

more
than
money



THE **FUTURE** OF RETAIL

The trends reshaping retail and
the future implications for the
Australian marketplace

September 2017

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FOREWORD

CATHRYN CARVER

Executive General Manager Client Coverage, C&IB



The world is undergoing a digital transformation, where no sector is immune. With technology developing at an unprecedented pace and customer expectations constantly evolving, business survival is dependent on understanding and adapting to this changing landscape.

Welcome to our September 2017 Client Insights publication, Future of Retail. The Australian retail sector has had more than its fair share of challenges over the past 12 months – none more so than a consumer who, through the power of technology, has become far more discerning and value-conscious.

Technology continues to evolve and drive rapid change to the way consumers and businesses interact with each other. The gap between organisations that deliver great service and those that deliver poor service is growing.

Customer expectations for immediacy have created an environment where consumers want to make payment and receive goods without delay. Traditionally, the quickest and easiest way to do this has been via retail stores, however shifting behaviour driven by digitisation, a 'mobile-first' consumer, social media, emergence of new digital channels and new platform business models and access to global information has fundamentally altered customer expectations and behaviours.

The economic landscape has created an innate conservatism amongst consumers but the reality is, year-on-year people are spending more – they're just not spending it in areas where they've traditionally spent their disposable income as new channels and products/services emerge. The savvy Australian consumer can take responsibility for some significant challenges encountered by retailers.

However, many businesses are tackling this situation head-on and coming up with new enhancements to the shopping experience, supply chain initiatives and shifts in channel strategy, and their broader customer value proposition to remain relevant.

In this Future of Retail report we explore many of these industry developments.

We have been very fortunate to obtain some wonderful insights from FTI Consulting on the trends shaping the US retail sector, AsiaLink Business on emerging Asian eCommerce, World Wide Web Consortium (W3C) on web browser shopping carts and various Australian business case studies which highlight customer-led innovation.

Blended with these external contributions are some interesting observations from NAB Group Economics together with our Retail Industry Coverage team which we hope will provide our readers with a unique compilation of major trends, challenges, insights and opportunities in the Australian retail sector.

The interplay between technology, changing customer expectations and new business models are creating both opportunities and challenges.

NAB remains committed to supporting and providing insights that enable and support our customers and the broader community to navigate these emerging trends.

A handwritten signature in black ink that reads "Cathryn Carver".

