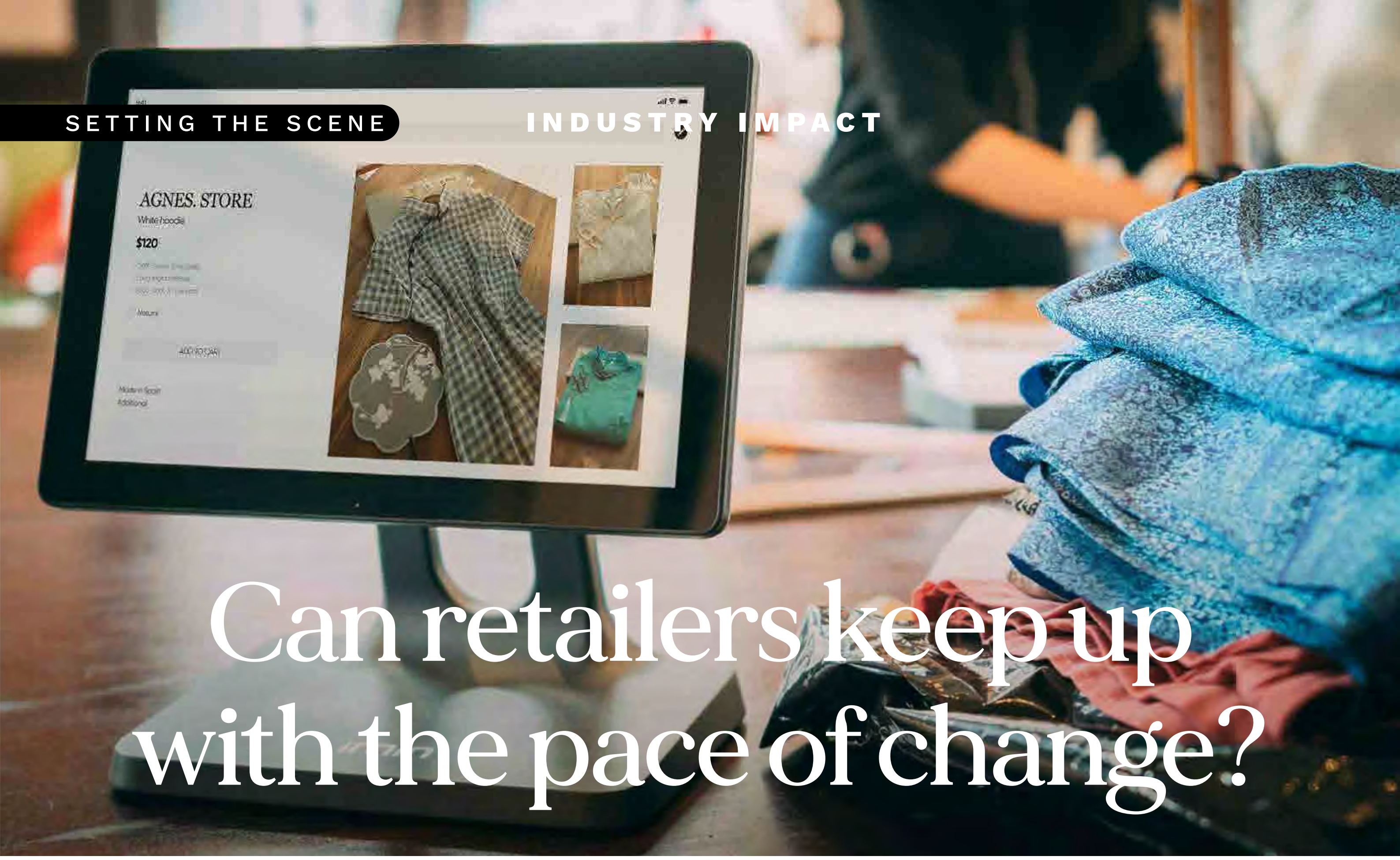
43% Time savings

Convenience 51%

Q.18 What concerns might prevent you from adopting retail technologies?

While consumers are eager for advancements that improve convenience, they have concerns about privacy, complexity and cost. To meet evolving consumer expectations, retailers must balance cutting-edge innovation with practicality. ■





Can retailers keep up with the pace of change?

As our consumer survey revealed, Australian shoppers are seeking value-driven, seamless retail experiences. Businesses must adapt to survive and thrive in the year ahead.

By John Williams

This will be a year of transformation, not slow and steady progress. Economic recovery, technology adoption and shifting consumer priorities will shape the future of Australian retail in 2025 and beyond. Businesses prioritising AI, sustainability and seamless customer experiences will thrive, while those resistant to change may struggle to survive.

A retail rollercoaster – challenges, innovations and the road ahead

Retail in Australia has always been a dynamic industry. However, 2024 has tested its resilience like never before. Inflationary pressures, shifting consumer behaviours and an evolving technological landscape have created a year full of uncertainty and opportunity.

Looking ahead to 2025, the key question is adaptation: will retailers evolve or be left behind? Let's explore how businesses are adapting and what the future holds.

Recovery and consumer confidence

Despite a sluggish 2024, Australia's economy is expected to grow by 2.1 per cent in 2025, driven by easing inflation and anticipated interest rate cuts. Retail sales are projected to rise as consumer confidence strengthens, especially in discretionary categories such as electronics and home furnishings.

Employment stability and improved wage growth will further bolster spending, enabling retailers to take advantage of the recovery. However, caution remains, with consumers still prioritising essentials over luxury spending.

Experts suggest that while discretionary spending is set to increase, a gradual return to travel and hospitality spending may redirect some consumer dollars away from retail, requiring businesses to refine their customer engagement strategies.

Consolidation, survival and the businesses that didn't make it

Major mergers transformed the retail landscape in 2024. The $30 billion Chemist Warehouse-Sigma Pharmaceuticals deal and Myer's acquisition of Premier Investments' Apparel Brands – both officially approved by shareholders in January of this year – highlighted the drive for market dominance. Meanwhile, Woolworths broadened its digital presence and improved its supply chain strategy to address rising costs.

At the same time, retail insolvencies increased 14.2 per cent year on year in the six months to December 2024, according to the Australian Securities and Investments Commission (ASIC). Godfreys, A.BCH, Nique, Arnsdorf, Booktopia and Dion Lee were among the businesses that succumbed to financial pressures in the last calendar year.

72%

of shoppers expect to spend the same or less this year as they did in 2024

Experts anticipate ongoing consolidation in 2025 as retailers concentrate on efficiency and scale, as evidenced by the closure of Mosaic Brands' Katies, Rivers, Millers and Noni B businesses.

Retail analysts expect a greater emphasis on local manufacturing and supply chain diversification in response to global disruptions. Retailers investing in near-shoring and regional partnerships could gain a competitive edge by reducing future economic volatility. ▶

The brands betting big on the future
While some retailers played it safe in 2024, others drove ahead with bold expansion strategies. Rebel's flagship store in Melbourne redefined experiential shopping with interactive fitness zones and AR-powered fitting rooms, while Shein's pop-up strategy explored physical retail demand. Analysts predict a 15 per cent increase in hybrid retail models that blend online and in-store experiences. The future belongs to those who innovate – who will take the helm?

Forward-thinking retailers are integrating personalised subscription services and community-driven retail experiences. Emerging trends indicate that brands with loyalty ecosystems, exclusive membership tiers and hyper-personalised offerings will experience higher consumer retention in 2025.

59%

of shoppers say personalised loyalty rewards would improve their shopping experience

AI, automation and the new shopping experience
The digital revolution is accelerating, with AI-driven recommendations expected to influence 40 per cent of purchases by 2025. The adoption of augmented reality (AR) and virtual reality (VR) technologies in fashion and home retail is projected to grow by 20 per cent, enhancing product visualisation and consumer engagement.

Autonomous delivery systems and hyperlocal fulfilment centres are predicted to reduce logistics costs by 12 per cent, making same-day delivery a more viable standard service. However, privacy concerns regarding AI-driven shopping experiences are increasing, with consumers demanding greater transparency in how their data is used.

Meanwhile, recent advancements in AI-driven inventory forecasting and automated stock management will enhance supply chain efficiencies, reducing waste, optimising product availability and helping retailers maintain profitability in an increasingly competitive market.

63%

of consumers rank high shipping costs as their biggest challenge

Sustainability and ethical consumer expectations
Sustainability is no longer merely a trend; it has become an expectation. While 47 per cent of consumers prioritise ethically sourced products, only 11 per cent are prepared to pay a premium. Retailers must integrate sustainability into their business models without significantly raising costs. Brands such as Patagonia and RM Williams are at the forefront by investing in repair and resale offerings, aligning with the increasing demand for circular economy initiatives. Additionally, blockchain tracking for supply chain transparency is emerging as a crucial tool for retailers looking to boost consumer trust.

Energy-efficient store designs, carbon offset schemes and second-life product initiatives are also gaining prominence in 2025. Retailers that effectively communicate their sustainability impact are likely to foster stronger consumer loyalty.

How consumers will shop in 2025
Affordability remains a priority for 84 per cent of shoppers, but experience is becoming equally important. Spending on health and wellness surged by 8.8 per cent in 2024 and is expected to rise a further 10 per cent in 2025. Electronics and home furnishings are forecast to grow by 6 per cent, driven by increasing consumer confidence. Hybrid shopping – where online and in-store experiences seamlessly integrate – is becoming the norm, with 85 per cent of shoppers blending both channels. Retailers must balance value with expertise to remain relevant in the year ahead.

With price sensitivity remaining high, brands are broadening their "buy now, pay later" (BNPL) options and dynamic pricing strategies to appeal to budget-conscious consumers. They are also increasingly using hyper-personalised marketing – such as AI-curated discounts and tailored shopping experiences – as a key differentiator.

The retail wishlist: What consumers want in 2025
Consumers today expect greater convenience, flexibility and ethical practices. More than 55 per cent now demand same-day delivery as a standard service, while sustainability remains a crucial factor in purchasing decisions. However, only 11 per cent of shoppers are willing to pay more for eco-friendly products, meaning retailers must find ways to integrate sustainable practices without increasing costs.

AI-driven personalisation, seamless omnichannel experiences and transparent supply chains will shape customer loyalty in the years to come. Moreover, real-time product availability, ultra-fast checkout solutions and frictionless returns policies are set to become Australian consumers' baseline expectations. Retailers that prioritise these capabilities will gain a clear competitive edge.

42%

of shoppers are likely to try in-store navigation apps in the next two years

The road ahead – strategies for success in 2025
As Australia's retail sector enters 2025, economic recovery, technology adoption and evolving consumer preferences will shape success. Retailers need to embrace AI, sustainability and omnichannel innovation while ensuring affordability and efficiency.

With GDP growth projected at 2.1 per cent and discretionary spending on the rise, businesses that focus on consumer-centric strategies will emerge stronger in the ever-changing market. Those that fail to innovate risk being left behind in the increasingly competitive retail landscape.

By effectively incorporating data-driven decision-making, hyper-personalisation and commitments to sustainability, retailers will be best placed for long-term growth.

The question is no longer whether transformation is necessary – it's now about how swiftly businesses can adjust to tomorrow's retail environment. ■

Inside HQ

Now that you have a solid understanding of the key consumer trends and opportunities for growth in the year ahead, it's time to put it into practice.

Drawing on a series of executive roundtables we hosted with KPMG last October and dozens of exclusive interviews with retail leaders and industry experts, *Inside Retail* created a practical guide for navigating retail in 2025 and beyond.

On the following pages, you will find tips and advice from more than 50 influential retail voices on how to optimise every part of your business.

Step 'Inside HQ' and discover:

- Dedicated sections for every core business function, including general management, marketing and advertising, sales and customer, operations and supply chain, finance, IT and data, digital and e-commerce and sustainability
- First-hand insights from senior leaders at Amazon Australia, Officeworks, LSKD, Ikea Australia, Forever New, The Iconic, The Reject Shop, Adore Beauty and other major retailers
- Expert analysis from KPMG on some of the industry's most pressing topics, such as communicating value to price-sensitive customers and reducing supply-chain costs without compromising customer experience

‘So much untapped potential’: Ksubi CEO on how to drive growth in 2025

Craig King discusses the Australian streetwear brand’s return to Australia, strategies for navigating economic challenges, the role of physical stores and tips for driving international growth in 2025.

By Heather McIlvaine

***Inside Retail:* Ksubi was founded in Australia in 1999, but until recently, it mostly operated in the US market. Last year, you brought the brand back to Australia, opening bricks-and-mortar stores in Sydney and Melbourne. What has the customer response been like?**
Craig King: The response has exceeded expectations, both stores are ahead of their targets to date. What's possibly more pleasing is the energy from the customers coming into the stores. There are customers from 'back in the day' excited to walk into a Ksubi store again, and there are the next generation who have been following us closely on social media, getting a taste of what we have been delivering in overseas markets.

***IR:* What is the role of stores in the Ksubi business, and how do you ensure you're offering a consistent experience across stores, online and wholesale?**
CK: Bricks-and-mortar is still the best way to present a brand experience. You get to control an environment, the offering, the layout, the level of light, sound, smell and, most importantly, the service and experience your customers have.

***IR:* How do you see customer expectations continuing to evolve when it comes to unified retail in the years ahead? Are you planning to invest in any new technology, features or services in this space in the next 12 months?**
CK: First of all, we focus on our brand and customer and try not to get too distracted by the myriad software offerings in the market. Something that comes through clearly is that we are all bombarded with feeds every day. Our best way to cut through the noise is to have the most customised one-on-one experience with our customer and that, and the tech to enhance it, will be our focus in the near future.

***IR:* As a denim and streetwear brand, Ksubi has a long track record of collaborating with musicians, artists, athletes and other cultural figures. How do you measure success in this area, especially given the increasingly noisy advertising market?**
CK: That is a good question – not sure there's a simple answer, as the effectiveness of collabs is changing. I can tell you that they aren't a one-size-fits-all. They probably fall into two key categories now: positioning or commercial. Rarely do they tick both boxes. Both can have a positive impact on a brand and one is clearly more measurable than the other. We take a medium-term view to balance out our objectives over time with the mix of the two. ►

***IR:* International expansion seems to be top of mind for many Australian brands right now. Given your experience in the US market, what are the most common mistakes Australian retailers make when entering new markets?**
CK: The big two are not knowing the customer and not knowing the competition. If you are successful in Oz to the point of thinking about other regions, then you know the Oz market pretty well. That's not necessarily the case when you head to another country. What you are great at here may not be in high demand there, or there might be an incumbent that's very strong in your area. The best approach is to analyse your online sales to that region and understand the level of demand and what they are picking up on. It takes time, effort and investment and you still have to run your domestic business – the grass isn't always greener.

> "When money is hard to earn, be maniacal on costs, regardless of your situation."

***IR:* Do you see any opportunities to expand Ksubi's global presence in 2025?**
CK: We are always looking at opportunities but we tend to be cautious.

***IR:* In general, what's your view on investing in growth versus minimising risk during periods of low consumer sentiment?**
CK: I'm not sure there's a general answer, as all companies are in different stages of their life cycle. Are you looking to grow, solidify, invest or cash up? I can say one thing is consistent: When money is hard to earn, be maniacal on costs, regardless of your situation.

***IR:* You recently named Pip Edwards the creative director of Ksubi. Can you share the overarching vision for the brand that you've discussed with her?**
CK: We both feel the brand, although 24 years old, still has so much untapped potential. We have seen triple-digit growth in places as obscure as South Carolina in the US and also right here in Sydney. We are excited to build a world-class brand based in Australia that connects with people everywhere.

***IR:* I know you're a self-taught retail leader and that you have high expectations of your team. How do you attract and retain top talents in the business, and what impact do they have on the success of Ksubi?**
CK: In a word, culture. If you build that into your four walls, it's somewhat self-governing. To do that though, you have to know what you are looking for (hungry, humble and smart) in a hire and you have to be honest with yourself when you get it wrong and make the change respectfully. If everyone is rowing in the same direction, business flows, the group benefits and good things happen. It's also easy to identify those who aren't aligned and in those circumstances, it's better for them to find a company that better suits their needs – everyone wins.

***IR:* What do you expect your biggest challenges to be in 2025?**
CK: Finding a replacement for "Yellowstone". ■

What's keeping retail CEOs up at night?

Scott Druce
GM, Typo
"I've got to say, the sudden drop in the AUD/USD is a big deal – it's hitting GFC-level lows! It's not the best timing, especially since our customers are already feeling the squeeze from rising living costs. We need to figure out how to manage this and keep delivering great value to our customers."

Loic Rethore
CEO, Jurlique
"In an increasingly digital world, one of the biggest challenges we face is finding ways to bring customers back into physical stores. At Jurlique, we believe the answer lies in crafting immersive, elevated experiences that go beyond what online shopping can offer. Last year, we relaunched our spa offering, available in all Jurlique concept stores, ensuring that customers can experience sensorial beauty rituals designed to inspire a complete sense of wellbeing. By focusing on immersion and holistic connection, we're redefining retail spaces as sanctuaries that customers want to return to again and again."

Charlotte Blakeney
CEO and founder, By Charlotte
"As we continue to grow, a consideration that always plays on my mind is how to stay truly connected to our customers in a meaningful way. I've seen brands compromise their authenticity and spark as they scale, losing sight of what their customers truly love about them. Our customers are the heart of our brand, and every interaction – whether in-store, online, or on social channels – must feel genuine and personal. I am constantly thinking about how we can connect more deeply with our customers and show them that we're truly listening...It's something that keeps me up at night."

Jane Lu
CEO, Showpo
"What keeps me up at night are those moments when I don't follow my gut. As the founder of Showpo, I've learnt that while data and trends are important, some of our best decisions have come from trusting my instincts. The times I've ignored that little voice in my head are the ones I look back on and think, 'I knew better.' Balancing intuition with strategy is always a challenge, but it's what makes this journey so exciting."

Laura Thompson
CEO and co-founder, Clothing the Gaps
"Businesses have the power to influence change, drive progress, and win the hearts and minds of the community. With politicians lagging behind, will retailers take the lead by choosing not to celebrate Australia Day on January 26 out of respect for First Nations people?"

John Winning
CEO, Winning Group
"The biggest opportunity for growth lies in providing value beyond price throughout the entire shopping journey, especially during times of cost-of-living pressures. It is also key to achieving customer trust and loyalty. Logistics is becoming increasingly important to deliver an exceptional end-mile customer experience. We have been focused on continuing to innovate the last-mile shopping experience for customers and scale our logistics network."