Cathryn Carver

**Executive General Manager Client Coverage, C&IB
– National Australia Bank**

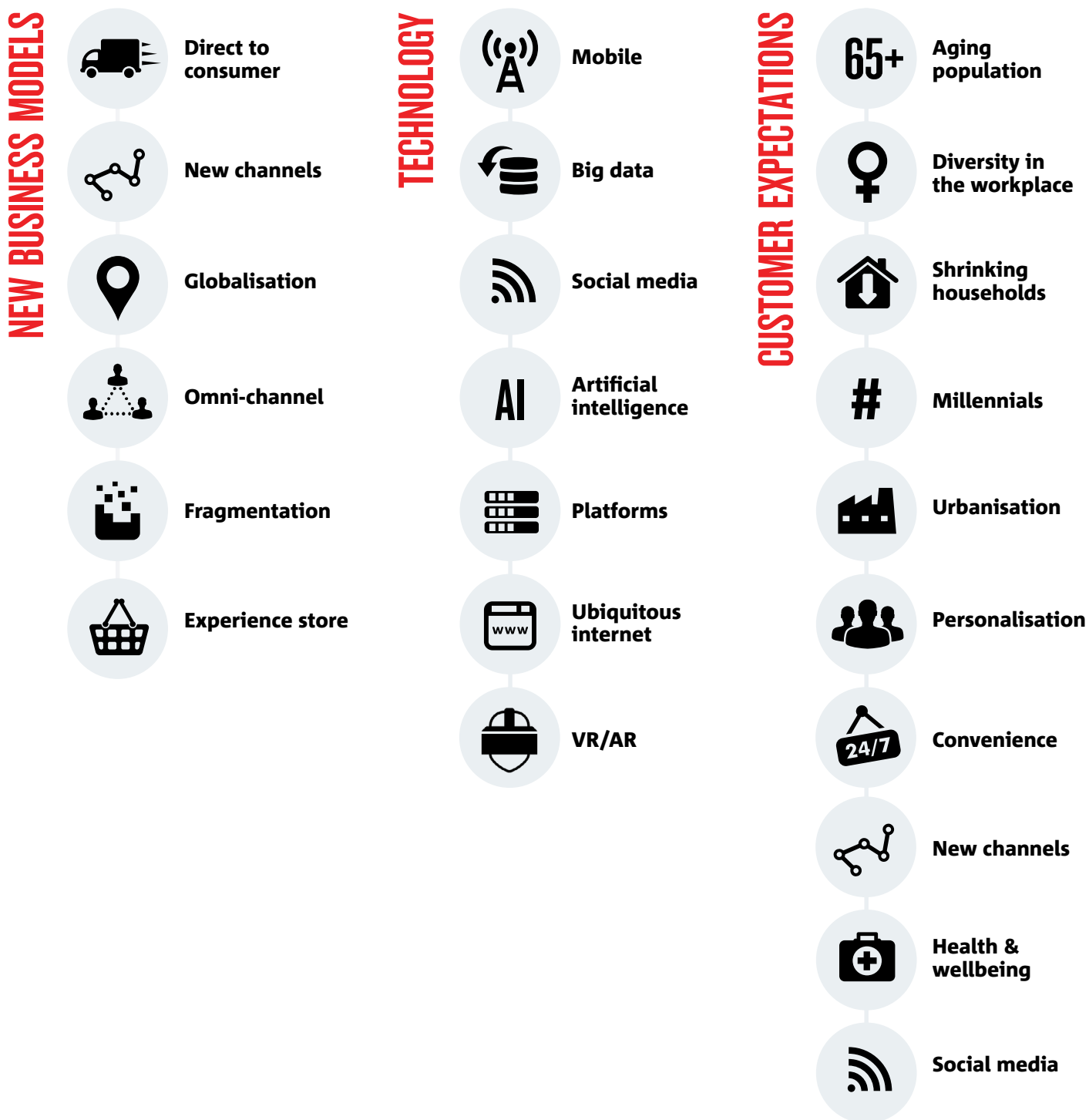
1. TRENDS SHAPING THE FUTURE CONSUMER LANDSCAPE

Retail is being reshaped by the interplay between economic, social and technology, changing customer expectations and the emergence of new business models and channels.

To assist our customers and community to navigate this change the Future of Retail publication brings together a range of case studies of Australian Retail Businesses

that are embracing these trends and re-imagining the future of retail.

The legend below outlines the major trends and can be read in conjunction with the case studies to provide examples and pathways for Australian business to respond to these shifts.



2. TECHNOLOGY & RETAIL

The evolution of retail's adoption of technology

The 1990s saw the introduction of data technology into the retail supply chain & logistics to drive efficiencies. Walmart used these new technologies to change retail globally.

By the early 2000s the digitisation of the advertising sector saw digital metrics emerge to measure the effectiveness of consumer advertising driven by search engines such as Google.

The subsequent emergence of Facebook and social media has seen an increasing shift in consumer advertising expenditure online.

Google and Facebook control over 57% of the digital ad market and their slice of the pie is growing.

Since 1998 eCommerce in the US has gradually increased to ~12% of US retail revenue with Amazon the largest eCommerce retailer with ~2% of US Retail Revenue.

To date eCommerce has been much better at logistics than demand generation. It has been primarily adopted by consumers who know what they want to buy.

Even clothing is being purchased online with Amazon now the fourth largest apparel retailer in the US with sales of over \$15bn p.a.

Similar to the early 1990s, Amazon is now using technology including new computing to change the retail business model. New devices such as Alexa and Dash are introducing voice search and new frictionless channels. These new platforms are likely to shape new products and services. Machine Learning and personalisation are likely to curate new forms of personal consumption and demand. In most cases, these new channels change the business model.

Digitisation has so far disrupted a range of industries including mobile phones, consumer media, Pay TV, online advertising and TV production.

The impact of digital and software on the global retail industry is likely to be far more material with the US sector having global revenues in 2015 of ~US\$22tn.

1990s

Introduction of data technology in supply chain and logistics ERP



2000s

Introduction of data technology in advertising digital metrics



2010s

Introduction of data technology in demand data, social, machine learning



Future

Australian retail apparel company, GlamCorner, embraces the sharing economy

GlamCorner is the market leader in Australia's rapidly expanding online women's fashion rental market and is a business at the intersection of the country's \$9 billion women's apparel industry and the \$15 billion sharing economy.

Founded in 2012 by a husband and wife duo who saw an opportunity to introduce the collaborative consumption model to women's wardrobes in Australia, this innovative business now has tens of thousands of customers and has seen business expand fivefold in the last twelve months alone.

Taking inspiration from the very successful US-based Rent The Runway, GlamCorner is on a mission to be the answer to all of the 'I have nothing to wear' moments women have throughout the year - from birthdays and engagement parties

to weddings and charity dinners - and is able to ship items next day to customers with prepaid return satchels anywhere in the country via direct mail. The business's vision is to be every Australian woman's endless online wardrobe.

GlamCorner raised \$1.3 million of capital from AirTree Ventures in 2015 and has spent the last two years expanding both its online product and its backend reverse-logistics platform. Similar to Spotify, Uber and AirBnB by providing on-demand, pay-per-use access to rental designer fashion for once-off occasions, GlamCorner is fast becoming a brand-discovery platform for its customers and a new-customer acquisition channel for local and international fashion labels who are motivated to get their labels in front of a growing 'aspirational' audience.



3. THE FUTURE OF STREAMLINED CHECKOUT

Although the Web supports trillions of dollars of commerce each year, online checkout remains tedious and inconsistent. Complex or multi-step checkouts contribute to shopping cart abandonment and lost loyalty, especially on mobile. With more people using their mobile devices while shopping, it is critical to streamline checkout on the Web.

One-click experiences do exist, but they require merchants or their payment service providers to store sensitive user credentials. As Tim Berners-Lee acknowledged in a New York Times piece on this topic, “We are long overdue for a payments user interface for the Web.”¹

The World Wide Web Consortium (W3C) is the global standards organisation that builds the foundational technologies that make the Web work. W3C has convened browser vendors, banks, credit card networks, payment service providers, retailers, device manufacturers, and others to develop new Web standards to make checkout easier and more secure.

The new standards offer a number of benefits:

- Increased usability when selecting how to pay, thereby creating a consistent Web experience.
- Lower costs of building a checkout experience and increased conversions. Related technologies such as ‘autofill’ have been shown to increase conversions, and these new API’s build on the idea of simplifying checkout by reusing information. As merchants no longer need to store credentials, there are opportunities to reduce merchant liability.
- Increased Web payment security by making it easier to bring more secure payment methods to the Web.

Although the standards are still in development, major browser vendors have begun to implement them. The W3C process encourages early implementation to validate the technology in development. W3C expects to see early adoption of the standards this year, with wider acceptance in 2018.

Retail payments innovator Afterpay is stimulating sales with ‘buy now, receive now, pay later’ model.

The way people in Australia shop is changing – consumers want more choice and flexibility in the way they shop and pay for their purchases. Paving the way is retail technology from Afterpay that allows consumers to choose how they pay.

Prior to establishing Afterpay, co-founder and managing director Nick Molnar launched leading American online jeweller, Ice.com, into Australia which he successfully grew to become the largest online-only jewellery and watch retailer. His partner company in the United States offered the ‘buy now, pay later’ concept, and customers and retailers loved it. This led Molnar to Anthony Eisen and together they identified a gap in the Australian payments market prompting the launch of Afterpay in 2014.

Afterpay is revolutionising retail with its new-generation payments option that has transformed the traditional layby. As a customer-centric business, Afterpay offers shoppers the benefits of a layby service with an immediate take-home option – ‘buy now, receive now, pay later’ in four simple fortnightly instalments, taking the sting out of shopping. It does not require end-customers to enter into a traditional loan or pay upfront fees or interest. Merchants at the same time gain incremental sales, boost conversions and reduce returns.

Millennials are the largest demographic in Australia using digital payment solutions and are driving digital retail. As a millennial himself, Molnar created a business focused around responding to a millennial problem. Afterpay was developed



as a reverse layby product using its basic principles, addressing the needs of customers, in particular millennials, who want to manage their budget and cash flow to buy what they want, and receive their purchases sooner rather than later.

Adoption of Afterpay is largely by those millennials who are great spenders while also being price conscious and savvy, with almost three quarters (73 per cent) representing its customer base. The more meaningful spenders – Generation X and Baby Boomers – are now embracing the service and the company is diversifying its retail offerings across categories.

In 1H FY2017 Afterpay reported it processed 15 per cent of online fashion retail and three per cent of total online retail in Australia. Since its inception, Afterpay has grown to over 700,000 customers and over 5,000 retail merchants and in May 2016, listed on the Australian Securities Exchange (ASX).



1. The New York Times – “What if “One Click” Buying were Internet wide?” 25 September 2016

Delivering the goods is THE ICONIC ethos

What does it take to make it in online retail? The ability to put your head down, take risks and follow your vision, says THE ICONIC Chief Financial Officer, Anna Lee.

Pure-play online fashion retailer THE ICONIC has positioned itself as an innovator, and the approach is serving it well. Launched in 2011 – after brainstorming sessions at inner-city Sydney picnic tables – the business has gone from a posse of five to a team of more than 400 in just five years.

Now part of the Global Fashion Group, (an international amalgam of e-retailers held by German incubator Rocket Internet and Sweden's AB Kinnevik), THE ICONIC boasts more than 700 local and international brands, over 45,000 fashion and sports products for women and men, and it attracts more than ten million visits each month.

The need for speed

The core of THE ICONIC's business model will come as little surprise: "At the end of the day it is retail and that in itself hasn't changed for thousands of years," says Anna Lee. "A retailer's success has always come down to knowing your customer and having the merchandise they want. We're offering our customers the best product assortment that we know they want, but we're putting technology at the heart of the shopping experience."

Yet it is management's deliberate move to think outside the box that is giving the fledgling company the real edge. Last November, for instance, THE ICONIC broke new ground by staging the very first fashion show on Sydney's Bondi Beach and being Australia's first drone-filmed fashion event.