Jere Calmes
CEO, The Iconic
"A challenge that keeps me on my toes is integrating sustainable and ethical practices with commercial viability, particularly in a market where affordability is increasingly critical as the cost-of-living crisis continues into 2025. Aggressive cross-border competitors offering ultra-cheap fashion only add to the pressure. But there is no question that sustainability is no longer an optional extra and as an industry leader, The Iconic has a responsibility to drive meaningful change. This requires rethinking supply-chain practices, collaborating closely with branded partners, and ensuring sustainability and commerciality go hand in hand. Getting it right isn't just important – it's essential for the future of our industry."

Anne Sullivan
VP of sales, ANZ, Fiskars Group (Georg Jensen)
"As flexible work becomes the norm, attracting top talent in retail is increasingly challenging. Industries offering greater workplace flexibility are drawing skilled professionals away, forcing retailers to rethink how they blend in-store roles with remote-friendly opportunities to remain competitive." ■

Marketers reveal their top trends for 2025

Discover three key trends reshaping retail strategies in 2025, as voted by marketing leaders from Hey Bud Skincare, The Iconic and more.

By Heather McIlvaine

The retail marketing landscape is more dynamic than ever, so understanding which trends are worth pursuing – both from the consumer's and the business's perspective – and which ones are just noise, will be critical to achieving growth in the year ahead.

"If I were to lay a one-way bet, continued commercial pressures and shrinking marketing budgets will remain in 2025," Nicole Miranda, director of client services at advertising agency Spinach, told *Inside Retail.*

In this challenging environment, marketers will need to deliver bigger returns on less investment.

"Demonstrating the critical role marketing plays in driving business growth will continue to be a priority while marketers juggle bigger strategic imperatives such as sustainability, ethical sourcing, new technology and innovation," Miranda added. ►

To help marketers focus their resources and refine their strategies for the year ahead, we asked several brand CMOs and marketing experts to share their top marketing trends for 2025. Here are three common themes that came to the fore.

> “2025 is the year to give your customers authenticity – but the real, actual, lo-fi version of it.

Real, lo-fi authenticity and community building

As consumers get savvier about what is real user-generated content versus what just looks like organic content – but is actually paid advertising – brands need to adapt to deliver a new version of authenticity that customers truly connect with.

“People are sick of seeing perfect photoshoots and brands showcasing a lifestyle that feels increasingly out of reach as economic pressures truly affect consumer purchase behaviour,” Hannah Neumann, head of marketing at Hey Bud Skincare, told *Inside Retail*.

While authenticity has been a buzzword in retail marketing for some time, Neumann believes it has reached a tipping point, and businesses need to go all in.

“2025 is the year to give your customers authenticity – but the real, actual, lo-fi version of it they interact with in their everyday lives, not just on socials. And even better – create spaces for them to connect and build this for themselves, with a curation level that feels very low-touch from the brand,” she said.

Facebook groups like Mecca Chit Chat, which boasts over 235,000 members, or even Hey Bud’s group, which has amassed over 17,000 followers, are a good example of this.

Liana Lorenzato, general manager and CMO of sexual wellness brand Vush, agrees that community building will be a priority for retailers in the year ahead.

“Instead of one-sided marketing, companies will invest in creating safe spaces – online and offline – where customers can connect, share experiences and feel part of something bigger,” she told *Inside Retail*. “Platforms like Discord, private social media groups and brand-hosted forums will become central to these efforts.”

Meanwhile, Ecom Nation co-founder Mal Chia predicts employee experts and local community specialists will take the place of traditional influencers in retailers’ advocacy strategies in 2025.

“Specialty running retailer Sportitude is a shining example of the power of employee advocacy,” Chia, a marketing and digital leader with over 10 years of experience, told *Inside Retail*.

“Their staff, comprised entirely of passionate runners, create authentic product reviews and expert advice that carry genuine credibility with their audience. From marathon veterans to track specialists, their team’s real-world experience and authentic product testing delivers content that consistently outperforms traditional marketing channels in both engagement and conversion metrics.”

The strategic return to physical retail

In keeping with consumers’ desire for authenticity and community, Chia believes experiential retail stores will be a top marketing trend in 2025.

“The narrative of physical retail’s demise has been thoroughly debunked by the sustained resurgence of bricks-and-mortar since pandemic lockdowns lifted,” he said. “This wasn’t just a temporary reaction to confinement – it signalled a fundamental shift in how physical retail serves brand strategy.”

According to Chia, traditional transaction-focused stores are giving way to dynamic environments where retailers use pop-ups and events as living laboratories – gathering customer insights, testing concepts, and building communities. These spaces have become strategic assets that inform product development, marketing strategy and customer experience design.

One example of this is US-based premium activewear brand Alo Yoga, which has taken an innovative approach to experiential retail, combining stores, wellness studios and community hubs to create immersive brand experiences that extend beyond traditional commerce.

“Their pop-up events and wellness sanctuaries have become destinations for their community, driving both brand engagement and sales while providing valuable insights into customer preferences and behaviours,” Chia said.

Integration of AI and data-driven personalisation

Finally, marketing leaders say artificial intelligence (AI) will be even more of a focus in 2025, as retailers seek to hyper-personalise their shopping experiences in real-time.

“Rather than being a ‘trend’, using technology to more intuitively connect customers with products is actually going to become a baseline expectation for online retailers,” Joanna Robinson, CMO of The Iconic, told *Inside Retail.*

The online fashion retailer recently launched multi-modal search (MMS), a sophisticated search technology that enables users to query and retrieve information using multiple modes of input, such as text, voice, images and even gestures.

“We’ve also rolled out metadata enhancements to extract attributes from online imagery to make searches more effective, and we are constantly looking at new recommendation engines to help spotlight relevant content for our customers,” Robinson said.

This includes the company’s ‘Wear it With’ algorithm, which helps to inspire customers by suggesting complementary products so they can ‘shop the whole look’.

“AI tech is moving very quickly, and it’s already transforming how we personalise for our customers and the shopping experience,” she said.

Jim Ritchie, strategy director and partner at US+US brand agency, predicts retail marketing will become a balancing act between understanding and adopting new technologies and delivering a consistent and positive brand experience.

“With less human involvement in deploying a brand in-market, baking in brand DNA will be essential to maintain relevance, connection and, most importantly, trust,” he told *Inside Retail.* ■

How LKSD leverages its community as a powerful marketing tool

The activewear brand's head of community experience shares the most effective ways to engage customers who will not only support but also actively promote a business.

By Heather McIlvaine

Fast-growing activewear brand LSKD is well-known for its highly engaged customer base. With over 450,000 active customers and an average repeat customer rate of 60 per cent, customer loyalty is key to the brand's success.

LSKD regularly conducts customer surveys and gathers feedback from conversations in its retail stores – not to mention its 95,000-member private Facebook group – to refine its product offering and communication strategy.

Here, the brand's head of community experience, Jade Cameron, discusses the most effective ways to engage customers.

***Inside Retail:* Why is nurturing the LSKD community key to the brand's growth and success?**

Jade Cameron: Nurturing our community is fundamental to our growth. Our community is at the heart of everything we do. Our values guide us daily, and Value No.2, 'Create a Community', reminds us that we exist for and because of the incredible individuals who support us. Their feedback, encouragement and trust not only shape our decisions but also inspire us to improve continuously. By fostering genuine connections, we ensure that our community feels seen, heard, and valued, which, in turn, drives our momentum as a team and brand. Simply put, our community isn't just whom we work for – it's why we're here.

***IR:* Are there examples where a specific community action or trend led to a significant boost in brand visibility or sales?**

JC: A great example of community-driven success is the incredible response we receive during our two major annual campaigns – Trust Us Packs and Black Friday. The Trust Us Packs, in particular, are a standout. These mystery boxes generate immense excitement and FOMO [fear of missing out] within our community and attract new members eager to join the journey. The thrill of purchasing without knowing exactly what's inside creates buzz and builds anticipation, and the gear never disappoints, leading to overwhelmingly positive feedback when the boxes are opened. This unique campaign strengthens our connection with the community, as they trust us to deliver value and quality while embracing the fun and unpredictability of the experience.

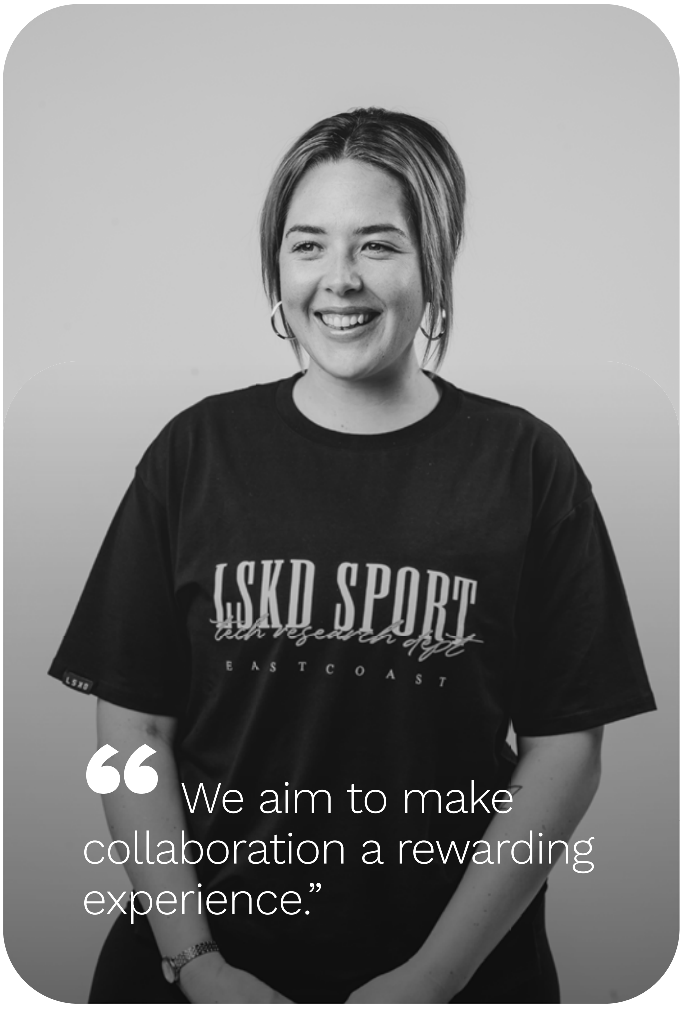
***IR:* What role does user-generated content play in your advertising strategy, and how is the community incentivised to create and share it?**

JC: User-generated content (UGC) has a place in our overall strategy for connecting with current and new community members, particularly through our Creator Community (leveraging Creator IQ). We collaborate with content creators who already love and wear the brand and align with our values, allowing us to tap into authentic, organic content that resonates with our audience. This approach enhances brand visibility and fosters trust, as the content comes directly from real people who genuinely connect with LSKD.

We focus on building meaningful relationships and providing opportunities for creators to feel valued and supported. Whether through product gifting, exclusive experiences, or the chance to be featured across our platforms, we aim to make collaboration a rewarding experience.

***IR:* What role does your community play in co-creating new products, campaigns or ideas for the brand?**

JC: Our community plays an integral role in co-creating new products, campaigns and ideas for LSKD. From improving existing products to designing gear that didn't previously exist, their feedback is at the core of our development process. We gather insights from so many touchpoints, including messages to our CX team, product reviews, and even organic conversations at events and from team training at gyms. Additionally, we host focus groups throughout the year in both existing and new locations to better understand the needs and preferences of each of our communities.



A great example is our 'Fusion' leggings – a community favourite that was designed using feedback on what people loved most about our core leggings. By combining the best elements into one product, we created something that truly resonates with our community. Moving forward, we'll continue to innovate and grow with their input, ensuring we deliver the best functional training gear in the world.

***IR:* What advice would you give emerging brands looking to build a community that organically promotes them?**

JC: My advice to emerging brands is to start by hiring the right people – those who naturally embody a sense of community, empathy and enablement. These qualities set the foundation for building authentic relationships that lead to organic growth.

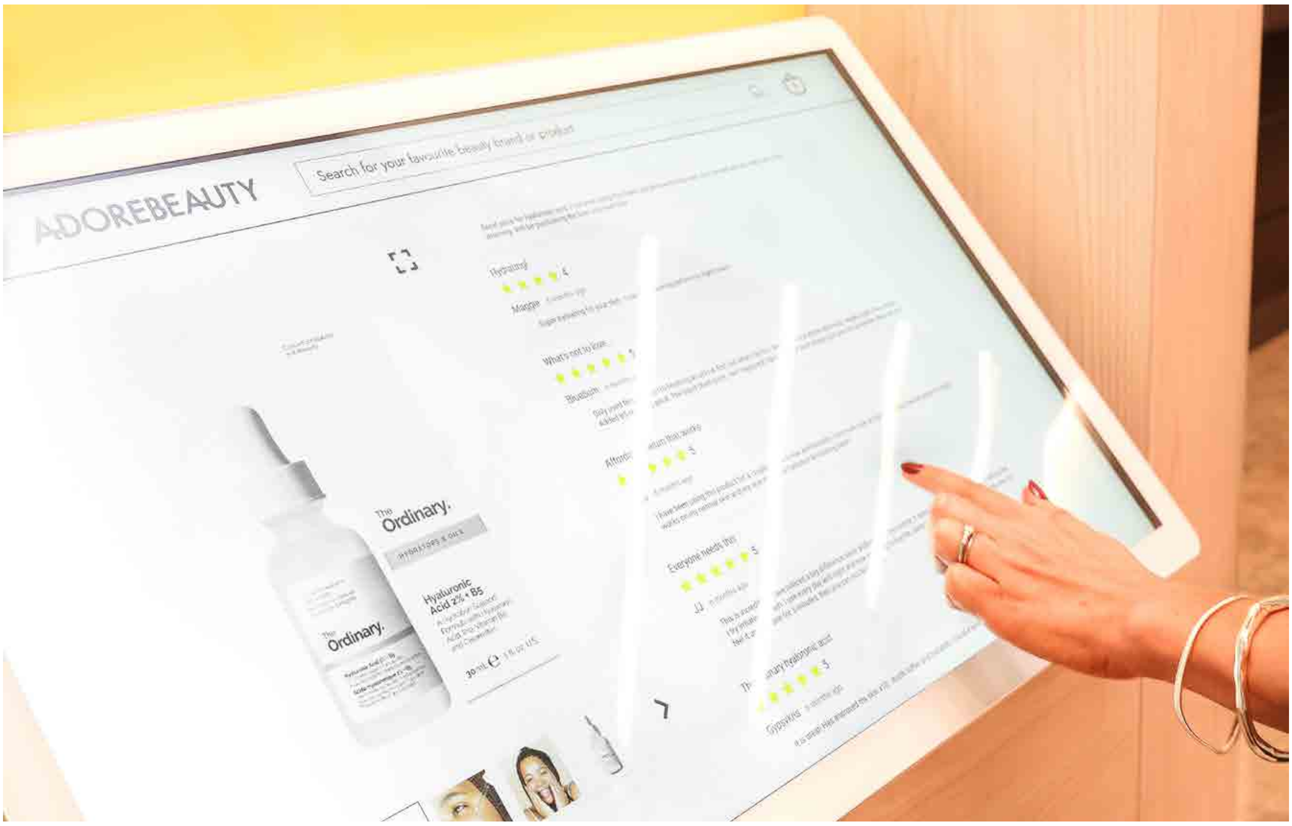
There's no foolproof blueprint for success, but the key is to keep it simple. Focus on one genuine connection or conversation at a time. Listen carefully to your community and take action based on their feedback. Your community will guide you if you're willing to hear them out and adapt.

Lastly, align with people who share your mission and values, and don't overlook the individuals who already exist within your community. These early supporters can become your greatest advocates if nurtured with authenticity and purpose. ■

Five retail leaders on delivering value in a spending slump

Executives from Adore Beauty, T2, Coco Republic, Jeanswest and 2XU share how they're navigating challenging economic times by focusing on customer value, not just discounts.

James Stewart, National Leader, Consumer and Retail, KPMG Australia
Richard Large, Director, Customer and Operations, KPMG Australia
Shae MacDougall, Director, Customer and Operations, KPMG Australia



"It's only when the tide goes out do you discover who's been swimming naked," goes the saying by Warren Buffet, which describes the mood for many in the Aussie retail sector in the last 12 months.

Indeed, many retailers will happily say goodbye to 2024, a period when high inflation and interest rates remained persistent and an ongoing cost-of-living crisis crushed consumer sentiment to its lowest in 45 years, all of which resulted in anaemic national year-on-year retail sales growth.

So as the going got tough, what did retailers learn? How did they adapt? How has customer behaviour changed? We talked with leading retail experts from Adore Beauty, T2, Coco Republic, Jeanswest, and 2XU about customer loyalty, seamless commerce and customer engagement when the headwinds abound.

Think about value, not price

When sales slow and a prolonged spending slump sets in, often the conventional wisdom is retailers drop prices to drive sales and cash flow, at the expense of margin. However, more retail leaders are becoming wary of the effectiveness of discounting and its long-term impact on their brand and business model.

Jeanswest executive general manager Anne Natale said the "old-school apparel retail mindset of dropping a campaign or a promotion every month" needs to change and greater emphasis must be placed on communicating a product's value proposition to the customer.

In effect, retailers must focus messaging not on how cheap the product might be (especially if discounted), but rather why it is such great value at the price point and how it makes compelling sense for the customer to buy it.

"We can switch on promotions and not get the same result as we did in 2023," Natale added. "Instead, we are being very thoughtful about what our marketing is trying to say, and how we can do this without bringing the brand down to a discounter with no brand value."

Tom Leak, Coco Republic's global general manager for retail, echoed this sentiment, saying that consumers are more considered in their spending habits and looking for value.

He, too, warned about getting sucked into a discounting cycle, which could have a colossal impact on margins that are already affected by rising variable costs like rent and wages.

"If you slip into the week-to-week (discounting) trading cycle, you could potentially find yourself with 'promotional schizophrenia'," Leak said. "The best way to stay the course is to find other levers to drive sales, with the mindset that it should be about how you help your customers find value, not just discounting."

For Coco Republic, Leak said the furniture retailer aims to differentiate itself by promoting its interior design services in every customer interaction and offering a bespoke delivery service.

Elise Tassigiannakis, global head of retail for T2, and Nicola Clement, former CXO for Adore Beauty, she stepped down in December 2024, both highlighted clear changes in consumer behaviour over 2024, reflected in the volume of products customers are buying per transaction.

Tassigiannakis said T2 has observed smaller baskets at checkout and increased cart abandonment. In contrast, Clement observed that customers are buying less frequently – with day-to-day between-sales periods getting longer – yet recording more units per transaction.

Adapting to the new market dynamic

In our conversations with retailers, this much is clear: Customers have defined budgets and are picky with what they spend their money on. Retailers are responding by looking closely at their brand messaging and customer experience to deliver on customer expectations.

For T2, that involved working on customer journey maps, conducting customer interviews, and redesigning retail processes to deliver on customer expectations, which Tassigiannakis defined as "memorable experiences and fast, friction-free retail".

Likewise, Adore Beauty is focused on how it can improve the customer experience, raise brand preference, be front of mind, and grow market share from competitors, rather than tap more from their existing customers.

When it comes to its existing customers, Clement said Adore Beauty is focused on nurturing the bigger, bottom part of its loyalty pyramid through education and engagement to "take an unknown customer to being a known customer".

Jeanswest is focused on listening closely to its customers, delivering a great value product, and investing in online and service levels in the distribution centre. Rather encouragingly, these moves have led to more of its customers moving away from purchasing marked-down stock and opting for full-priced purchases.

Leak, of Coco Republic, summarised the positive consumer response to such customer experiences succinctly: "Humans are humans, whether they are spending $5 or $500,000, you want to feel like the only person for that brand."

Bringing down barriers

Though seamless commerce has broadened opportunities and reach for retailers, it also comes with several technical and organisational challenges when it comes to delivering the seamless customer experience.

Adore Beauty's Clement said customers now want more than just a product with the best price. Rather, the product must come with the best service, and communication becomes key in any omnichannel platform.

"If (the customer) can't get it from you quickly, they can get it from someone else. That is why making sure the customer is getting fast and timely communication is important," Clement added.

"Retailers need to ask questions such as: How will we keep lines of communication open? What is the best method to reach customers? What systems, platforms and delivery are front of mind for the customer?"

Delivering on that expectation of communication can be difficult, but T2's Tassigiannakis said that it is about more than just technology. Instead, it starts with empowering the team and understanding how roles need to shift to support, and get more personal with, the customer.

Is social media the answer?

Last year's *Australian Retail Outlook*[1] recorded a huge increase in the proportion of retailers who said TikTok was their most effective social media channel – the figure rose to 40 per cent, up from 14 per cent in 2023.

However, some retailers aren't seeing social media engagement translating into sales. Adore Beauty's Clement, for one, said social media can deliver traffic to the top of the sales funnel, but it is not that good at closing sales out at the end of the customer journey.

"With social media, you have to think about the [customer] journey and how to connect them through with other channels that are lower in the funnelling conversion," Clement said.

While there are some discussions over the future of social media, with micro-gifting through chat apps and livestreaming platforms, the consensus on social media among retailers is that it primarily remains an avenue to engage customers, informing them of the latest products and where to get them, creating a conversation, and building a community.

Keeping tech fit for purpose

Over the past decade, retail has experienced a seismic shift as new technologies and systems emerge to drive sales, customer experience and operating efficiencies.

As legacy systems get older, however, retailers are facing critical choices around which technology they are implementing, replacing or updating – especially when times are tough, and budgets are tightening.

"Too much marketing technology is over-engineered in its intelligence but under-engineered in its capability of delivering what businesses actually need," Adore Beauty's Clement said. "Very often, businesses end up paying for things that have overlapping capabilities but can't do everything and cost too much to integrate."

Jeanswest's Natale agreed with that assertion, as the business has found that it was overburdened with systems that don't talk to each other, which resulted in the company having to keep a higher headcount just to analyse the data.

> "It should be about how you help your customers find value, not just discounting."

With technology being more ingrained into every facet of retail operations, reprioritising technology adoption as 'what it is supposed to do' rather than 'what it can do', could not only save costs but greatly improve efficiencies.

"Now more than ever, retailers need to keep up with disruptive technologies that are reshaping the sector in real time," KPMG's mid-market retail and consumer lead, Peter Marczenko, observed.

"However, the fundamentals of ensuring that your tech stack is fit for purpose, and it aligns with your business and operational priorities, remains critical, especially for mid-market retailers."

All in the same boat

Despite coming from diverse retail categories, the retail experts we spoke to landed on a similar page when it comes to consumer behaviour and the opportunities ahead.

As T2's Tassigiannakis put it, "Customer expectations have never been higher, as they are looking for quality, convenience, availability and sustainability, all of which retailers need to deliver on in a way that is market-leading and cost-effective."

With the economic tides continuing to shift going into 2025 and beyond, it appears that many retailers across different categories are in the same boat. ■

[1] *Australian Retail Outlook 2024, Inside Retail,* 2024

KPMG's key insights

Traditional discounting strategies don't appear to be delivering the same results or customer responses as they once did. Why?

Customers are more value-focused than ever and online disruptors are reshaping value expectations and shopping behaviour. So, while some brands have invested heavily in their brand and product value proposition, in a market where differentiation (other than on price) is getting harder, loyalty is reflected in what customers do, not what they say.

The bottom line? Customers want clear product communication that demonstrates value, not just price.

'Our customers are people, not just buyers': Officeworks

Officeworks' general manager of customer and online, Jessica Richmond, shares how the big-box retailer brings the voice of the customer into head office.

By Heather McIlvaine

***Inside Retail:* How do you ensure the voice of the customer is integrated into strategic decision-making at Officeworks?**
Jessica Richmond: At Officeworks, we're always thinking about how to better serve our customers and help them make bigger things happen. We know the rhythm of trading is constant, and with it comes a natural focus on financial and category performance but it is critical to remember that our customers are people, not just buyers.

That's why we work hard to surface customer data and insights regularly. This includes everything from verbatim feedback shared through customer interactions to quantitative insights from our NPS reporting, category and basket trends and monthly brand health metrics. It's a powerful way to keep our customers at the heart of what we do.

***IR:* Can you share an example where customer feedback directly influenced a significant initiative?**
JR: We've learnt that our customers truly value the flexibility of shopping with Officeworks across multiple channels – whether it's in-store, via the Officeworks app, online, or through click-and-collect. Recognising an opportunity to enhance the click-and-collect experience, we introduced the 'I'm on my way' feature. This solution integrates customer communications with our store-management systems. When a customer lets us know they're on their way to collect an order, the store is notified, and the order is moved to a front-of-store counter, ready for immediate pickup upon arrival. This simple, yet effective enhancement has streamlined the collection process, leading to a boost in our NPS and, most importantly, a happier customer base.

***IR:* What systems or processes does Officeworks use to gather and prioritise customer insights/feedback? What role do store staff play in this?**
JR: Our NPS program is the cornerstone of how we gather direct customer feedback. We collect insights across every channel, including in-store, click-and-collect, our website, and delivery experiences. Using the Medallia platform, we're able to report and share this feedback in real-time across both our support centre and stores.

To ensure we act quickly on insights, our leadership team and senior leaders review and discuss NPS results weekly. This helps us identify and address issues and opportunities promptly, driving continuous improvement.

***IR:* How do you collaborate with other departments, like product development or marketing, to ensure customer insights are acted upon?**
JR: One of our recent initiatives has been embedding a hub-and-spoke model, where analytics and insights team members partner closely with key areas of the business, including store operations, B2B, and merchandise. This approach enables us to deeply understand the unique challenges and opportunities across the business and ensures we can deliver the right customer insights to inform decision-making. Whether it's about enhancing the customer experience, refining category strategies, or aligning with brand and channel preferences, this model helps us stay closely connected to the needs of our customers.

***IR:* How do you plan to improve your understanding of the customer in 2025?**
JR: We want to encourage all our teams to remain curious about customers, and a lot of this is about how we can make the great insights and data we have available easier to access and digest. This is generally a combination of ensuring we're delivering better and more timely insights and reporting when and where decisions are being made. Through providing better self-serve reporting, our team can more easily find the answers themselves.

One thing we've recently implemented is a 'Customer Night In', where we invite several customers into our support office and have a chat with them about all things Officeworks – whether it's about products, services or our brand and stores. This helps keep customers top of mind for both our teams and our business and reminds us about the importance of remaining curious and engaged with customers as we shape and evolve our customer offer.

***IR:* Why is it important in today's retail environment for the voice of the customer to be represented in the head office?**
JR: In today's fast-paced and highly competitive environment, customers are setting the bar higher than ever. They're not just comparing their retail experiences to other retailers – they're holding us to the same standards they expect from other sectors.

To meet and exceed these expectations, staying close to our customers is essential. By deeply understanding their evolving needs, we can adapt and refine our model to deliver experiences that truly resonate. ■

How COOs are pursuing a seamless supply chain

Amazon, Showpo, Shona Joy, Snuggle Hunny and Tinyme reveal their strategies for optimising supply chains in a challenging economic climate, from automation to localised delivery.

Peter Liddell, Partner in Charge, Global Operations Centre of Excellence, KPMG Australia
Jeffrey Langley, Principal Director, Supply Chain Operational Advisory, KPMG Australia

Supply chains are the engine rooms of great retail brands and, when executed well, are the quiet achiever of retail value chains, until something goes wrong, of course.

Though most of the supply-chain disruptions the Covid-19 global pandemic caused are over, geopolitical fault lines developed in 2024[1], with heightened military tensions in the Middle East and global power brokers flexing their muscle to the detriment of the stability and cost of some global supply chains once again.

Many Australian retailers have complex supply chains, or at the very least, supply chains with long lead times that limit their flexibility and ability to respond quickly to global interruptions or black swan events, such as what we saw during the pandemic.

With margins under pressure as customers tighten their belts, how are Australian retailers adapting and improving the efficiency of their supply chains? We sat down with leading supply-chain experts from Amazon, Showpo, Tinyme, Snuggle Hunny and Shona Joy, to find out.

Focused on convenience

As retail conditions remained soft through 2024, and with the real prospect of these conditions continuing through 2025, e-commerce giant Amazon has kept its supply chain focused on its three core drivers – product, price and convenience.

"Over the past 12 months, we have been building up our selection of products, investing in our operations network, and opening new fulfilment centres," said Anthony Perizzolo, general manager of delivery and supply chain for Amazon Australia. "We have been focused on building out the convenience aspect, by providing customers with a price-value proposition through subscribe-and-save models, and over 2025 we will be doubling down on speed to market, to get faster in the click-to-delivery time."

Unlike Amazon, Tinyme is the opposite of a commerce platform giant, creating personalised products for children and operating a made-to-order model that doesn't hold any finished-goods inventory. As such, rather than delivery and logistics, Tinyme is focused on improving its production speed and consistency as it continues to build its portfolio of products in international markets.

Tinyme COO Ben Hare said the company seeks to broaden its product range. It is also optimising its multi-carrier portfolio domestically and internationally to try to be faster, more consistent, and cost-effective in its production and delivery processes.

For apparel retailer Shona Joy, the last 12 months were focused on improving the traceability and transparency of its supply chain, as well as improving its customer journey. Shona Joy CEO Danielle Millar said that, looking ahead to 2025 and 2026, the retailer has reduced the size of its product range, enabling it to focus on what it does best and remain agile in manoeuvring stock and being reactive to market trends.

Not always about cost-cutting

Cost-cutting measures in the supply chain can become a double-edged sword for retailers operating in a multichannel, seamless commerce space.

Amazon's Perizzolo warns that it is a 'slippery slope' to focus only on cost and risk the business losing sight of what's important – the customer. "We frame the narrative internally as focusing on reducing the 'cost to serve' to provide those competitive prices to make it easier for customers to buy," Perizzolo explained. "Too many times in other industries it just becomes about cost and that gets embedded in people's minds."

Millar, of Shona Joy, emphasised that cost-cutting cannot come at the detriment of the customer experience, as customer expectations have risen over 2024.

Furthermore, customers will jump between brands if there is a convenience factor, a price factor, or a better experience elsewhere. "Our customer expects things quicker, the process to be more seamless, the ability to do returns, and better advice – all of which has a cost associated," Millar said. "There is a tightrope of figuring out where there is an opportunity to pull back versus where there is investment needed to ensure continued growth."

For David Ibanez, operations manager of Australian apparel retailer Showpo, the main driver in supply-chain management is all about reducing costs and making it more efficient.

> "Automation is getting a lot less capital-intensive in many ways."

Ibanez cautions that once a high level of efficiency is reached within the existing supply chain, further cost reductions often require investment. "What we try to do is drive efficiencies all along the supply chain, as it is not a part of the business where we can win customers but definitely one where we can lose them," Ibanez added.

Getting the last mile right

Unsurprisingly, last-mile delivery has become a focus point for many retailers as it is crucial to the customer experience whilst also being a significant cost centre.

"There is no point in investing in the best upstream forecasting tool or robotic fulfilment centres only for customers to be let down by slow and unreliable last-mile delivery services," Amazon's Perizzolo said. "We are investing heavily in this space and working closely with our commercial carriers to raise the bar in the delivery experience, investing half a billion dollars in building out our own in-house last-mile delivery business, Amazon Logistics."

Shona Joy, meanwhile, has been focusing on improving speed through localised delivery and returns, as well as building out its delivery options to give customers more choice in choosing delivery speed over price or vice versa.

Reinventing inventory management

Since the onset of the pandemic, consumer demand has fluctuated and forced retailers to reassess their inventory management and processes.

Perizzolo said Amazon has taken steps to fine-tune its distribution processes, including updating its machine learning forecasting models to be more proactive rather than reactive if it sees customer demand deviating from the initial forecast. Amazon also works closely with its seller-partner retail teams to get their inventory precision right – down to a box-level placement – and ensure that the ▶

inventory is sent to the 'right place' among its seven fulfilment centres in Australia.

For retailers like Shona Joy, which has downsized its product range to become more focused, one of the ways to manage demand is to work on improving its CMT capability and agility, which it has done.

"We have been forecasting closely with the factories, to turn product around quickly, and be quite responsive," Millar said. "We work with a lean stockholding and have firm parameters in the business to make sure [we're] never over-producing, and staying within demand."

> "We have been forecasting closely with the factories, to turn product around quickly."

Australian baby products retailer Snuggle Hunny understands the importance of managing its inventory after it was left overstocked following its shift from a B2B model to a B2C. "What we are trying to do now is work with the factories and give them more visibility on volume so they can secure the raw materials further out in advance to bring lead times down," COO Tom Abraham said.

In contrast, Tinyme, rather than focusing just on efficiencies, frames its efforts to increase local sourcing in its business as a response to overseas freight becoming more uncertain as geopolitical tensions grow, and a move to improve supply-chain resilience.

Can automation save the supply chain?

In the last few years, automation has found more practical applications in the retail space, and nowhere is this more evident than the growing interest amongst Australian retailers in this technology. Last year's *Australian Retail Outlook* found that 19 per cent of retailers said that the technology they were most interested in using right now was robotics and automation[2].

If there is one name in the retail space that has become synonymous with automation, it is Amazon, with its decades-long investment in automating its supply-chain operations. For Amazon, automation is used to reduce waste by using robotics to eliminate the picker's non-value-added walking time in retrieving items in the fulfilment centre by bringing the inventory to the picker instead.

One area where automation holds a lot of promise is for businesses focused on the made-to-order model, such as Tinyme. "Increasingly, automation is getting a lot less capital-intensive in many ways – nowadays you can get much smaller-scale opportunities, such as automating one part of the production process," Tinyme's Hare said.

For Tinyme, the investment into automation was into two areas: the software layer that enables customers to personalise the product with colour and design options to have it produced without human intervention, and production scheduling to allocate staff efficiently to produce the made-to-order products. "A lot of the automation implementation [in Tinyme] is incremental, it is very much done process-by-process by asking ourselves 'Where does it make sense to make it more efficient?', such as addressing labour-intensive processes," Hare explained.

Beyond just robotics, Shona Joy's Millar said that there was real value in automating its reporting systems.

"The data [from the reporting systems] gives us an understanding of what is going right or wrong with the customer, how frequently, where the pain points are, so that we can determine where the investment should be and understand where the demand is," Millar explained.

Keep it real

Though automation has the potential to drive efficiencies along the supply chain, the costs associated can often outweigh its benefits if done too ambitiously and beyond scope.

"Having tripped up on building expensive project road maps [in our warehouse operations process], in reality we had really great wins by getting back to basics and addressing the process," Millar said. "That is not to say technology is not a focus for us; there is a lot to be said about getting the process right and focusing on that."

Likewise, when looking at where automation can be implemented in the business, Ibanez of Showpo said that the customer doesn't care if it is a machine or person behind the order fulfilment. It comes down to the nature of investment into automation that will bring the business closer to the efficiencies needed.

Similarly, Abraham said the technology investment in Snuggle Hunny is aimed at addressing "little things, pain points, blockers, choke points, anything where there is an overly manual element, to remove, reduce or replace steps or processes, nothing particularly crazy or expensive".

No silver bullet

While there are many uncertainties when it comes to the economy and supply-chain integrity in 2025, one thing retailers can take for certain is that the customer is king, and their convenience is key.

Though there are many approaches to delivering the experience customers expect, there is no one solution that fits all. High-level machine learning and robotics can work for a giant serving a wide range of products but may not be cost-effective for a boutique retailer that could extract huge efficiency gains through simple process improvements.

Instead, retailers should take a detailed look at their operations and supply chain to find a solution that fits the demands and realities of their business. ■

[1] KPMG Top Risks to Australian Business 2024-25, KPMG Australia, September 2024

[2] *Australian Retail Outlook 2024, Inside Retail,* 2024

KPMG's key insights

Customer expectations have only risen in the past year, particularly when it comes to convenience, speed and seamless channel integration. Of course, meeting this expectation means retailers' supply-chain capability needs to align across the value chain.

Reducing supply-chain complexity and going back to basics by right-sizing and streamlining processes can, of course, improve effectiveness and efficiency; however, best practice retail supply chain management is now incorporating automation and AI solutions to form the backbone of the modern seamless supply chain.

Supply chain trends to watch in 2025 and beyond

From robotics and AI to distributed warehousing and cybersecurity, these are the trends retailers need to focus on, according to a supply chain expert.

By Lyn Nguyen

The supply chain landscape is evolving rapidly as businesses adapt to new technologies, shifting consumer demands and global market changes. Looking at the year ahead and beyond, the focus is on efficiency, resilience and sustainability. Here's a look at what the modern supply chain entails and the emerging trends shaping its future.

Robots in warehousing
For e-commerce brands aiming to stay ahead, robots are revolutionising warehouse operations. Automated systems for picking and packing orders streamline processes, reduce costs and significantly improve efficiency. Robots can handle repetitive tasks with speed and precision, removing human error and allowing employees to focus on more complex problem-solving and management activities. As demand for faster order fulfilment grows, robotic automation becomes essential for maintaining a competitive edge.

The rise of distributed warehousing
Distributed warehousing is transforming supply chain logistics. Strategically positioning smaller warehouses closer to customer bases, brands can enhance delivery reliability, lower shipping costs and boost customer satisfaction. With fast shipping now an expectation rather than a perk, reducing transit times has become essential.

Cybersecurity: A growing priority
With the increased use of technology in supply chains, more brands are investing in cybersecurity to protect themselves from potential cyberattacks. The rise of data breaches and cyber threats highlights the importance of implementing robust security measures to safeguard sensitive information and maintain customer trust. Solutions such as secure cloud storage, multi-factor authentication and regular system audits are no longer optional but necessary for ensuring resilience and long-term success in the digital age.