Its innovative approach extends to delivery processes. From the very beginning the online retailer has worked to make a name for itself with super-fast delivery times – as quick as three hours in Sydney, the same day to Melbourne, Brisbane and Adelaide, and free overnight around the country.

Lee believes this offering has changed the face of delivery in Australia, in part because THE ICONIC has gone out of its way to work personally with its partners over the years, including Australia Post, to help improve the delivery process.

"We like to think we've made a bit of an impact on the industry and what our partners did to support that process."

Understand your customer

If management has anything to do with it, the innovations won't stop there. Intent on having a mobile-first approach,

they launched a dedicated mobile shopping app in 2013.

Since then THE ICONIC has added a 'follow my brands' tool, which allows customers to personalise the brands they see in the company's catalogue feed. "As we offer more brands that is critical," explains Lee. "Customers are very loyal to the brands they enjoy and being able to tailor that experience is really incredible."

Yet another enhancement is THE ICONIC's universal sizing tool, also available on its mobile app, which allows customers to better find their size when shopping. The aim is to reduce the hassle of comparing a multitude of global sizes across the ever-growing number of items THE ICONIC stocks.

All these refinements to THE ICONIC's offering come down to understanding customers better, says Lee. "These innovations have come from us listening to our customers and understanding what are the things that are most important to them when shopping with us."

She adds there is more to come. "We think there will be some more examples of these types of things in a few years' time," says Lee. "That's what THE ICONIC will be known for."

Engineering change

A large part of Lee's confidence derives from the retailer's 50-strong in-house team of software engineers.

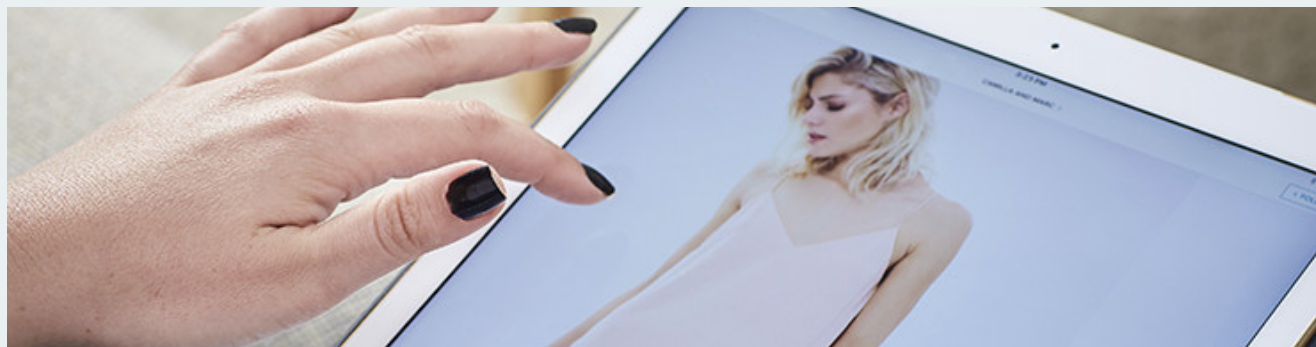
"That is really sizeable, particularly in the retail industry. I don't think a lot of organisations would necessarily put that many resources into technology. But we recognise that it is a key part of the success of our business and the way we interact with our customers. It's just another example of how we're different from our competitors."

Knowing and listening to their customers is another part of THE ICONIC's key approach.

"We monitor our NPS all the time," says Lee. "We really analyse and understand the feedback that they are giving us. And we always change and take action to make sure we're improving all the areas we can."

Lee tries to not focus too much on what her competitors are doing. "We focus on what's important to us and what our goals are. If you focus on that and don't get too distracted by what everyone else is doing, you can't go wrong."

This article was first published on NAB Business Research and Insights – nab.com.au/insights 10 April 2017.



4. INTERNATIONAL LANDSCAPE *U.S. perspective*



FTI Consulting is a NYSE listed, independent global business advisory firm offering the Australian market place a comprehensive suite of services designed to assist clients across the entire business lifecycle – from proactive risk management to the ability to respond rapidly to unexpected events and dynamic environments.

As a trusted partner to companies, boards of directors, investors, lenders and creditors around the world, they are recognised for the depth of our knowledge and a track record of making an impact.

With offices in every major financial centre and every corner of the globe, they successfully serve NAB's clients wherever challenges and opportunities arise. In Australia, they have built a team of more than 250 professionals located in offices in Brisbane, Sydney, Melbourne and Perth.

Many large omni-channel retail executives are finally focusing attention on their diminishing need for marginal stores now that their online business has scaled up nicely. This ball started rolling in 2016 and will pick up speed going forward.

Inflation is very modest for many consumer goods—particularly when food and energy costs are excluded. Deep discounting is a contributing factor, with inflation being negligible or negative for several large categories of retail goods—apparel and durables.

In the U.S., consumers are fairly upbeat about the economy, as well as their personal finances. The two foremost indexes of consumer confidence are sending that message, with both indexes currently at levels above their 20-year average. However, shoppers continue to exercise uncharacteristic restraint compared with their free-spending ways of the past.