Multi-courier models for cost efficiency
Leveraging a multi-courier model is becoming best practice for cost-effective and reliable shipping. Different couriers excel in different areas; one might offer competitive rates for rural deliveries, while another provides superior service in metro areas. By partnering with multiple courier services, companies can optimise shipping costs and ensure consistent delivery performance. Advanced shipping software can further streamline this process by dynamically selecting the best courier for each shipment.

Supply chain diversification
With Trump back in the White House and threatening changes to import taxes and trade policies, brands around the world are rethinking their supply chain strategies. In response to potential challenges, companies that trade in the US may choose to diversify their supplier base or explore near-shoring options. For example, US businesses facing higher import duties have sought to shift production to countries like Vietnam, India, or Japan, or relocate manufacturing closer to home. This approach not only mitigated risks associated with tariffs but also strengthened supply chain resilience by reducing reliance on a single region.

Embracing eco-friendly practices
As consumers become increasingly conscious of their environmental impact, sustainability is becoming an important factor in supply chain management. Brands are adopting eco-friendly practices such as using recycled materials for packaging and reducing waste throughout the supply chain. Additionally, initiatives like carbon-neutral shipping and renewable energy-powered facilities demonstrate a commitment to environmental responsibility. These efforts not only appeal to eco-conscious consumers but also align with regulatory trends pushing for greener business practices.

Conclusion
The supply chain of 2025 and beyond is all about innovation, flexibility and sustainability. Businesses that leverage advanced technologies, diversify their operations and balance efficiency with environmental responsibility will set themselves apart. With customer expectations reaching new heights, staying ahead means keeping up with these trends and investing strategically. By embracing these changes, brands can build supply chains that are not only resilient but also fuel growth and enhance customer satisfaction. ■

Lyn Nguyen is the founder and operations specialist at Auvie Consultants.

Inside the minds of four retail CFOs

Finance leaders from The Reject Shop, Forever New, Taking Shape and Vinomofo discuss strategies for preserving margins amidst rising costs and shifting consumer behaviour.

Peter Marczenko, Mid-Market Retail and Consumer Leader, KPMG Australia
Peter Trace, Finance Function and Reporting Advisory Lead, Finance Advisory, KPMG Australia

In 2024, many realised that Australia's economic conditions weren't going to improve quickly, as inflation remained persistent and the cost-of-living crisis deepened. Many retailers tightened their belts to preserve cash flow and shareholder returns, and implemented cost-out campaigns to offset margin erosion from discounting activities.

Yet we still saw an appetite amongst retailers for investing in technology – such as artificial intelligence (AI) – to drive efficiencies across operations, finance and compliance obligations.

So how are retailers balancing the books through these lean times, and where is the smart money heading into 2025 and beyond? We sat down with leading retail finance experts from The Reject Shop, Forever New, Taking Shape and Vinomofo to find out.

Walking the margin

With consumer sentiment falling to new lows in 2024, the challenge on top of mind for many retail CFOs was preserving margin amidst conflicting business needs.

Clinton Cahn, CEO of The Reject Shop, noted that there has been a rise in demand for everyday essential items, whereas its discretionary range showed a drop-off in demand, which affected margins. That wasn't helped by shrink in-store, particularly consumables, reaching an all-time high. "We underestimated both of those shifts and don't expect the margin mix to improve in the near term, so that means we have been very focused on margin improvement," Cahn said.

Margin pressure also presents an issue for wine retailer Vinomofo, which is trying to acquire new premium customers and elevate repeat purchases. "We have been balancing loss-leading high-profile products, [designed] to entice first-time purchases, with low-margin products," Vinomofo CFO Kieran Donovan said.

Shifts in consumer behaviour towards big promotions presented challenges to margin integrity, as Krista Diez-Simson, CFO of Taking Shape, pointed out. During the Black Friday and Cyber Week sale events of 2023, Taking Shape noted that sales spikes were higher, and troughs were a bit deeper, than usual.

Though promotional cycles were a boon for sales, Diez-Simson said that "managing the tension between cash flow and margin" became her biggest challenge in 2024. "There is constant tension between certain pockets of the business focused on top line and those focused on margin line...especially when you are following on from strong years. The challenge has not dissipated, and it is still something that we are still experiencing now," she said.

A promotion or two may be a necessary Hail Mary in tough times, but James Pavone, CFO of Forever New, warned that retailers must be clever about how to do that. "We never found that [a sitewide sale] is the right approach in the apparel space because that is giving away margin on good products that people pay good prices for," Pavone explained.

"Putting older products through markdowns might not necessarily be the trigger [either], as customers want a quality product. In light of that, you may have to sacrifice a bit of top line to maintain margin integrity, which is quite important in light of rising costs."

Pandemic ripple effects

While the disruptions from the pandemic have ebbed away, some of its after-effects continue to ripple through retailers and their balance sheets.

The Reject Shop's Cahn highlighted that even though there was relief on the cost of international shipping rates over 2024, there is still some volatility in the rates. Diez-Simson also observed that the shipping rates of the pandemic have dissipated, but local and domestic rates for everything from warehouse-to-store and last-mile delivery remain elevated.

The higher fulfilment cost of last-mile delivery was also identified as a major challenge for Vinomofo in 2024, with the wine retailer having to "undertake a full exercise on what is the margin strategy... and come up with a way to grow the margins to absorb the fulfilment cost".

Forever New's Pavone raised another lingering pandemic-related cost increase – rental rates on commercial properties. "Landlords are not coming to reality with where the market is at the moment. A lot of retailers renewed their leases at the back end of Covid-19...but so far, landlords aren't willing to take a cut – but that will change [over 2025]," he said.

> "You may have to sacrifice a bit of top line to maintain margin integrity."

Diez-Simson was also shocked that landlords are not reading the room of the retail landscape as well as they should, which will possibly come back to bite them, whereas Cahn was hopeful that landlords would partner with retailers over 2025-26 to 'right-size' rent.

Forecasting in the new normal

Costs aside, retailers said they are facing a new paradigm in customer behaviour coming out of the pandemic, which has presented challenges to their forecasts. Vinomofo's Donovan said trying to figure out the new normal for demand post-pandemic is a real struggle for forecasting sales and margin performance.

"Covid was beneficial to our industry and our business, however, customer behaviour changed dramatically post-pandemic, so much so that we had to adjust the cost base, which lagged by a few months," Donovan said. "Now we are trying to understand what our customer behaviour is, their purchasing patterns, and how to speak to them."

Taking Shape's Diez-Simson said the company has started to get comfortable with the changes in consumer behaviour – particularly the online consumer with big promotions. "It is about really trying to work the online consumer's new way of buying into the new promotional calendar or cycle, along with the lull between big sales events," Diez-Simson added. "Forecasting has been incredibly challenging in this environment, with a six-month lead time, and you don't want to forecast a negative outcome and have inadequate stock."

For Forever New, being careful not to participate in a big discounting cycle is important once the customer is trained not to buy into promotions all the time. "Planning and forecasting carefully is important – you don't want to get into a stock position where cashflow demands a fire sale to fund the next round of purchasing," Pavone said.

Bolstering the margin

Historically, when times got tough, retailers would slash the cost of doing business (CODB) by reducing headcount and rostering, range rationalisation, or closing underperforming stores.

The Reject Shop has been very cost-focused through the pandemic period, which has led to a reduction of its labour-to-sales ratio and its percentage-of-sales out of rent expenses. Cahn said the business is now focused on a merchandise-led turnaround and the opportunities are predominantly productivity initiatives, rather than cost-out initiatives, such as improving the flow of inventory around the supply chain to reduce costs.

On top of that, the big-box retailer is looking to lower the cost of goods by leveraging long-term relationships with strategic suppliers to get the best price, and by doing range reviews and right-sizing product mix to optimise the margin, maximise sell-through and minimise markdown and wastage on the back end.

Taking Shape's Diez-Simson highlighted the importance of forging long-term relationships in keeping costs down, as the company has fostered and retained a single-carrier partnership. Taking Shape also operates a clearance store network for customers looking for a bargain, enabling it to offer products that appeal to a wider demographic, with the goal of delivering a blended margin that is higher without needing discounting.

Forever New's Pavone said marketing costs have also risen over time, whether it is acquisition cost, bottom-funnel cost, or conversion costs and this is also an opportunity.

For Vinomofo, opportunities still abound with the recent oversupply of wine that Australian winemakers are facing.

"Wineries do need channels to market, which enables us to negotiate on price, and we have no long-term supply agreements with any wineries, allowing us to renegotiate new terms every time, and using it to grow margin," Donovan said.

Tech stack optimisation

One area that CFOs and finance managers can also focus on is tech stack optimisation. "Software licensing or cloud computing costs are now [a] much bigger percentage of [a business] cost base structure than they used to be," Forever New's Pavone said.

Pavone stressed that it is critical for businesses to have their eye on their tech stack, as technology moves so quickly that premium market-leading systems five years ago could be outperformed by newer and more cost-effective competitors today. "Some that needed three systems to cover multiple functions previously might now get it done with one tool, so businesses ►

KPMG's key insights

Managing shareholder returns doesn't need to involve focusing just on cost-cutting. Retailers can also increase performance by optimising operations, leveraging their supply chains or investing in productivity enabling technology.

Technology is moving so quickly that many historical functional investments are not always fit for purpose as alternatives become available at lower costs or are consolidated into a single tool. A review of a retailer's tech stack can unlock productivity and cost efficiencies.

have to consider if they can consolidate and get more cost efficiency or find better technology," he said.

Vinomofo, as a pureplay online retailer, is more familiar with managing the tech stack and its associated cost by asking software vendors to prove why they are still the best in market and come to them on pricing, as well as putting a minimum 10 per cent reduction into annual renewals of software licensing contracts.

When it comes to the potential use cases for generative AI in financial operations for retailers, Donovan, Pavone, and Diez-Simson agreed that they are still developing. However, Pavone, Diez-Simson and Cahn said that generative AI can deliver big cost and process benefits outside of managing a business's finances, such as marketing, same-time optimisation, stock allocation, and shrink mitigation.

Disrupting the discount culture

The prevalence of 'discount culture' – retailers jostling for customers as cash is tight and the typical shopper is very focused on value and is searching online and offline for the best price – has forced many retailers to rethink their discounting strategies in 2024.

> "Forecasting has been incredibly challenging in this environment."

"Discounting can get into a vicious cycle like an addictive drug: You can use it to keep the top line going but to then unwind it and get unhooked – that is the journey we are on at the moment," Diez-Simson warned. "The approach we are taking is about forward planning, but also being agile and nimble enough to activate a change if [a promotion] is not working. It is adapting a longer-term and shorter-term view to deal with the uncertainty."

Pavone said the solution lies in trying to move customers into a more personalised offering where loyalty programs can offer discounts or drive the right customer. He said brands should bring uniqueness so customers have a compelling reason to buy quickly to avoid missing out.

Being creative with promotions can help, Diez-Simson said, as customers can get bored of the same type of promotions. For Cahn, changing the product mix to a lower pricing range works better and is also truer to a discount variety strategy.

When asked about Black Friday, Pavone stressed the importance of maintaining agility in discounting decisions, as the 'halo effect' of everyone shopping will drive sales anyway, and businesses should be careful not to give away margin unnecessarily.

Diez-Simson is also of the opinion that retailers shouldn't play their hand too early with strong discounts and should have the attitude of enacting stronger offers if things don't pan out according to the forecasts.

A balancing act

Retailers were dealt a tough hand in 2024, but as any poker player knows, they can triumph if they play their cards right. In this case, there are plenty of cards retailers can use to bolster their bottom line, be it through margin management, product mix, supply-chain contracts or tech stack optimisation.

The question retailers should ask is: What changes will elevate the customer experience and also deliver on the bottom line? ■

[1] Retail Health Index September 2024, KPMG Australia, September 2024

[2] Wine Industry Insights September 2024, KPMG Australia, September 2024

A playbook for discounting during major sales events

Want to avoid the discounting trap and maximise profits during events like Black Friday? Here are some guidelines to ensure your price cuts pay off.

By Heather McIlvaine

It's common knowledge that discounting in retail is a double-edged sword; while price cuts might encourage customers to pull out their wallets, these purchases are less profitable for retailers.

Even worse, if customers become habituated to buying on sale, retailers can easily get caught in a discounting spiral that is difficult to end. No wonder some businesses approach major sales events – like Black Friday and Cyber Monday – with trepidation.

However, it's possible to participate in sales events profitably. The key is knowing which products to discount, and by how much. Recent evidence suggests that Australian retailers have finally cracked the code.

"In 2024, we observed a more strategic approach to discounting during the Black Friday period," Carla Penn-Kahn, co-founder and CEO of Profit Peak, told *Inside Retail*. "Retailers were offering smarter discounts, such as sitewide offers and scaled discounting based on margin availability and stock depth/popularity."

Penn-Kahn said that brands also began their sales earlier, a growing trend in recent years.

"There was also a noticeable increase in email and SMS marketing in the lead-up to Black Friday and Cyber Monday, with a quieter communication phase during the weekend itself. This shift suggests a more calculated, pre-emptive strategy, rather than an over-reliance on deep discounting," she said.

Clear goals, smart modelling

While Penn-Kahn acknowledged the risks of falling into the discount trap, she said there are downsides to sitting on the sidelines of sales events, too.

"Customers have become conditioned to wait for sale events before making purchases. If a retailer typically offers discounts but doesn't provide one during the biggest sale event of the year, they risk disappointing loyal customers and losing potential sales to competitors," she said.

Instead, retailers should account for discounts within their profit margins or focus on a specific outcome that justifies a temporary reduction in profit margins for greater long-term gains.

> "Set a clear goal for the sale."

"The most harm occurs when retailers fail to clearly define their goals. These goals can vary widely, from clearing aging inventory to driving new customer acquisition or boosting revenue after a quieter year. Once a goal is set, retailers can model the impact of their discount strategy on gross profit and assess whether it aligns with their objectives," Penn-Kahn said.

"Without a clear goal, however, retailers may discount indiscriminately, over-discounting or attempting too many tactics, rather than focusing on achieving the most important outcome."

In terms of inventory planning, Penn-Kahn said retailers should exclude from sale periods core products, bestsellers, new arrivals, and items with low stock availability or slim margins. This ensures they protect their most valuable products while maximising profitability.

She also recommended using customer lifetime value (LTV) modelling to assess the performance of newly acquired customers after the event.

"This helps ensure that the cohort is profitable and that the strategies used to convert them into loyal, repeat customers drive higher retention and increased profits," she said.

Five steps to maximise profit

Here are five steps Penn-Kahn said retailers should take if they want to maximise their profit ahead of a sales event.

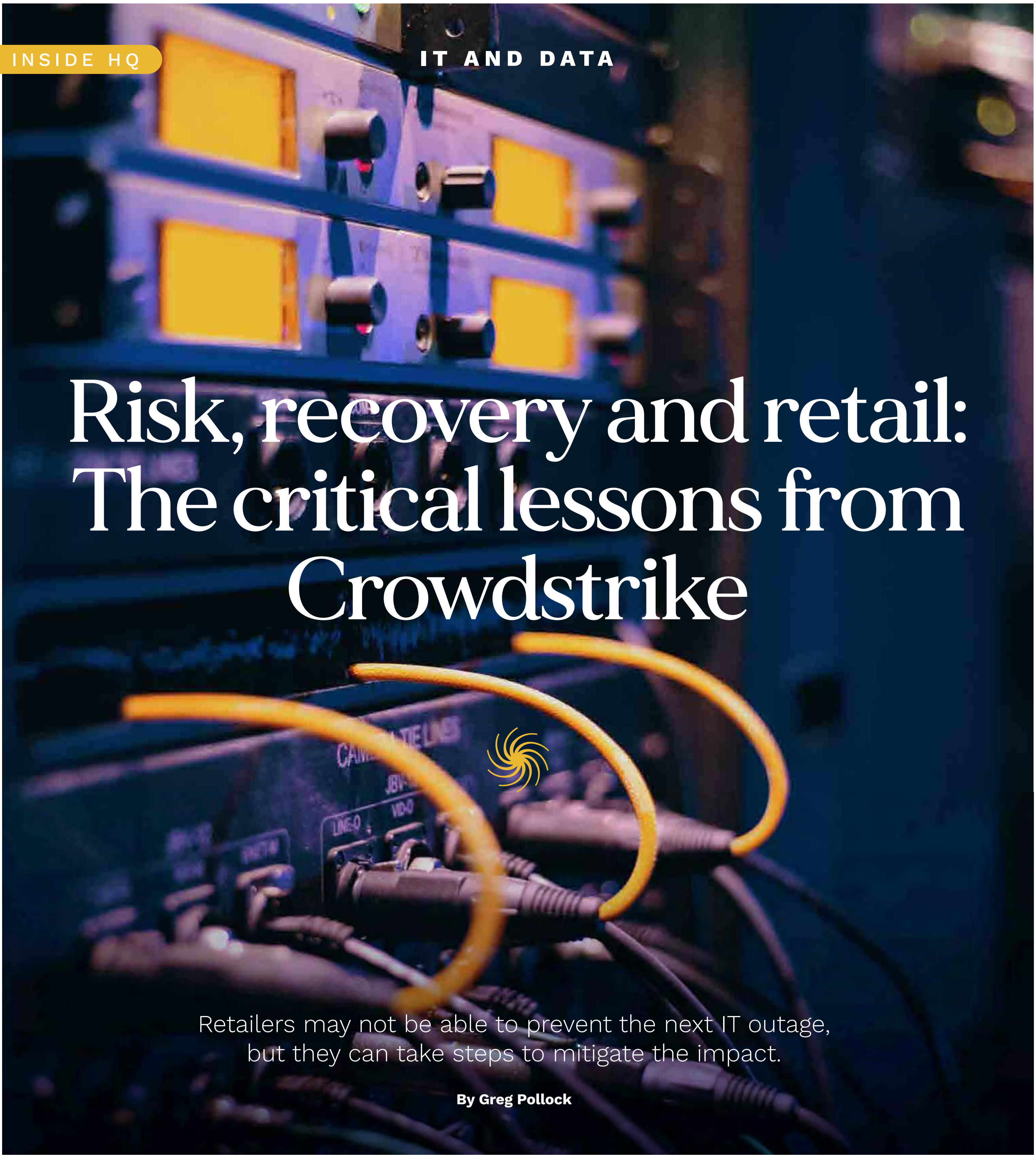
Step 1: Set a clear goal for the sale. For example, is it to move aging inventory, reduce customer acquisition cost, increase your customer base, or drive incremental revenue?

Step 2: Identify the key performance indicators that will measure whether you have achieved your goal. These might include a reduction in aging inventory, a decrease in cost per acquisition, an increase in new customers, or a rise in revenue.

Step 3: Define the discount strategy necessary to achieve your goal and meet the KPIs. For instance, will you discount aging inventory while using a few core products as enticements, or will you offer larger discounts for higher customer spend?

Step 4: Establish how you will track performance against the KPIs to ensure you can assess whether you're on target.

Step 5: Document what worked and what didn't, so you're better prepared for future discounting events. Memory can fail us, so having a record will help improve your strategy moving forward. ■



Risk, recovery and retail: The critical lessons from Crowdstrike

Retailers may not be able to prevent the next IT outage, but they can take steps to mitigate the impact.

By Greg Pollock

In July of 2024, our worst fears for a cyber-attack were realised: simultaneous outages around the world that grounded planes, stopped payment processing, and sent hospital staff back to paper and pencil.

No, wait – that's not quite right. All those things did happen, but not as a result of a cyber-attack.

The cause of the "largest IT outage in history" was a minor, but faulty, update to a security software product.

A bug in an update to Crowdstrike Falcon, a popular anti-malware product, affected 8.5 million Windows devices and is estimated to have cost "Fortune" 500 companies $5.4 billion. That's more than a thousand times higher than the average cost of a data breach, without even accounting for companies outside the "Fortune" 500 and the losses of third parties depending on them.

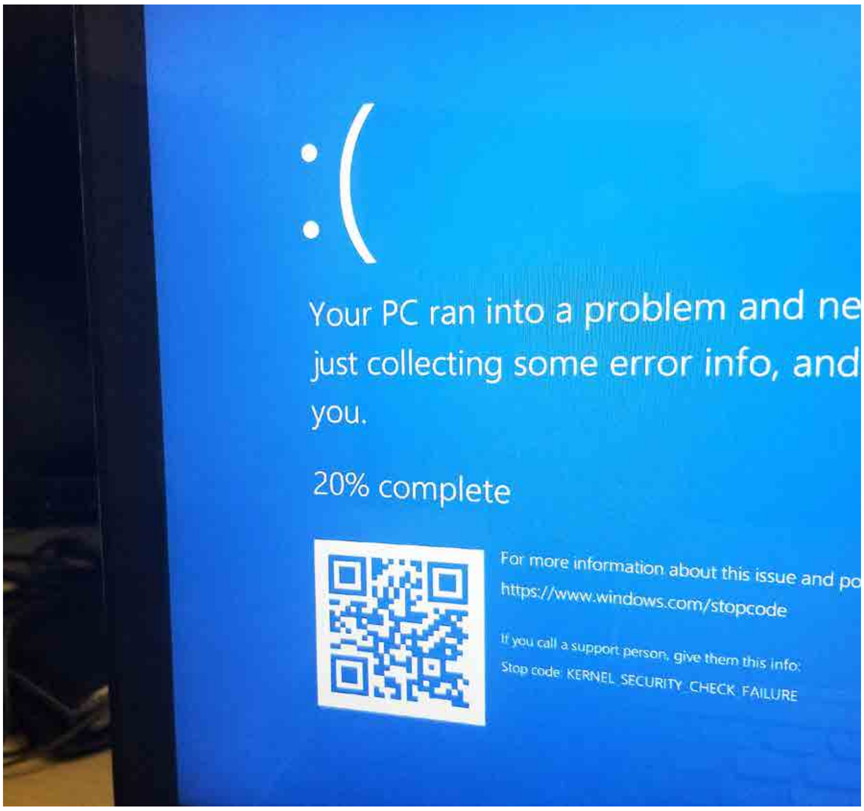
If there was one event in 2024 that retail companies want to learn from to inform their cyber strategy, this is surely it.

The true cost of non-malicious disruptions

Comparing the Crowdstrike outages to data breaches isn't meant to diminish the importance of protecting customer data, but to emphasise the severity of non-malicious disruptions.

These incidents can be just as costly, immediately halting revenue-generating activity and, over time, damaging to brand reputation. High-business-impact outages in Australia and New Zealand cost businesses a median of US$2.2 million per hour, 16 per cent higher than the global average.

While the Crowdstrike event stands out, it's just one ▶



example of modern businesses' reliance on third-party technologies. In 2021, an Amazon Web Services (AWS) outage "wreaked havoc" on its customers, including Slack and Zoom, creating cascading impacts across industries.

More recent outages tell a similar story. In early 2024, a global system failure forced McDonald's restaurants in Australia to turn away customers. In December, a Microsoft Office 365 outage disrupted operations worldwide, while Australia Post's new cloud-based POS platform, POST+, faced outages and technical issues during the busy Christmas period, frustrating franchisees and customers. And let's not forget the infamous Optus outage in 2023, which crippled local retailers reliant on POS systems for payments and inventory management.

These examples reveal a universal truth: Outages, whether global or local, malicious or accidental, pose risks to businesses. The costs – financial, operational and reputational – far outweigh the investments needed to build resilience.

The trade-offs of third-party software

So if non-malicious outages in the software supply chain are such a big deal, what can we do about it?

One option is to avoid the risk by not relying on third-party software, but the consequences here are even worse. Crowdstrike is a market-leading anti-malware solution because it rapidly delivers updates to detect new threats. The same capability that made it possible for it to crash the world's computers is what kept those companies safe from malware the rest of the time. The same is true for cloud providers like AWS. To avoid the potential damage of a cloud outage is to forgo the benefits of digital transformation that are now critical to any retailer's sales strategy.

Homer Simpson once said that beer was the cause of, and solution to, all of life's problems. The same can be said of software updates. Bugs will happen, and the solution isn't to avoid software updates, but to get to the next one more quickly.

Balancing opportunity and risk in the software supply chain

The Crowdstrike outage illustrates a broader reality: The software supply chain both enables innovation and creates risk. Retailers must evaluate their risk appetite and make deliberate trade-offs, recognising that while third-party software introduces vulnerabilities, its benefits, such as enabling digital transformation, often outweigh the risks when managed effectively.

For example, Upguard found that the retail sector ranked as the second-worst performer for cybersecurity preparedness among the ASX 200, with major names like Lovisa and Webjet demonstrating vulnerabilities. This underscores the need for companies to assess their vendors, not just for functionality but for their ability to recover quickly in the event of an outage.

Here are some critical lessons for retailers to consider:

- **Assess vendors beyond features:** When evaluating third-party providers, consider not just their functionality but also their recovery capabilities. Mistakes are inevitable, but strong vendors can distinguish themselves by how quickly they can resolve issues.
- **Speed is everything:** Crowdstrike delivered a fix within 79 minutes, and businesses that applied it quickly faced minor disruptions compared with those that waited weeks to recover. In Australia's 2023 Optus outage, retailers with contingency plans, such as accepting cash or switching to backup systems, were able to minimise downtime and maintain customer trust.
- **Preparation beats prediction:** No one can predict the next major outage, but preparation can make the difference between a bad day and a billion-dollar disaster. Testing contingency plans, maintaining internal processes for rapid fixes, and ensuring operational continuity are essential strategies for resilience.

The software supply chain is here to stay, and its risks must be managed, not avoided. By focusing on recovery as much as prevention, retailers can ensure they're ready to respond effectively when challenges arise.

"Strong vendors can distinguish themselves by how quickly they can resolve issues."

In an era when software underpins every retail transaction, outages like Crowdstrike's serve as a stark reminder that preparation is non-negotiable. By investing in rapid-response systems, fostering resilient operations, and collaborating with third-party vendors on contingency planning, retailers can ensure that they aren't caught off-guard.

The next outage may be inevitable. But its impact doesn't have to be catastrophic. ■

Greg Pollock is head of research and insights at Upguard.

How to get your first-party data strategy right

With Australian reforms protecting consumer privacy expected to come online this year, there is no time to waste in setting up to collect data in an efficient, ethical way.

By Anna Samkova

Data privacy is no longer a 'nice to have' – it's a business imperative. As privacy engineering expert Chris Brinkworth puts it: "If you don't have permission, you don't have trust." And trust is the foundation of everything.

With Australia's "fair and reasonable" privacy test expected in 2025, businesses relying on outdated data practices are at risk. Customers now expect full transparency about how their data is collected and used. It's not just about ticking a compliance box, regulators are raising the bar, and the days of tracking in the shadows are over.

The opportunity here is massive. Acting now to build a strong first-party data strategy isn't just about staying compliant, it's about positioning your business as trustworthy, transparent, and future-proof. With the end of third-party cookies and rising privacy demands, the clock is ticking.

For retailers, first-party data isn't just important – it's everything.

Invest early to seize a competitive advantage

The data game has changed, and retailers that don't adapt are setting themselves up to lose.

Regulations like Europe's General Data Protection Regulation, the California Consumer Privacy Act, and Australia's incoming privacy reforms mean third-party cookies and unclear data practices are no longer viable. Customers know when they're being tracked and are unhappy about it.

Yet, many businesses remain unprepared. Only 15 per cent of ASX100 companies have a Consent Management Platform (CMP) in place – a glaring gap that highlights the urgency to act now. Retailers who invest early can seize a competitive edge, while those who delay risk having to scramble to keep up.

First-party data isn't just about compliance. It's about creating accurate, reliable customer insights and building direct relationships. With cookies crumbling, owning your data is the only way to future-proof your business.

Surveys, quizzes and polls are your friends

Collecting first-party data isn't rocket science. Customers expect simplicity and transparency.

The first step? Get your permission game in order. Too many companies are stuck in the past, managing consent through messy, unconnected systems. The result? Confused customers and a serious trust problem.

Start by making it easy and valuable for your customers to share their data:

- **Loyalty programs:** Offer rewards for sign-ups and purchases.
- **Clear opt-ins:** A well-designed CMP lets customers know what they're agreeing to and gives them control over their preferences.
- **Interactive experiences:** Quizzes, polls and personalised product finders provide valuable data that feels earned, not taken.

The goal isn't to trick customers into handing over data – it's to make them want to share it.

First-party data is a slow burn. Collect it ethically, offer real value, and you'll build a customer base that wants to hear from you.

Keep it simple, clear and valuable, because nobody wants to deal with a data circus.

Don't be creepy

Getting first-party data right does require some discipline.

Do:

- **Act early:** Waiting for regulatory deadlines to hit is a losing game. Customers can tell when you're playing catch-up.
- **Be transparent:** Tell customers what you're collecting, why, and how it benefits them. They'll respect your honesty.
- **Make it valuable:** Whether it's personalised discounts or exclusive content, give customers a reason to opt in.

Don't:

- **Over-collect:** Stick to what you need. Asking for unnecessary details will only annoy customers.
- **Spam them:** Avoid bombarding customers with permission requests or irrelevant messages.
- **Be creepy:** Tracking locations or behaviours without permission is a fast track to distrust.

A well-thought-out strategy shows customers you respect them. Sloppy practices do the opposite.

Opportunities abound

Retailers who master first-party data unlock endless possibilities.

The most obvious? Hyper-personalisation. Use data to recommend products your customers didn't even know they needed. Think Amazon, but tailor it to your niche.

Another gamechanger? Predictive analytics. Understanding past behaviour lets you anticipate future needs, whether that's seasonal stock, repeat purchases, or identifying trends before they happen.

And let's not forget about customer retention. By unifying data across online and offline channels, you can create seamless experiences that keep shoppers coming back.

With so few ASX100 companies using a CMP, the bar is low and the opportunity is enormous. First-party data isn't just an asset; it's the foundation of retail's future and your biggest growth driver.

Start collecting it early, collect it ethically, and use it to build trust and loyalty. The rules are changing, and for those ready to adapt, the rewards will be game-changing. ■

Anna Samkova is a strategic adviser at Albany Advisory.

What's keeping retail CIOs up at night?

Adam Cox
CTO, The Iconic

"The rapid evolution of digital innovation, particularly in AI and machine learning, presents both a significant challenge and an exciting opportunity in my role. Integrating these technologies to enhance the customer experience requires balancing innovation with operational scalability and pace, while also strengthening security, safeguarding data privacy, and ensuring infrastructure can handle rapid spikes in demand during key sales periods.

"At the same time, it's incredibly inspiring to be part of a business committed to leading this evolution through continuous investment and the willingness to test and learn. What drives us is ensuring the customer remains at the heart of everything we do. We develop solutions that not only embrace cutting-edge technology, but also meet customer needs and expectations and evolve alongside their changing preferences. Knowing my team plays a key role in shaping the future of e-commerce in Australia makes the journey even more rewarding."

Lachi Agnew
Head of tech, July

"What keeps me awake at night is the fear that an employee will accidentally upload sensitive company data into DeepSeek, or another ship getting stuck in the Suez Canal that will cause such significant supply chain delays that our luggage becomes limited-edition stock."

Sailesh Balasubramania
Head of tech and GM, Lvly

"Staying ahead of customer expectations is getting more and more challenging. These days, when customers order flowers and gifts from online stores, they want the same smooth experience they get from tech giants. [We need to support] ordering via multiple channels like apps, real-time updates, perfect delivery, easy returns and instant customer experience all while keeping costs down and systems running."

Nikala Busse
CIO, Officeworks

"One of the ongoing challenges is balancing investments in new technologies with ensuring a solid return on investment. It's essential to accelerate our adoption of technology while maintaining financial stability, addressing key business priorities, and adapting to rapidly changing customer shopping preferences.

"We remain focused on modernising and simplifying our technology landscape to deliver easy and engaging customer experiences. This includes upgrading legacy systems, implementing AI and automation, and delivering seamless omnichannel experiences to meet the fast-evolving customer expectations.

"Recently, we began rolling out our demand and replenishment system – a significant financial and time investment to improve processes and operating-model simplification. Once this is fully rolled out, this system will support a better experience by ensuring customers can find the products they need, when they need them."

Guy Nappa
COO/CIO, Oz Hair & Beauty

"The market is changing at a rate I have never seen before. With this comes increased pressure to continue to create seamless experiences for customers across all channels. In order to continue leading, the tech stack must be able to keep up with the needs of the business; otherwise, it risks becoming an anchor to innovation, allowing competitors to catch up."

Ben Murray,
Head of IT, QBD Books

"The obvious recent advancement everybody is talking about is AI. The real question for us is how do we take advantage of AI in a way that doesn't compromise customer and employee trust, but maximises the customer's experience, increases efficiencies in ordering and stock management processes, as well as providing staff with useful and intuitive tools to assist with their roles... all while not blowing the budget."

Wayne Meecham
Head of data and tech, HiSmile

"We have an enormous amount of internal knowledge and expertise in HiSmile, and we have billions of rows of curated data that describes what happened throughout our history. Our challenge is to harness all of that information – our documentation, our conversations, what we did and the reasons why – and bring it into a single body of knowledge to inform future decisions. It's not just about charts and spreadsheets, but a whole business narrative. We can learn so much from what we've experienced and achieved and where we've faced challenges. As always, it's about having the right tools to allow that knowledge to percolate to the surface. Work in progress..." ■

Three digital trends defining 2025

Learn why RM Williams, Country Road Group and Sometimes Always are investing in personalisation, automation and memberships.

By Heather McIlvaine

Revenue in Australia's e-commerce market is projected to reach $67.6 billion this year, up nearly 14 per cent from $59.4 billion in 2024, according to Statista Market Insights. This marks an acceleration in online growth after the post-Covid slowdown caught some retailers by surprise.

However, capturing a share of this growing market requires more than simply operating an online store. Consumers today expect their digital shopping experiences to be highly personalised, convenient and seamless, which means retailers must embrace advanced technologies to compete.

We spoke with several digital leaders about the e-commerce technologies they think will be big in 2025 and distilled their insights into three key trends.

Tapping into the 'connectivity quotient'

RM Williams' global GM of digital Emily Anders believes the "connectivity quotient" will be a top e-commerce tech trend this year.

"I feel this trend exemplifies how brands are rethinking their approach to customers and the role of performance spend in a bid to fortify brand relevancy and trust, through authenticity and credibility," Anders told *Inside Retail.*

She referenced Michael Kliger, the CEO of German online luxury retailer MyTheresa, who said in a recent episode of *The Business of Fashion* podcast, "We are not bidding for traffic – I mean, I hope no one does anymore. We're not bidding for revenue. Many companies still bid for revenue. We are bidding for customers."

To adopt this thinking, brands should first look to define those metrics – behavioural, brand, engagement and ROI – that determine effectiveness and resonance of campaigns and spend.

"Prioritise SEO and personalisation/localisation, and lastly, have a clear customer strategy. This will go a long way to ensure you are staying on path," Anders said.

"Our stance in this space is to provide our customers with a real experience by crafting meaningful, lasting connections, sustainably and responsibly."

Figuring out how to balance this desire for 'real' customer service with speed and convenience will be a key challenge for online retailers in the year ahead, according to Nathan Bush, an e-commerce transformation consultant and host of the "Add to Cart" podcast.

"With advanced data and artificial intelligence (AI) capabilities, more options will undoubtedly be available to automate and streamline customer service in the next 12 months," Bush told *Inside Retail*.

"But is that what your customers want? Or have we reached the point where a real human voice picking up after three rings is a true competitive differentiator? You choose."

The rise of autonomous retail operations

The flip side of personalisation is automation. Country Road Group's GM of customer and digital Matthew Horn predicts that 2025 will be the year Australian retailers start to meaningfully catch up to leading international players in pursuing an "autonomous retail ops" strategy.

"When it comes to AI, as much as the spotlight has been on front-end use cases – the real untapped opportunity is in the back-end use cases," Horn told *Inside Retail*. "Ultimately, that's about leveraging AI-driven offerings to unlock sharper, faster, more cost-effective approaches to managing critical back-end processes like demand forecasting, pricing, inventory control and fulfilment."

The key, he said, is to empower technology and let go.

"Offerings in market these days don't just automate – they're dynamic and self-learning, continuously optimising based on real-time signals," he said. "It's a shift from managing operations reactively to letting decision engines adapt and act proactively – which is both a bit of a leap of faith, but also game-changing if landed in the same way as internationals are managing to do."

With retailers continuing to face extreme pressures and challenges across almost all elements of their cost structures, including labour shortages, supply chain disruptions and rising input costs, Horn believes efficiency is no longer a nice-to-have, it's the next frontier of competitive advantages.

To tap in, he recommends retailers start with areas where speed matters most, such as inventory reallocation, markdowns, or last-mile routing.

> "Retailers still relying on static, manual processes will find themselves outpaced."

"An autonomous system can, for example, redirect stock in real-time from underperforming stores to regions where sales are surging, improving availability while protecting margins," he said. "Zara has set the global standard here, using real-time inventory systems to get the right product to the right place at the right moment. That agility is critical to staying ahead."

Done well, this shift isn't just about cost savings – it's about scaling operational precision so the back-end can move at the speed of the customer, and even pre-empt the customer.