As we look to the remainder of 2017, it's likely to be more of the same.

Retail sector performance

Most large retailers continue to engage in highly promotional activities that are ultimately harming their underlying business – but what choice do they really have? With few exceptions for standout brands, holding the line on higher price points will not get a sale made. Smart shoppers have come to expect large retailers to be at least price competitive with Amazon – or else those shoppers quickly move on.

What is true in such an environment is that the enterprise of retailing has become less lucrative by most measures. Sales, Operating Margin (EBITDA = Earnings before interest, taxes, depreciation and amortisation) and Return on Investment have been trending lower during the last three years across nearly all retail segments and shows few signs of any reversal.

Amazon: threat or opportunity?

Online retail sales approached \$400 billion in 2016 in the U.S. and will continue to grow at a rate in the low teens. That's the good news. The bad news is that Amazon.com continues to take a disproportionate and growing share of these sales despite the success that omni-channel retailers have achieved to date.

Discretionary spending in the U.S.

In 2016, the long-awaited cyclical revival of vibrant consumer spending in the United States failed again to materialise, and in this sixth year of a sluggish retail recovery, it's fair to ask whether this anticipated moment will ever arrive — or at least before the next recession is on our doorstep. In fact, discretionary spending growth slowed from 4% in 2015 to 3% in 2016.

While overall sales growth is at 3%, spending continues to migrate away from stores. In-store sales growth for discretionary categories¹ has been gradually trending lower since 2012 and recently turned negative. In contrast, non-store sales (online + catalogue) grew consistently by about 12% and growth accelerated in 2016 to 15%.

1. In-store discretionary spending (we use the GAFO category as our proxy) and of non-store sales since 2011 as reported to the U.S. Bureau of the Census ('BOC'). The BOC requires that reporting retailers strictly separate their store sales from online sales, which are then reported by BOC in a separate category (NAICS Code 454; Non-Store Retailers, which includes online and catalogue sales). So GAFO sales, as reported by the BOC, are stripped of their online component and reflect what we consider to be a best approximation of 'pure' store-based performance for discretionary product categories.

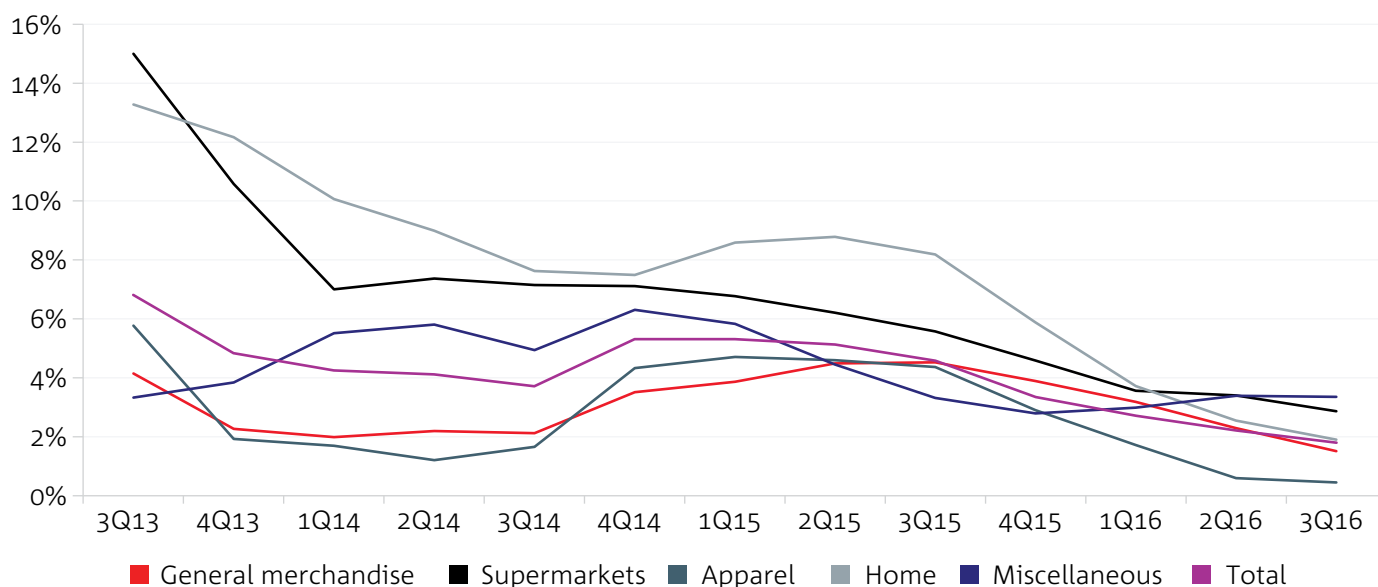
Today, online sales account for nearly 12 percent of U.S. retail sales, excluding auto and gas.