"Retailers still relying on static, manual processes will find themselves outpaced. Whether we like it, or believe in it, or not, our international competitors are mastering this with an incredible amount of sophistication – so we're in a bit of a slowly warming bath here," he said.

The evolution from subscriptions to memberships

Over the years, the subscription model has become a significant and growing component of e-commerce, with retailers across industries – from fashion and beauty to food and digital services – adopting it to drive customer retention and predictable revenue.

As the model matures, however, Jared Brown, head of digital at boutique online wine retailer Sometimes Always, expects many of these businesses to shift their focus to membership-based programs that prioritise community, exclusivity and long-term customer engagement rather than recurring shipments.

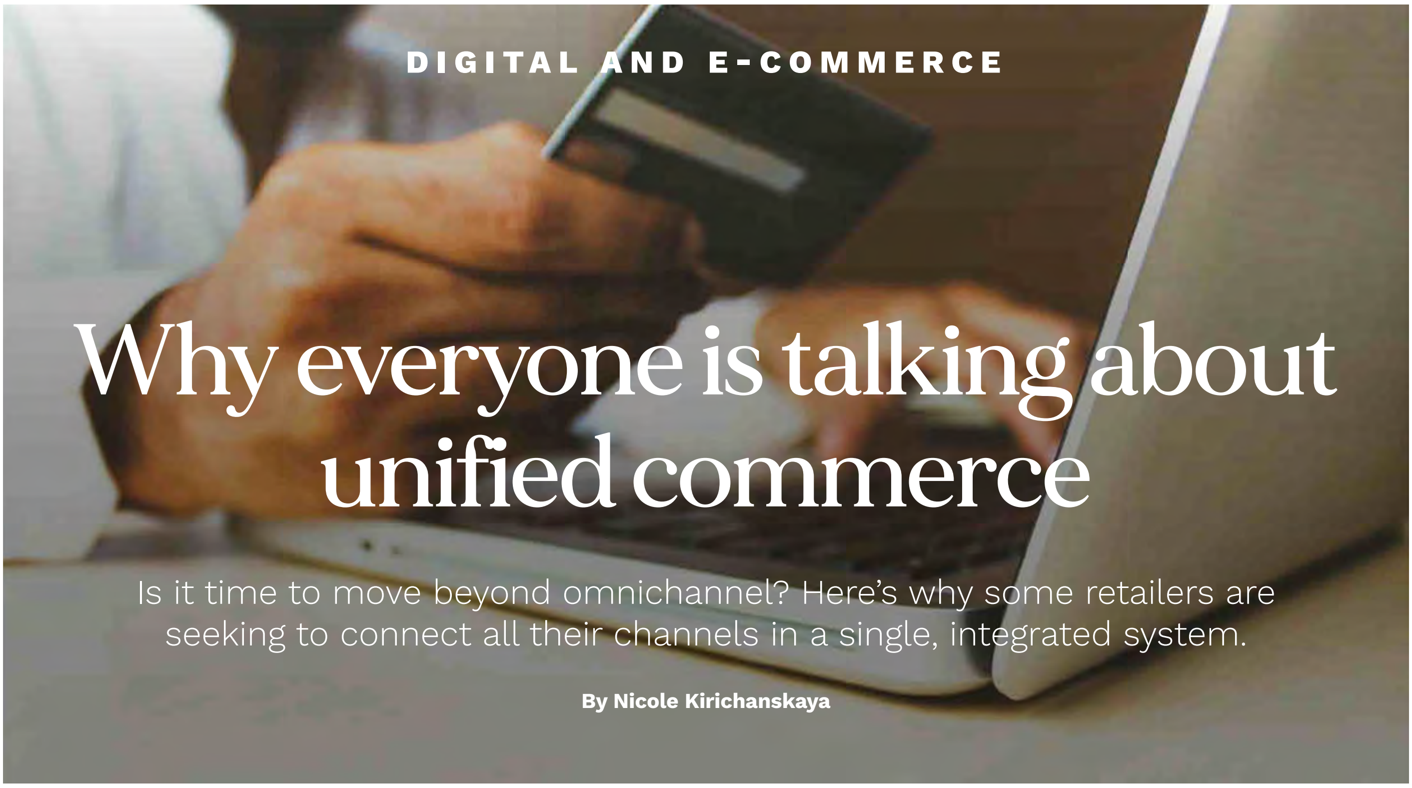
"Memberships allow brands to offer high-value experiences, such as exclusive perks, early access and tailored services, creating deeper connections with their customers as well as opportunities to generate an alternative form of recurring revenue if executed correctly," Brown told *Inside Retail*.

In 2025, he expects this evolution will be amplified by further development and integration of iOS and Android wallet passes into membership programs.

"Digital wallet passes provide a seamless and accessible way for members to engage with their benefits, access rewards and receive personalised, real-time updates," he said.

"Retailers can enhance the membership experience by leveraging these tools for geo-targeted notifications, loyalty tracking and dynamic offers, driving both online and in-store engagement," he added.

"This blend of meaningful membership experiences and reutilisation of existing digital tools will redefine how retailers foster loyalty and create value for their customers." ■



Why everyone is talking about unified commerce

Is it time to move beyond omnichannel? Here's why some retailers are seeking to connect all their channels in a single, integrated system.

By Nicole Kirichanskaya

The rise of omnichannel retail may be one of the biggest industry shifts over the past decade.

As e-commerce, smartphones and social media have become a bigger part of consumers' everyday lives, retailers have embraced solutions and technology to provide a seamless shopping experience for consumers across all channels, from in-store to mobile to online.

But as many retailers have discovered, the reality of omnichannel retail is often more complex than it appears.

"To the customer, the channels start looking connected," Dr Jason Pallant, a senior lecturer at RMIT University, told *Inside Retail*.

"They might be able to see in-store stock levels online, order online for pick-up in-store or have flexibility with returns. Behind the scenes though, you have different channels often on different platforms and systems, and different processes. While you've improved CX overall, you still have a problem if data is managed differently across channels, and even synced at different rates."

Recently, a growing number of retailers have started talking about a new way of connecting their channels and systems to address these challenges, called unified commerce.

What is unified commerce?

"Unified commerce is where you put the customer at the heart of every decision, so it's a customer-centric retail strategy that seamlessly connects all sales channels, both physical and digital, through a single, integrated platform," Nick Gray, founder of retail consultancy agency I Got You, told *Inside Retail*.

Unified commerce allows retailers to provide a consistent shopping experience between channels, which builds cognitive trust and a more personalised shopping experience for the consumer.

But how does this differ from omnichannel retail?

"You have one central platform that processes all interactions and transactions together," Pallant explained. "So rather than each channel operating a different platform or database, they're all in together, hence 'unified'."

He acknowledged that this may be harder to achieve than it sounds – like everything to do with tech and data.

"While you have fewer systems to operate, you suddenly have a much more complex one that controls everything," Pallant explained. "Get something wrong and you've broken the whole system at once, and it's harder to tailor solutions to individual channel needs."

Another challenge is that it usually requires retailers to overhaul their operations completely around a new 'unified' system, rather than taking a gradual approach to making various parts of the customer experience more seamless.

"You have one central platform that processes all interactions and transactions together."

What do retailers need to get started?

While every retailer may not be ready to embrace unified commerce, for those that are, how can they get started?

An obvious area to focus on "is integrating backend systems, including inventory management, customer relationship management, and point-of-sale systems, into a single platform," Gray said. "This is critical to achieving real-time visibility."

Retailers also need to understand what their North Star is – what they hope to achieve through unified commerce – and the emotional drivers of their target market.

"Retailers need to understand the emotions and feelings they are selling, not just the product itself. It's only with this emotional connection, combined with leveraging data analytics to personalise the shopping experience, that retailers can centralise customer data across all touchpoints to create a true unified view of the customer," Gray explained.

What does this look like moving forward?

"In the next few years, unified commerce will become the industry standard, rather than the exception," Gray said.

"We already see retailers heavily investing in tech like AI, machine learning and real-time data analytics to improve their capabilities. I believe there is a competitive advantage that lies deeper in societal and consumer dynamics."

As Gray pointed out, 2025 marks the birth of a new generation, Generation Beta, who will grow up in a world like no other, one shaped by hyper-tech integration, where AI, automation and technology are embedded into every facet of life.

"This generation will require unprecedented innovation, diversity and adaptability, and so will retailers if they are to meet their expectations," he concluded. ■

How pureplays can create immersive experiences online

A digital luxury expert reveals the secret to engaging customers without a physical touchpoint.

By Tong Van

In a digital-first world, pureplay online retailers face the challenge of replicating the tactile and engaging experiences traditionally associated with bricks-and-mortar stores. Without physical touchpoints, these businesses must harness technology to build immersive shopping journeys that captivate customers and foster loyalty.

Turning challenges into opportunities

One inherent disadvantage of the pureplay model is the lack of direct, in-person customer interaction. This gap can lead to fewer opportunities for brand storytelling and customer engagement. However, forward-thinking companies are bridging this divide by integrating creative technologies and reimagining the online shopping experience.

"We sought to eliminate pain points being faced in e-commerce's infancy," Alex Anton, co-founder of the invite-only digital luxury destination 2-Times, told *Inside Retail* about the company's unique approach to online retail.

"Things like reliance on paid spend and continuous discounting, merchandising homogeneity, lagging customer service and buggy post-purchase flow."

2-Times operates as a hybrid platform, blending e-commerce with branded content to connect a handpicked community of private clients, luxury brands and contemporary art partners across the Asia-Pacific region.

Anton said the business creates a "filterless" shopping experience by identifying clients' brand and product preferences before presenting them with carefully curated, personalised shortlists.

"However, keeping in step with the luxury industry's insistence on tactility, 2-Times periodically offers private clients the opportunity to attend intimately hosted, experiential event settings – where they can meet their stylists and preview products before committing to purchasing them," Anton said.

By profiling multiple designer collections and artists via 2-Times' public-facing website – a window into the aesthetic sensibility of the company – and tracking how clients engage with the content, the buying team can minimise the guesswork in selecting which labels are most relevant each season. Effectively, customer input shapes the offer.

"2-Times also customises for language in a 360-degree manner, meaning not only is content displayed in our client's own language, but we have dedicated private stylists they can tap to access 24/7 – be iit on our web app or through WhatsApp, WeChat, Line, or KakaoTalk," Anton added.

The role of technology in immersive retail

According to Anton, the four key creative technologies driving immersive digital experiences in retail are:

- Artificial intelligence (AI) and machine learning: These tools analyse and synthesise large datasets to sharpen customer segmentation and improve the speed of service through automation.
- Augmented reality (AR): From live mapping and navigation to digital try-ons and instant product information, AR enhances the interactivity of the online shopping experience.
- Virtual reality (VR): VR offers brand catalogue walkthroughs and styling demonstrations, showcasing products in ways that mimic the physical retail experience.
- Consumer IoT: Connecting devices allows smarter shopping journeys, seamlessly integrating online and offline touchpoints.

While innovation holds immense promise, it is not without challenges. According to Anton, the primary risk isn't always the cost of implementing new technology but the duration of the adoption process.

"Our tech team rigorously tests everything we creatively aspire to add to our tech and marketing stacks, ensuring increased engagement without negatively impacting current activity. Key considerations include UX or CX modifications, cross-browser compatibility, data protection compliance and staff training," he explained.

To mitigate risks and maximise rewards, Anton suggests pureplay retailers use microsites to test new technologies. "Once they're happy with how things are flowing and the initial traffic spike flattens, adding new digital tools and features can be very rewarding – both in terms of exciting customers and driving higher conversions," he advised.

By embracing innovation and leveraging technologies, pureplay online retailers can create immersive experiences that delight customers and set new benchmarks for digital retail.

Meeting customer expectations

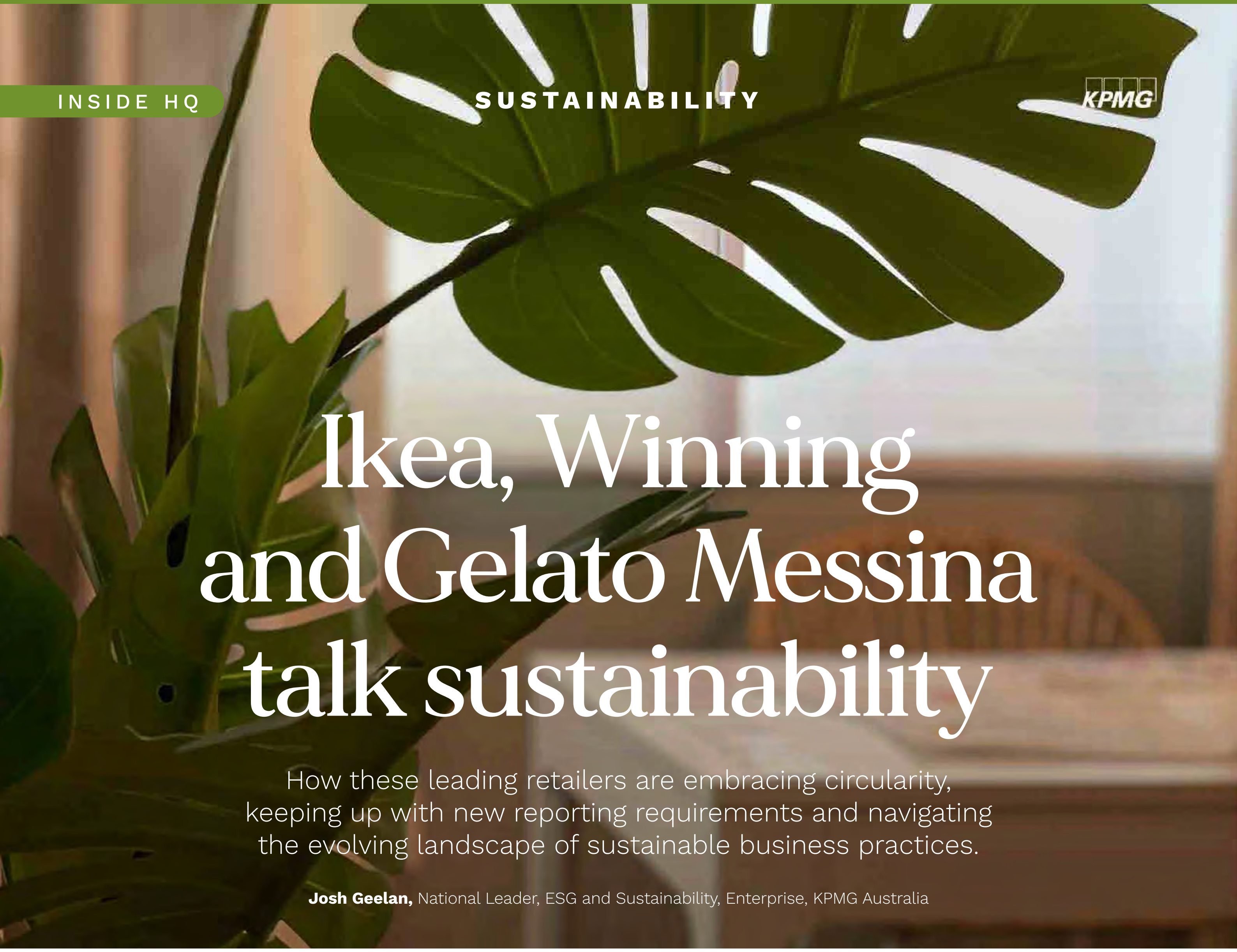
"Being a truly non-traditional, or niche, type of pureplay retailer, we've definitely felt a favourable swing in visibility from customers who are a bit tired of the bigger brands' creative tech output," Anton said.

"From an expectations standpoint, we're acutely aware that we're servicing a totally different client profile. Somebody who's advanced in digital nous and is similarly aligned regarding alternative web design versus traditional out-of-the-box navigation."

Anton noted that recent trading trends underscore a two-pronged path to success for luxury brands and retailers.

"While monitoring pricing structures remains the top priority, it is increasingly important for brands and retailers to invest in building distinctive experiences that create affinity and loyalty. At 2-Times, we feel it's imperative to create a culture centred on pushing boundaries with our online and offline experience," he concluded.

"Trying out immersive tech like computer-generated imagery, visual effects and machine learning is essential, but being mindful of how these tools guide visitors tastefully back towards e-commerce is ultimately our end goal." ■



Ikea, Winning and Gelato Messina talk sustainability

How these leading retailers are embracing circularity, keeping up with new reporting requirements and navigating the evolving landscape of sustainable business practices.

Josh Geelan, National Leader, ESG and Sustainability, Enterprise, KPMG Australia

In 2024, KPMG released a global study on the circular economy and found many retailers' aspiration for brand sustainability was not always matched by their strategy, ambitious goals or execution.[1] With new compliance legislation introduced by the Australian Government requiring sustainability reporting from 1 January 2025,[2] we were keen to find out how retailers are tackling circularity and sustainability objectives in 2025 and beyond. We met with sustainability leaders from Ikea Australia, Winning Group, and Gelato Messina to discuss what key strategies and practices are being implemented.

Focus on supply chain

Any approach towards sustainability almost always starts at the supply chain, which was the focus for many retailers in the sustainability space in 2024.

Alice Kuepper, head of sustainability for Australian logistics, technology and premium retail company Winning Group, said the business has focused on deepening supply partner engagement on sustainability initiatives – particularly regarding the group's takeback and recycling program,[3] and improving its responsible sourcing for packaging based on guidelines from the Australian Packaging Covenant Organisation (APCO).

Furthermore, Winning Group is also engaged in developing and broadening its Reconciliation Action Plan and introducing a more in-depth modern slavery supplier assessment questionnaire.

Ikea Australia focused on removing fossil fuel emissions from its supply chain, through increasing its share of zero-emissions delivery in its fleet to 55 per cent and converting its store energy consumption to renewables.

Ikea Australia's sustainability manager, Renea Robson, said growing circularity initiatives across Ikea's operations and decoupling its business from fossil fuel resources will continue into 2025 and beyond.

Although dessert chain Gelato Messina has its own sustainable dairy farm – one of a few dairies the RSPCA endorses – head chef Donato Toce said most customers aren't really interested in the sustainability of its product.

"At the end of the day, people want a scoop…we don't need to voice everything, but we try to keep everything [sustainable] in the background, such as making all our packaging recyclable and reusable packages for refills," Toce explained.

Realising the circular economy

From using less to reusing more, the circular economy presents an interesting challenge for many retailers looking to expand opportunities in their sustainability practices.

The cost-of-living crisis presented a litmus test for Ikea Australia's recently developed buyback program, in which customers trade in their preloved Ikea furniture for a gift card and the furniture is made available for purchase again. Robson said more than 600,000 products were bought back and resold through the program in 2023.