- Apparel remains the largest online product category with \$55 billion of sales last year, accounting for a 19% market share of apparel sales and 17% of all online sales of goods, much to the surprise of early skeptics who doubted the category's potential for online success. Online market share in some other product categories is larger than apparel's market share, but apparel still is the most important category due to its sheer size—with approximately \$300 billion in total retail sales.
- Food and grocery is at the other end of the spectrum, which, despite being one of the first product categories to be offered online way back in the 90's, barely has cracked a 1% market share. Grocery continues to be the category that consumers have not embraced for online purchases, though it's not for lack of trying on the part of retailers. Amazon and others recently have stepped up efforts to win over grocery shoppers, but it's too soon to know how successful these programs will be and whether they can move the needle with respect to online market share for the category.
- Omni-channel retailers collectively account for most online sales, with many national retailers generating at least 10 percent of their sales online. However, these results vary widely. For instance, Williams-Sonoma, a trailblazer in direct selling in the home goods category, reaped one-half of its sales from the online channel in 2016 and is widely regarded as an omni-channel paradigm. A near

competitor, Crate and Barrel generated one-third of its sales online, while Bed Bath & Beyond derived less than 10 percent of its sales online but intends to ramp up its online business over the next few years.

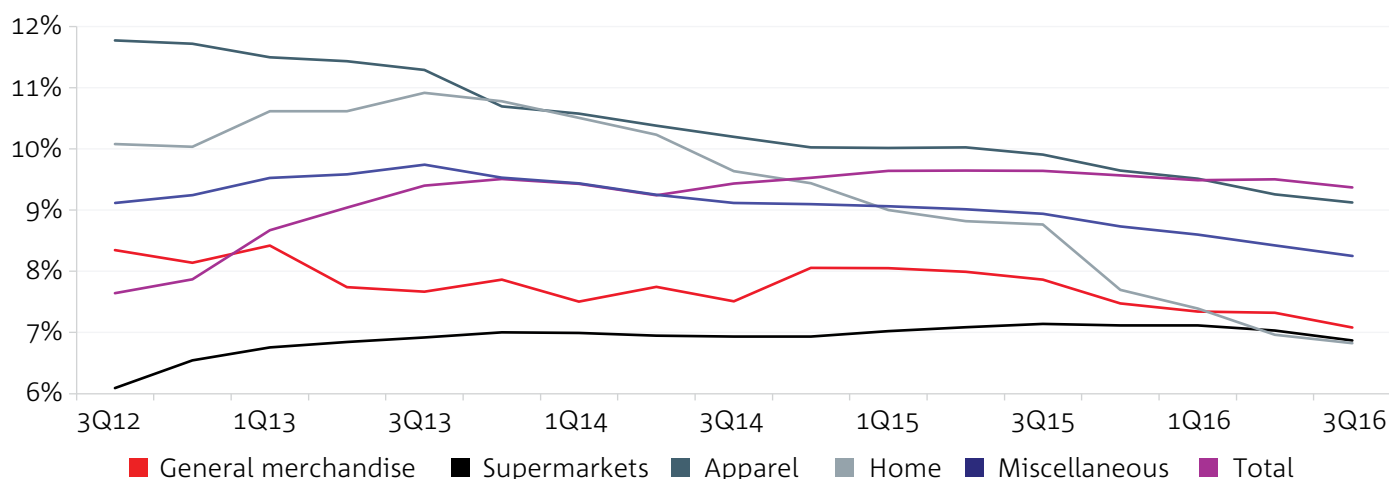
- The success of the online channel has likely contributed to slackening store traffic. Omni-channel retailers will all say they view and operate their two (or three) selling channels as one interconnected business. That may be so, but it's hard to ignore the reality that many retailers have at best maintained their market share and have little else to show for these herculean efforts except a vastly more complex and costly entity to operate in a hyper-competitive marketplace.
- Amazon's dominance of online retailing shows no sign of letting up as it expands and extends its product reach in apparel, grocery and other consumer staples.
- Amazon's market share is estimated to be 20% of all U.S. online sales, excluding third-party sales that it fulfills, which by some estimates are nearly as large as its own retail sales. Amazon's domestic sales have accelerated since late 2014, and at 26% YoY, is more than twice the growth rate of total online sales (excluding Amazon). So arguably, Amazon alone is responsible for the acceleration of total online sales growth in the last year.

Total U.S. sales growth (nominal, year-on-year percentage change)



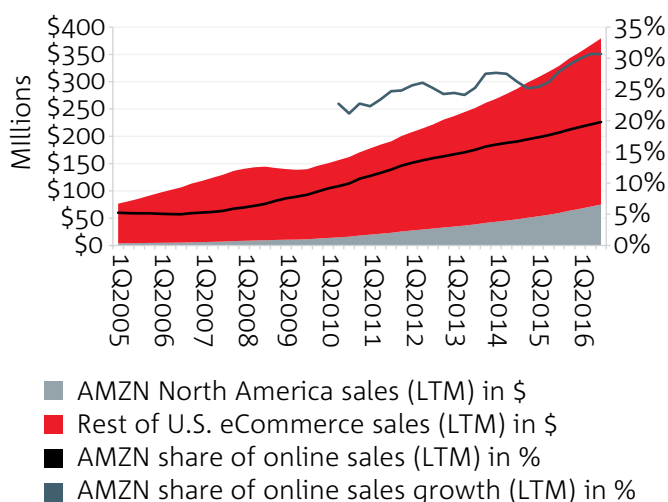
Source: FTI Consulting, US Consensus Bureau and SEC Filings

Earnings Before Interest, Tax, Depreciation & Amortisation (EBITDA) Margin of 120 U.S public retailers with sales over \$100m



Source: US Census Bureau and SEC Filings

U.S online retail sales vs Amazon



Note: LTM is last 12 months

Source: U.S. Census Bureau and SEC Filings

While the behemoth's 2017 Australian launch may seem a huge threat to local retailers, a breakdown of where purchases are made in the U.S. highlights real opportunity. Sales from third party marketplace sellers are estimated to be nearly as large as its own retail sales or an additional 20% of total U.S. online retail market share. Products from third party sellers represent over 90% of the SKUs offered on Amazon. These sellers benefit from traffic generated by Amazon and its Prime Members. Regardless of where U.S. online customers end up buying, around 55% of them begin their shopping on Amazon.

Efficient, fast and reliable delivery is key to Amazon's U.S. success. On the Monday before Christmas, almost 50% of all online sales in the U.S. were made on Amazon, according to data from Slice Intelligence.

Consumers were doing their shopping later, secure in the knowledge that Amazon's two-day delivery would still get them what they'd ordered before it was too late. Five years ago, if you ordered something on Monday, December 19, you would've been very worried.

Amazon is pioneering the highest levels of efficiency in last-mile delivery - the most expensive component in the delivery and freight process being delivery from a local processing facility to the customer, representing 27% of the total cost to fulfill and deliver. They continue to experiment with options of finding the most cost efficient system and use different methods of last-mile delivery in different cities.

"This is classic Amazon. They take baby steps along a long path, which allows some companies that could be disrupted to remain in a sense of denial. Amazon rarely takes one big step forward that shocks the market."

Colin Sebastian

Supply chain is just one area where we're seeing innovation. Amazon is strengthening its offer in digital media/content delivered exclusively to Amazon Prime Members. It's also placing bets on two of the largest selling categories in the U.S.

- Apparel, Accessories and Shoes:** From May 2015 to May 2016, Amazon and its marketplace sellers grew product count by 85%; positioning Amazon to replace Macy's as the largest clothing retailer in the U.S. Amazon has also introduced its own proprietary apparel brands.

- **Grocery:** Amazon is expanding Amazon Fresh and announced plans to roll out as many as 2,000 pick-up and small format grocery stores in the U.S. To put that into perspective, Kroger, the largest grocery chain in the U.S., has 2,800 stores.

Amazon's market capitalisation has clearly given them permission to invest and grow. In fact, if we were to combine the market capitalisation of eight of the largest traditional retailers in the U.S. (Walmart, Target, Best Buy, Macy's, Sears, Kohl's, Nordstrom, and J.C.Penny's), they still don't total the size of Amazon, which is still nearly 30% larger than their combined value.

We expect U.S. online sales to reach \$440 billion in 2017, \$485 billion in 2018 and \$575 billion by 2020. Our model anticipates that online market share will eventually top out at nearly 25 percent if the low penetration category of grocery is excluded (or 20 percent including grocery). This represents a near doubling of online market share over the next decade or a compound annual growth rate ('CAGR') of eight percent.

Omni-channel wins out – at least for the consumer

Online retailing has been an unambiguous boon for consumers over the last decade, providing many shopping benefits at little or no cost to them as retailers continue to pick up that tab — which has become sizeable. Whether it's lower online prices, mobile shopping apps and coupons, free shipping, generous return policies or last mile coverage, consumers have been wooed and spoiled by technology-enabled conveniences that they've been conditioned to expect for free and forever.

For retail today, it's not enough to only have a pure bricks and mortar presence nor is it wise to be a pure online player. Where both of these strategies fail is from traffic and brand presence. For pure bricks and mortar, retailers suffer as general foot traffic continues to shrink. For the online retailers, they face a very high cost of customer acquisition. We're beginning to see the importance of customer loyalty more than ever for online and bricks and mortar players alike. As bricks and mortar promotional events bleed online there's a shift in traffic to mobile on those days. Mobile has become the touch point that connects online and offline retail.

Omni-channel and online-only retailers have been hugely successful at building a 21st century shopping channel that consumers have embraced with few reservations. There's every reason to expect this migration to the online channel will continue at a healthy clip.