"From research we have done, we know that one-in-three consumers have bought second-hand furniture for two reasons – wanting to be sustainable and cost-of-living pressures," she explained. With the success of the buyback program, Ikea Australia sees the second-hand market as an opportunity that will continue to grow, due to rising awareness and cost factors for consumers.

Ikea is also extending its product lifespan by using more robust and recycled materials and offering free spare parts for certain items. Robson said that when it comes to the circular economy, businesses often can't do it by themselves, which is why Ikea Australia partners with a charity to donate items that it cannot on-sell.

Winning Group highlights products that bring innovations in sustainability to the Australian market and communicates with suppliers on the circularity aspects of the products themselves.

"Our biggest opportunity is to create a circularity model around our take-back recycling program because we have our own trucks, which allows us to facilitate the collection of not only the appliance but the packaging, an aspect that is [often] identified as a key market failure in circularity and extended producer responsibilities," Kuepper said.

Winning also communicates appliance maintenance information to educate customers on how to maintain their product and make it last longer.

Raising sustainability awareness

Although there is support amongst consumers for sustainable and ethical practices, with cost-of-living being front of mind for many consumers throughout 2024, retailers have had to make strategic decisions for their sustainability practices.

Robson, at Ikea Australia, said: "We feel that we have a responsibility to keep our prices affordable so our customers can buy sustainable products at more affordable prices, and we also see our responsibility to help customers live a healthier, sustainable life. And it results in brand trust for us."

The Winning Group's Kuepper said, "In our surveys, we found that [our customers] value aspects like energy- and water-efficiency, which are very important levers within our product category." Kuepper also added that Winning Group's free take-back and recycling program presents a competitive advantage that customers appreciate.

Toce, of Gelato Messina, takes a more pragmatic approach to its sustainability practices by wearing the cost, rather than passing it onto customers. "We don't put those extra sustainability costs on the customers – we are an impulse buy, we don't want to force our sustainability on our customer," he said.

> " We found that [our customers] value aspects like energy- and water-efficiency."

Levelling the playing field

From 1 January 2025, Australia's retailers face a new regulatory environment with the commencement of Australian sustainability reporting requirements, which turns out to be a welcome development for retailers with established sustainability practices.

Winning Group's Kuepper said the regulatory reforms, from a sustainable business perspective, will create a level playing field, which is exciting for businesses already changing their business models to be more sustainable. For those that are new to this space, however, it will be a big task to bring their operations up to compliance.

"There are going to be new operational realities for businesses to comply with these requirements, which can add to their operating costs," Kuepper warned. "Whether it is expanded producer responsibility or climate reporting requirements, businesses need to make changes at an operational level, not only to comply but also to adapt their business models."

Winning Group has already commenced preparations for the expected reporting requirements, conducting a gap analysis to prepare a roadmap for compliance, and is onboarding a new carbon accounting platform to help with measurements and targets.

Kuepper also stressed that businesses will need to translate their sustainability reporting into something the consumer can understand. "Sustainability terminology can be quite abstract, especially around carbon, for consumers, and to have a direct impact and benefit for customers, businesses need to think about how to adapt the narrative and make it consumer friendly," she explained.

Ikea Australia's Robson agrees the new reporting standards will create a level playing field, as they remove any hesitation over what needs to be done for compliance and helps identify business risk and opportunities.

Not only that, but Robson believes ►

the reporting will provide transparency, give consumers something to compare, help businesses set goals that are realistic and quantify what they are doing, and measure their success in a way that they are able to speak to it. "It is a win-win for consumers and businesses," she added.

Fortunately for Ikea Australia, the Australian reporting standards are aligned with international standards, which is convenient for the multinational company.

Preparing to report in

Despite the alignment between new Australian reporting standards and international standards, however, Ikea is still in the process of doing the gap analysis, Robson said.

"We see this as a positive process that will identify the challenges, and also the opportunities to make a lot of conversations about why (we should do this), a lot easier," she added.

Similarly, while Winning Group has a robust data capture in place around its established take-back and recycling program, Kuepper said that it hasn't necessarily "overlaid the climate lens and quantified that from a carbon perspective".

"There are challenges there because we're looking at new systems and processes, and data capture and education for teams that are more operational," Kuepper added. "We are also trying to see this from an opportunities perspective, and one that we are particularly excited about is industry engagement and collaboration with suppliers that have global supply chains that allow us to dive into the Scope 3 emissions and collaboratively tackle those."

Even though Gelato Messina didn't yet have obligations for the sustainability reporting standards as of 2024, Toce said, "The sustainability ethos has always been part of the business. In Australia, a lot of sourcing is difficult when trying to find certain products from overseas, but we are moving towards a position where we source as much as we can locally."

Evolving into the circular economy

While the business environment is moving towards a circular economy model, evolving the traditional retailer's linear system into a circular system can pose hurdles.

Ikea's Robson said that implementing circularity is "challenging the way we do things and keeping that mindset that nothing should go to the landfill".

"This is a systems change, and systems are very complex," Kuepper added, likening it to a living beast that has evolved over a long time. "Changing an economic system from a take-make-waste model to a circular model is very complex, with a lot of systems within that system that need to change, and that is a huge challenge."

Kuepper said some major suppliers that have trialled circular models in Europe said, "Commercial viability is a real challenge, due to costs involved in recycling, collection and making it a commercial reality".

For Gelato Messina, Toce recognises that its small size and nimbleness affords it the ability to experiment more with sustainability concepts, such as using insulated boxes to replace polystyrene containers, demonstrating that small size is no barrier to innovation in sustainability.

The future is now

Sustainability should no longer be empty rhetoric, now that the compliance stick has come out and consumer expectations have risen.

Retailers need to prepare for the rollout of Australia's new sustainability reporting legislation, which started from 1 January 2025 for businesses with $500 million or more in revenue for the financial year, expanding to include businesses with $200 million or more in revenue from 1 July 2026, and $50 million or more in revenue from 1 July 2027. With the clock ticking, retailers should familiarise themselves with the reporting framework, understand the reporting requirements, and perform gap analysis to identify capacity constraints.

Preparing for these reporting standards provides the chance for retailers to revisit their sustainability ambitions, goals and promises, and will enable retailers to measure their sustainability outcomes in the public arena against their competition. ■

[1] From talk to action: Paving the way for a circular economy in the consumer goods and retail industry, KPMG International, October 2024

[2] Australian Sustainability Reporting legislation and standards Guide, KPMG Australia, September 2024

[3] Takeback and recycling program, Winning Group, November 2024

KPMG's key insights

The introduction of sustainability reporting standards will level the playing field when it comes to sustainability. By 2027, retailers with a revenue of $50 million or more will be in the compliance crosshairs, which will demand a level of reporting that will challenge those retailers that are not yet prepared for what is to come.

While customers care about sustainability, when times are tough, they expect retailers' sustainability goals to be their ticket to play, not a premium ticket.

Customer communication on sustainability targets is important, but increasingly it's not what you say as a retailer that matters, it's what you are held to account for that will be the benchmark.

Three sustainable start-ups to have on your radar

Meet the Australian brands leading the way in sustainable innovation across fashion, beauty and home.

By Stephanie Caite Chadwick

Earthletica

Co-founded by competitive swimmer and Olympic gold medallist Bronte Campbell in 2020, Earthletica is an activewear brand that places sustainability at the forefront of every step of its production process.

"We always talk about raising the bar – for quality, innovation and sustainability," Campbell told *Inside Retail*. "There's always going to be further to go, and there's always more things to address, but we're starting niche."

Earthletica's commitment to sustainability, without compromising style or function, has already led to world-first designs. Last June, it released the first jacket in the world to have a tapeless zipper, which Campbell debuted at the Paris Olympics swimming trials. The jacket also uses a bio-alloy to make it waterproof, rather than a plastic membrane.

"We're a small company, but we're the first people in the world to do that because we're chasing it, constantly looking for innovation, and bringing it to market fast," Campbell said.

Eartheltica aims to produce high-performance activewear from 100 per cent recycled materials while maintaining its zero-waste inventory practices as the business scales.

Conserving Beauty

Natassia Grace founded Conserving Beauty, Australia's first waterless beauty brand, in 2021. "I think it's in our name, we always set out to say, 'Conserving your beauty and the planet.' That's really what we are," Grace told *Inside Retail*.

The brand creates innovative products that help consumers care for their skin and save water, carbon and waste in the process.

"We're half an impact business and half a beauty brand, I feel like we're in the middle. We're not just a beauty brand trying to do sustainability," Grace stated.

Conserving Beauty is stocked in both premium beauty retailer Mecca and accessible pharmacy chain Priceline, and its products are desired by a broad range of beauty consumers.

Conserving Beauty also has an ongoing partnership with Provenance, the global leader in sustainable marketing technology whose purpose is to drive change through transparency. Provenance uses its Proof Point technology to connect brands' green claims with evidence from their supply chain, or accredited third-party verification.

Grace attributes the brand's growing success to both product efficacy and supply chain transparency.

Zero Co

Since launching in 2019, Zero Co has been helping families clean up their homes, themselves and the planet with its range of household and personal care products.

The brand is on a mission to 'untrash the planet' and solve the environmental crisis with its 10-for-1 promise: for every product sold, Zero Co removes 10 bottles worth of plastic pollution from the world's oceans, rivers and beaches.

In August last year, Zero Co announced it was switching from its previous circular packaging solution to a world-first, paper-based refill system, the ForeverFill.

Before, customers decanted product refills into dispensers and returned the pouches to Zero Co, so they could be cleaned, refilled and reused. The new system allows customers to simply slide a paper-based cartridge into a glass bottle. When it's empty, they can put it in the recycling bin.

For Zero Co founder Mike Smith, the two years of research and testing behind the initiative were well worth it.

"The solution that will have the most impact in the world is the one that the most people will adopt, and convenience rules adoption," Smith told *Inside Retail*.

Zero Co's next step is retail expansion. It aims to launch key product lines in supermarkets, pharmacies and specialty retailers later this year. ■

International trends

To help you stay ahead of emerging retail trends, KPMG conducted an in-depth analysis of the latest global research papers and case studies from the US, Korea, Singapore and Vietnam.

In addition to the big shifts affecting business models and consumer behaviour internationally, KPMG identified which ones are most relevant to the local market and why.

Keep reading to find out:

- How three global retailers are using generative AI to optimise their businesses
- How social commerce adoption in Australia stacks up against the US
- Which demographic has the most spending power right now (it may surprise you)

Decoding the global trends shaping the future of retail

An in-depth look at the major shifts happening in overseas markets and what they mean for Australian retailers.

James Stewart, National Leader, Consumer and Retail, KPMG Australia
Peter Marczenko, Mid-Market Retail and Consumer Leader, KPMG Australia
Linda Chai, National Leader, Enterprise Technology Enablement, KPMG Australia

Every January, the US National Retail Federation hosts its annual retail Big Show in New York City, attracting about 40,000 attendees from all over the world. In June 2024, the NRF also hosted its inaugural Apac Big Show in Singapore, attracting 8000 attendees. The NRF Big Show is famous for big brands, big crowds and cutting-edge retail tech. The themes on display are often indicative of the global trends affecting consumers and retail. But as with any gathering of industry leaders, you don't always get the whole story without a little more digging.

In the past year or so, KPMG has published global research papers that add further insights to the big trends affecting retail models and consumer behaviour. In this article, we will explore the key themes of seamless commerce, customer behaviour and digital technology, and what drives the human aspects of retail and the connection to our digital world.

Customer

We all know customer behaviour can be fickle; after all, we are all shoppers. But if you have never heard of social commerce, now is the time to stand up and pay attention.

Let's start with some fun facts.

- Statista has reported that the global value of social commerce will grow from US$1.3 trillion in 2023 to US$8.5 trillion in 2030.
- In late 2023, Salesforce reported that 59 per cent of consumers had shopped on social media, a massive jump from 15 per cent in 2021. Furthermore, it reported that half of shoppers are now using social media as their primary discovery channel.
- In the US alone, TikTok shop garnered 1.1 billion users in four months from its launch in September 2023 to January 2024.
- Brands like Aritzia, Shein and Temu have become social media specialists at the heart of the customer experience and product development. Indeed, Shein and Temu are marketplace disruptors, offering a DTC experience online at unparalleled value.
- KPMG's 2024 Apac seamless commerce report[1] suggests Gen Z shoppers (born 1995-2010) are now so heavily influenced by what they see on social media and livestreaming, that 63 per cent said social commerce is most important to their shopping experience, followed closely by livestreaming (57 per cent).

In contrast, Australian responses to the KPMG seamless commerce report suggest a low adoption rate for livestreaming shopping (11 per cent) and social commerce (13 per cent). Given that shoppers in other markets have embraced it, however, the exam question is: Should this be regarded as a permanent or temporary difference? We suggest only time will tell.

Physical retail

Is the in-store retail experience becoming the last bastion for true brand experiences or has online won shoppers over? The answer is: neither. Let's explore that a little further.

KPMG's 2024 Apac seamless commerce report stated:

- 45 per cent of shoppers prefer an omnichannel retail experience (much lower than we thought)
- 57 per cent of shoppers expect online retailers to be more price competitive than physical retailers (no surprise here)
- In Australia:
  - 42 per cent of consumers are omnichannel but prefer online
  - 38 per cent prefer a physical store to online.

So, what is the data saying to us?

We think the bottom line is that Australian shoppers are remarkably adaptable and channel-agnostic. Therein lies the challenge for retailers.

For instance, what Aussie shoppers value online is:

- competitive pricing
- a wide variety of products
- fast and reliable delivery
- secure payment options
- good customer service

Sounds a lot like a physical store offer, doesn't it?

Where things get a little more complicated is through the introduction of in-store technology that changes (and hopefully enhances) the in-store experience, to become truly frictionless.

For example, while the Amazon Go ('just walk out') concept may have passed its useful life, that doesn't mean the concept of frictionless retail is dead. Self-checkout technology, introduced around 10 years ago, was maligned by many at first, but has now become an embedded part of the shopping experience and continues to evolve.

Indeed, Amazon and retail tech companies are now investing in 'just walk in' technologies that may further enhance the shopping experience. Amazon is investing in Dash Cart technology, which enables Amazon Prime customers to pre-register their payment details in a digitally enabled physical shopping cart, before they walk into the store, and then simply walk out with their basket of goods that has been placed in the self-scanning trolley. In November 2024, Coles announced a partnership with Instacart to offer a similar capability, albeit with a gamification twist where the customer could spin the digital wheel on the trolley screen for additional discounts[2].

Japanese retailer Uniqlo is investing heavily in radio-frequency identification (RFID) technology to accelerate supply chain efficiencies, with an ambition to embed RFID into its global product range, facilitating improved inventory management and the customer self-checkout experience.

In January 2024, Walmart announced the introduction of drone delivery services to 1.8 million households in the Dallas-Fort Worth area of Texas. Walmart said that 70 per cent of its products can be delivered by an autonomous drone within 30 minutes: essentially Uber in the sky. While drone technology is not new, it has advanced in recent years and continues to have the potential to revolutionise last-mile delivery. Watch this (air) space.

So, what does this mean for the physical store?

We believe physical retail remains as relevant as ever, but with a savvy digital customer watching your every move, it ►

won't be enough to have great products and great prices. In the future, the technology edge could be decisive when it comes to customer engagement and loyalty.

Technology
Technology use cases for retail cover a broad canvas across the entire retail value chain. Whether it be automation or AI across the front, middle or back office – according to the 2024 KPMG global tech report[3] surveying 2450 technology executives – 78 per cent of respondents said their organisation was struggling to keep up with the pace of change.

Indeed, 80 per cent of technology executives say their business's senior leadership is too risk averse when it comes to investing in technology and risks falling behind competitors. Talk about FOMO.

That said, there has been a huge jump in the number of technology executives who said technology investments were positively influencing profit outcomes (89 per cent vs 62 per cent over two years) and most are claiming an average profit improvement of 11 per cent to 15 per cent.

So where is this technology investment going?

The focus appears to be across four key areas:

- cloud computing (86 per cent)
- cyber security (65 per cent)
- AI/automation (61 per cent)
- edge computing or distributed IT (61 per cent)

There's a lot to unpack here, but let's focus on the digital elephant in the room: AI.

Seventy-four per cent of technology executives said AI is improving the productivity of their knowledge workers and business performance, but the challenge is that AI is yet to deliver benefits at scale (only 31 per cent is currently doing so) and there is considerable workforce anxiety, which has yet to be overcome through education and upskilling.

> "In the future, the technology edge could be decisive."

So, let's unpack the AI/gen AI subject a little more. What do consumers think and how are retailers using it?

KPMG's 2024 Apac seamless commerce report surveyed 7000 customers across 14 markets, overlaid with numerous C-suite interviews of retail leaders. The findings were fascinating.

- Most retailers are embracing (or intend to embrace) generative AI.
- 70 per cent of C&R leaders see AI transforming their business through customer analysis and personalisation, demand forecasting, supply-chain management, and marketing content generation.
- 44 per cent of Australian consumers were satisfied with generative AI-driven product recommendations, albeit 36 per cent had never tried gen AI product recommendations.
- The top three concerns for customers using gen AI product recommendations are:
  - privacy
  - accuracy
  - not being able to interact with a human

So, let's look at some examples in Apac.

Nutifood (Vietnam)
This consumer goods business had already been using livestreamers and influencers when it discovered young mums were often sitting up late at night and into the morning nursing or comforting their babies – and ready to buy milk. Recognising it was impractical to have humans livestreaming for 12 hours a day, Nutifood looked to AI as a solution.

Now Nutifood has virtual influencers – software trained by nutritionists to communicate like a nutritional expert through livestreams in the early hours of the morning – routinely drawing 20,000 viewers on Facebook or TikTok.

Pet Lovers Centre (Singapore)
Pet Lovers Centre is collectively the only pet care retail chain in Southeast Asia, with more than 170 stores and an online shopping portal. The company offers pet owners services including food and pharmaceuticals, grooming, travel and lodging – and even cremation.

Pet Lovers Centre is using AI in the company's high-tech 3250sqm warehouse operated by just one employee. A multi-depth automated storage and retrieval system (ASRS) manages the entire storage space, helping the company achieve 100 per cent warehouse capacity and boosting productive capacity by 40 per cent.

Hyundai Department Store (Korea)
Hyundai incorporates new digital technologies such as AI to enhance operational efficiency and customer convenience, including the industry's first AI copywriting system called 'Lewis'.

Lewis automatically generates optimal marketing copy by inputting main keywords and event themes – learned from three years of Hyundai Department Store's event data. The outputs reflect the store's distinctive sentiment and style so it can be immediately applied to business operations.

The common theme when it comes to technology investments (including AI or gen AI) is that there is no one silver bullet. The success of retail technology investments hinges on the quality of the data used and how that technology integrates across the value chain and with other compatible technologies.

We believe the ultimate exam question is: Will the technology investment enhance the end customer experience (through the business value chain) and will the customer value that enhanced experience enough to move the dial?

Sustainability
In recent years, sustainability goals and values have become embedded features of many retail brands. Retailers are often investing heavily in circular and sustainable solutions as customer demand grows, but also as governments begin to actively regulate actual and claimed behaviours to drive sustainable ESG outcomes; for example, there are new Australian sustainability reporting standards[4] effective from 1 January 2025.

The *KPMG 2024 CEO Outlook Report*[5] found that while ESG strategies remain core to business strategies, CEOs acknowledged that there is work to be done.

- 66 per cent said their business is not ready to withstand shareholder scrutiny.
- 24 per cent said that if their business doesn't get ESG solutions right, they will deliver an advantage to their competitors.
- 76 per cent said they would divest from a business that couldn't meet its ESG objectives.

KPMG's 2024 Global circularity report[6] also had some interesting findings.

- Many businesses have strong sustainability and circularity ambitions; however, the detail is sometimes lacking in how these ambitions will be achieved.
- Conversely, when clear goals are set, they are often not ambitious enough, suggesting that business leaders are overly conservative in their pursuit of sustainability outcomes.
- The lack of quantification of the impact of circularity goals stood out, suggesting business leaders are not always standing up to be counted when it comes to measuring outcomes.
- Sector-based partnerships are important to driving industry-wide change (in other words, competitors should collaborate in the pursuit of common sector circularity goals).

Unsurprisingly, the fashion and apparel industry comes in for a bit of stick among circular economy critics;

however, as consumers change their preferences, the industry is adapting.

In 2023, Global Data estimated that by 2032, in the US alone, almost 40 per cent of apparel sales will either be second-hand or off-price (such as at TK Maxx or Ross), encroaching on the market share of specialty retail brands and department stores. Gen Z shoppers are material influencers of this trend as a generation of digital natives focused on climate change and online shopping, embracing livestreaming platforms such as Poshmark to auction their wardrobes.

> "The Boomer generation is, for the time being, the generation with real spending power."

Indeed, major fashion brands such as Zara, have already set up their own marketplace environments to facilitate peer-to-peer trading and the recycling of second-hand product.

In Australia, women's fashion brand Decjuba has teamed up with circular-economy start-up Authentified, to activate the second-hand market by rewarding its customers who sell their old Decjuba favourites through marketplaces such as eBay. It's a win-win for the customer and Decjuba that drives loyalty and customer engagement well past the initial transaction for a new fashion item. What about actual customer behaviour?

KPMG's 2024 Apac seamless commerce report suggested:

- Gen Z shoppers are most influenced by sustainability practices, with:
    - 86 per cent more likely to support brands with clear sustainability commitments
    - 79 per cent buying into brands that align with their values.
- 65 per cent of Apac shoppers are prepared to pay up to 20 per cent more for sustainable products.
- However, 25 per cent of Australian shoppers said product sustainability would not affect their buying decisions at all.
- Somewhat concerningly, Australians are the least willing shoppers in Apac to pay more for sustainable products, with 51 per cent of Aussie shoppers not prepared to pay more just because of a product's sustainability credentials. Talk about do as I say, not as I do.

So, the bottom line for sustainability?

We believe it's here to stay – whether retailers like it or not. Indeed, the biggest driver for sustainability practices in Australia's future may be government mandatory reporting obligations commencing from 1 January 2025 designed to sort out the window-dressers from the action-oriented brands.

Market outlook

Since the pandemic years, retail conditions for most Australian retailers have been tough, particularly for those exposed to discretionary retail spending.

KPMG Australia's December 2024 Retail Health Index[7] suggests that healthy retail conditions are unlikely to return before mid-2025.

Indeed, while net population growth (approximately 500,000 a year for 2023 and 2024) provides a tailwind for economic growth, the cost-of-living crisis and multiple interest-rate rises have more than offset this, with per capita spending dropping since 2023, placing the Aussie retail market into a technical recession as household savings dry up and sit at an anaemic 1 per cent vs long-term average savings of 5-6 per cent.

It's also apparent that the Boomer generation is, for the time being, the generation with real spending power, driven by their relatively cashed-up and asset-rich position. Millennials and Gen Z are struggling to rent a house, much less buy one, with people aged 25-29 reducing spending in 2023 by 5.1 per cent vs those aged 75 years and older increasing spending by 8.1 per cent.[8]

However, taking a long-term view, JBWere has stated that[9] over $5 trillion will be passed down to future Australian generations in the next 10 years, with around 65 per cent being passed on to women, potentially leading to another major generational shift in spending patterns.

Globally, the outlook is a little different.

After interviews with 1300 retail leaders across 11 markets (including Australia), KPMG's *2024 Global CEO Outlook* report has stated that the number of CEOs who are optimistic about their economy is down, at 72 per cent vs 93 per cent in 2015.

Also, this CEO group is also expecting a shift in work behaviours, with 83 per cent of CEOs expecting a full return to the office in the next three years and 92 per cent expecting to grow overall headcount in the same period. Wow. This could mean the end of the work-from-home generation.

So, our take?

There's no denying retail market conditions remain challenging, but there is also the real prospect Australian retail is at the bottom of the economic cycle and market conditions should slowly start to improve, all things being equal. ■

[1] "Navigating the Future of Seamless Commerce in Asia Pacific", KPMG International, June 2024

[2] Coles Group, November 2024

[3] KPMG global tech report, KPMG Australia, October 2024

[4] Australian Sustainability Reporting legislation and standards Guide, KPMG Australia, 2024

[5] KPMG 2024 CEO Outlook, KPMG International, September 2024

[6] From talk to action, KPMG International, October 2024

KPMG's key insights

Insights into customer behaviour reveal that while not all global retail trends are adopted by Australian shoppers, it is important for Australian retailers to know what is hot, what is not, and what is coming.

Australian shoppers are remarkably channel agnostic. Rapidly emerging technology such as artificial intelligence that drives customer engagement, experience, and loyalty may prove decisive in winning customers.

2025's mandatory sustainability reporting obligations will likely level the playing field for Australian retailers, noting that shoppers expect sustainability to be a ticket to play and are not prepared to pay more for a brand's sustainability credentials.

Retail property hotspots

Physical retail is booming, so we asked three of Australia's leading real estate services companies to identify the up-and-coming retail locations that will soon be in high demand.

We also explored their development pipelines and how this could impact future retail rents.

This section covers:

- The top regional growth corridors and CBD hotspots across the country
- How construction costs impact property supply and rents
- Which retail categories are expanding their store networks, and which ones are shrinking them

Supply and demand: Where the retail property market is headed

Everything you need to know about the most in-demand cities and suburbs.

By Michael Baker

A trifecta of immigration, housing unaffordability and limited supply of new retail property is creating exciting opportunities for retailers and their landlords around Australia, according to research heads at brokerage firms who spoke with *Inside Retail* in January.

The biggest story underlying the growth opportunities is, unsurprisingly, immigration. Net overseas migration has surged post-Covid, adding nearly 1 million people to Australia's population in the two years to June 2024, according to the Australian Bureau of Statistics (ABS).

Add to that a natural increase (births minus deaths) of just over 200,000 over the same period and you have a material population gain to support retail sales growth. Even as immigration slows under political pressure to reduce numbers, retail industry professionals have reason to remain optimistic.

Over the past two years, the most important source regions for overseas migration have been the Indian subcontinent, contributing more than 290,000 migrants; China, with nearly 110,000; the Philippines, with 76,000; the UK, with 40,500; and Vietnam, with 39,000. It's not just about numbers; the diversity ►

of migrants also creates opportunities to reshape tenant mixes in Australia's shopping centres and retail strips.

Traditionally, this strong population growth would have transformed Australia's retail landscape, with new and large shopping centres built to meet increased demand. However, demand now outpaces the retail development pipeline, reducing retail space per capita and increasing the value of existing retail property.

So, where are the pressure points, the hotspots that are being created by this population growth?

CBDs of the biggest cities are reaping a windfall

According to Sheree Griff, CBRE's head of retail property management and leasing for the Pacific region, international migration to Australia's capital cities is fuelling retail growth in CBDs, and international brands are among the chief beneficiaries.

"We are observing growing demand for CBD retail, particularly in major cities like Sydney, Brisbane and Perth. It's clear that population growth is a significant driver, particularly international migration, from countries such as Japan, Korea and China," Griff told *Inside Retail*.

The densification and diversification of major city populations, and the resulting retail demand, attracts global brands, including luxury retailers.

"As these international brands seek to establish themselves, we are witnessing an increased demand for retail space to accommodate their expanded product ranges to meet the needs of consumers," she said.

The potential for retail growth in Australia's biggest city CBDs is not only being driven by international migrants. Housing unaffordability in the suburbs is herding people into apartments in and around the CBDs. This densification trend – caused by the twin drivers of international migration and lack of affordable housing – is, according to Griff, presenting "a unique opportunity for us to leverage this CBD growth and cater to a more diverse retail customer base".

Sydney or the bush

The lack of affordable housing in traditional areas favoured by home-buyers and renters is not just driving people to the CBDs, but to regional areas as well. This is naturally boosting demand for retail space.

Western Sydney exemplifies the rapid growth of fringe areas around major cities. Parramatta has always been an exurb waiting to flex its muscles and become a major urban centre in its own right, and it seems that it is now coming to fruition. Just southwest of Parramatta, Edmondson Park, Oran Park and Leppington are also becoming areas of significant retail opportunity. This is a double-edged sword for retailers, of course, as increased pressure on retail real estate means rising rents and greater competition for space.

Gary Mason, state director for retail leasing at Savills Australia and New Zealand, has seen firsthand the significant increase in demand for space in Western Sydney.

"Our vacancies in Oran Park, for example, generate more enquiries than any other site we manage, and the outreach has not just been from local businesses," he told *Inside Retail*. "What's fascinating is the number of CBD-based operators looking to move west to capitalise on the growth and activity happening in the region."

To top it off, the new international airport in Badgerys Creek, 30 kilometres west of Parramatta and about 20 kilometres north of Oran Park, will make the area a focus of attention for commercial and residential development.

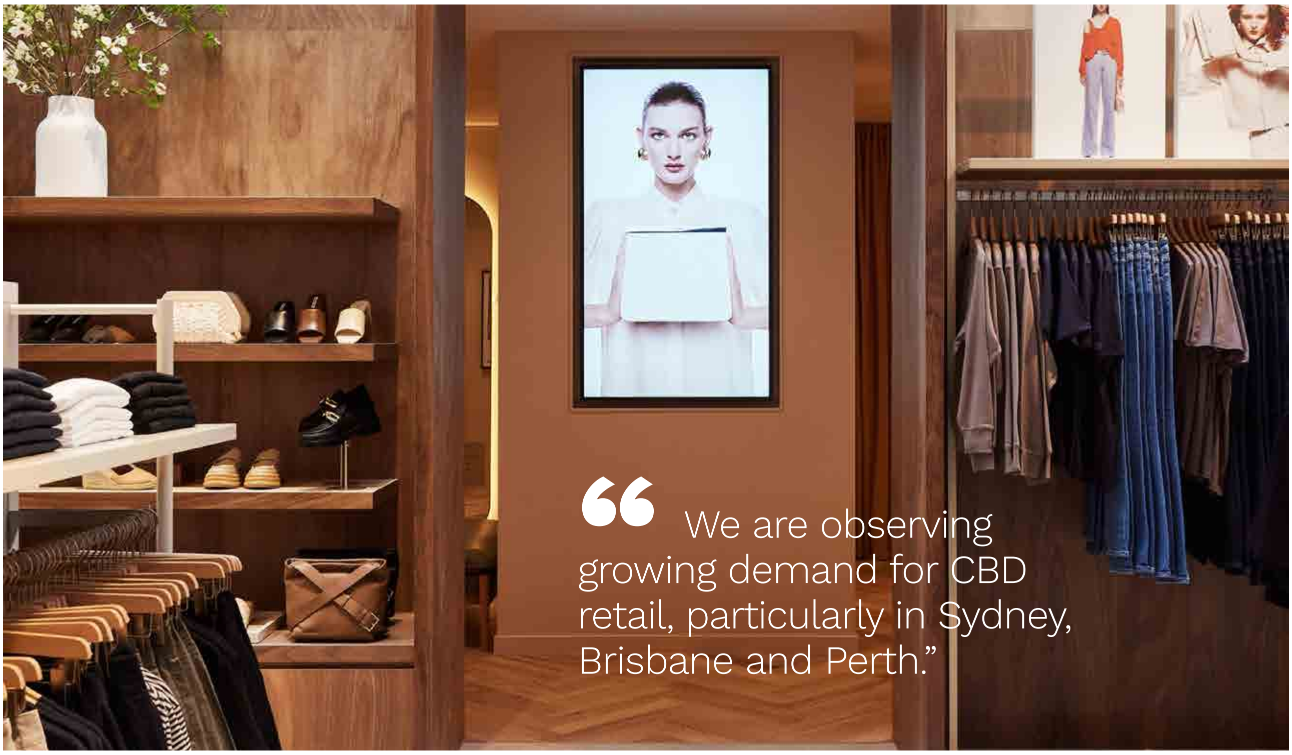
Top regional growth corridors

Vanessa Rader, head of research at Ray White, identified the following regional locations as offering strong growth potential for retailers:

New South Wales

- Southwest Sydney, including Oran Park, Edmondson Park and Leppington
- Northwest Sydney, including Box Hill, Marsden Park and Schofields
- Western Sydney, including Badgerys Creek/the Aerotropolis precinct

As Savills' Mason noted, some of these exurban areas between Sydney and the Blue Mountains are developing into commercial hubs in their own right. These areas, originally



offering lower rents, are now seeing prices for living and trading converge with those of established suburbs closer to the CBD.

Victoria

- The area within half an hour southeast of Dandenong, including Officer, Clyde and Pakenham
- The western growth corridor, including Tarneit, Truganina, Point Cook and Melton
- The northern growth corridor off the M31, including Mickleham, Kalkallo and Donnybrook

Queensland

- The growth corridor south of the Brisbane metropolitan area, arcing through Yarrabilba, Ripley Valley and Springfield Lakes
- The northern Gold Coast, including Pimpama, Coomera and Upper Coomera
- The Sunshine Coast, including Maroochydore and, to the south, Caloundra South and Aura

Western Australia

- The northern corridor, including Alkimos, Yanchep and Eglinton
- The southeastern corridor west of Armadale, including Byford, Harrisdale and Piara Waters
- Further south, the southern corridor between Rockingham and Mandurah, taking in Baldivis and Secret Harbour

South Australia

- The area north of Elizabeth, including Munno Para, Angle Vale and Virginia
- The Mount Barker region southeast of Adelaide
- The Seaford/Aldinga area on the southern coastal fringe of the Adelaide metro

Regional shopping malls are in demand

Increasing retail space to meet demand is challenging. CBRE's Griff explained that while regional population growth is rising as people seek affordable housing, "increased construction costs are making building more regional shopping centres cost-prohibitive". The reference to regional shopping centres here is to the largest enclosed malls, those that typically have 40,000sqm of leasable area and hundreds of tenants across all retail categories, plus entertainment and services. Few of these are now being built anywhere in the developed world, and their increasing scarcity is pushing up their value.

These regional shopping centres are attractive to both investors and tenants because they are typically well-located, well-managed, and have a critical mass of tenants, which creates a large trade area.

"Investors are drawn to the stable cash flow and potential for value appreciation in these properties, particularly as they adapt to incorporate mixed-use elements and modern amenities that respond to changing consumer preferences," Griff said. "This synergy between tenants and investors creates a robust investment that positions regional shopping centres as key players in the retail landscape."

Moreover, the ability to house such a diverse menu of tenants under one roof has enabled them to emerge as suburban community hubs, supplanting the suburban strips and town centres of yore. Fears just a decade ago that these large regional shopping centres would become obsolete at the hands of e-commerce have proven wildly inaccurate, much like Mark Twain's famous quote after reports of his demise were wrongly announced in the American press: "Reports of my death are greatly exaggerated".

> "Increased construction costs are making building more regional shopping centres cost-prohibitive."

Construction costs are soaring

The scarcity of new retail property space is partly due to high construction costs in Australia. According to CBRE's 2025 Pacific Market Outlook, these costs are significantly higher than pre-Covid levels and are expected to rise by about 5 per cent annually for the next few years, driven by raw material prices and a tight construction labour market. As a result, new regional shopping mall space primarily consists of extensions and renovations of existing centres. While developers can't build ►

as many new centres, their existing ones benefit from more foot traffic and spending.

Kate Bailey, CBRE's head of retail and alternatives research in Australia, added that limited supply is helping buoy rents at regional malls and keeping a lid on vacancy.

"Regional shopping centres are expected to see significant demand from occupiers. The amount of new space added to the market is well below 10-year averages which is driving rents and pushing vacancy down. Competition for new space is strong amidst growing sales densities and foot traffic," she told *Inside Retail*.

> "Competition for new space is strong amidst growing sales densities and foot traffic."

Neighbourhood and big-box centres take centre stage

With little new regional mall space in the pipeline, the onus for increasing supply is going to be on neighbourhood shopping centres anchored by supermarkets and offering primarily necessities. CBRE puts the retail property pipeline at 1.77 million square metres over the next three years, the overwhelming majority of which is neighbourhood and large-format centres.

"While overall consumer spending may have softened, compelling investment opportunities persist, particularly in growing residential corridors," Ray White's Rader said.

"The future of retail success lies in its evolution, with convenience-based retail emerging as a dominant force. Supermarkets, specialty food retailers such as greengrocers, butchers, bakeries and artisanal food shops, alongside service-based businesses like hair salons and beauty establishments, are positioned to perform strongly. Traditional retail sectors, particularly clothing and soft goods, continue to rationalise their physical footprint as they adapt to increasing online shopping preferences. The retail sector's investment resurgence in late 2024 has reignited investor interest after a period of subdued returns, though success will require embracing a reimagined retail landscape that caters to evolving consumer behaviours and preferences rather than traditional retail models."

Still the lucky country – for tenants and landlords

Although not everyone likes the idea of rapid population growth, that ship has already sailed and it now represents a great opportunity for retailers to grasp while the iron is hot. Overseas migration is expected to slow, although neither major political party has articulated clear policies or targets. Even a proposed cap on international students, who comprised 40 per cent of the migration intake in 2024, couldn't get through Parliament.

Meanwhile, a solution to the housing crisis in Australia's biggest cities seems nowhere in sight, so the growth in exurban and regional areas of the country should be a persistent theme over the medium term. ■

Michael Baker is a retail consultant and former head of research at the International Council of Shopping Centers.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