The ongoing challenge for large retailers is to meet the many demands of the omni-channel imperative without eroding the profitability of the enterprise. Otherwise it may be a hollow and costly victory.

There are two very different strategies — Amazon's low friction (and low contact) convenient experience versus Apple's product driven, high contact, store based experience. Which will win? Both? What about the 'middle' where most of today's retailers exist?

Why the customer is in control and how fashion brands should respond

Martin Newman is known globally as one of the foremost authorities in eCommerce and multichannel retailing. The executive chairman and founder of eCommerce consultancy Practicology shared his tips for online success with the audience at a Virgin Australian Melbourne Fashion Festival eCommerce masterclass.

Prepare for Amazon

Amazon is planning to enter the Australian market, likely sometime later this year with a wide retail offering including books, homewares, groceries and clothing.

“What you need to do as businesses is to go back and talk the board of your businesses because you need to have a defensive strategy for these guys,” Newman told the audience. “You might be surprised to learn that they are one of the biggest fashion retailers, at least from a sales perspective, in the world.”

Newman said Amazon will take market share, but it will also provide an opportunity to sell via another channel. Brand owners can sell their products to Amazon.com for the U.S. eCommerce giant to sell, while retailers can sell through Amazon.

“Even if you don’t have full control of the data or the customer, I think you have to think hard about being there, because they’re going to come into your category anyway,” he said.

Expand internationally – but get it right

Newman said businesses wanting to respond to Amazon and grow their brands sustainably will need to expand into new markets.

But many fail to get the basics right on their websites.

There are many small differences between countries that can cause an overseas shopper to drop off a website before they make a purchase because the sites aren’t localised.

Product categories and names must correspond with local usage – for instance, ‘pants’ in the Australia and the US are ‘trousers’ in the UK. Sizes are also different in different countries, and shoppers won’t make a purchase if they can’t understand the sizing.

Newman said it was important to get the ‘hygiene factors’ right. This means ensuring prices are offered in local currency and that country’s most popular payment options are offered, which is even more important when brand awareness is low.

Structure for international success

Businesses sometimes make the mistake of not giving the eCommerce team extra staff to run their overseas expansion.

“If you’re going to internationalise, it’s a big ask for the people who trade your domestic market here in Australia and New Zealand, people are already working pretty hard,” Newman said. “And arguably they might not have the knowledge and skills to take you into new markets.” In fact, one of the keys to success in a foreign market is to be plugged into that country, and that means local expertise.



Businesses need native language speakers who understand the nuances and culture of the country. “Local language is massively important,” Newman said. The more of a website that is translated the greater conversion will be.

Get your returns policy right

“I won’t buy something online unless I know what it’s going to be like if I have to return it – are they going to charge me, is it going to be a complicated process?” Newman said.

He is not alone. European research reveals the important of return policies on websites:

- 76% of shoppers viewed a company’s return policy before placing an order.
- 51% of shoppers drop off a site because the returns process offered either wasn’t easy or wasn’t convenient.

“It’s a massive, massive barrier to conversion and it doesn’t matter whether you’re selling in Timbuktu or the CBD of Sydney, the issue is the same,” Newman said.

The returns policy needs to be prominently and clearly displayed to give shoppers confidence.

The customer is in control

In years past, retailers were in control, Newman said. Customers could only visit bricks-and-mortar stores near where they lived and only when the stores were open, but eCommerce has changed all that.

“Now the customer is 100 per cent in control of when, where and from whom they buy,” he said.

This means that customer experience and customer service is everything. “It’s a huge strategic driver for your business and should be treated as such,” Newman said.

He said US online appliances retailer AO.com puts the customer at the centre of everything it by making customer satisfaction the key target for its staff, instead of the more traditional KPIs of sales, website visits and revenue.

“Retailers need to become service providers,” he said.

This article first published on NAB Business Research and Insights – nab.com.au/insights 5 April 2017



5. INTERNATIONAL LANDSCAPE *Asia perspective*



As Australia's leading centre for building Asia capability, Asialink Business is committed to providing information, insights and strategic direction to assist Australian organisations to better understand and build the capabilities to access opportunities with Asia.

Our research team has expertise and technical capabilities in developing frameworks and methodologies for research/consulting projects and producing high quality bespoke market research, thought leadership and Asia-specific information products.

Popular platforms

There are a number of eCommerce platforms in Asia, some of which are localised and others which cater to multiple markets. There are also industry specific platforms, particularly in the fashion, beauty and personal care industries.

China

- All goods: Tmall Global, JD.com
- Fashion and beauty: JuMei, Lefeng, VIP

India

- All goods: Flipkart, Snapdeal, Tradus
- Fashion and beauty: Fashionandyou, Myntra, Caratlane
- Baby and child: FirstCry

Southeast Asia

- Carousell, Lazada, Blibli (Indonesia), Kaymu (Myanmar)

Types of online stores

- **Website:** Setting up a localised website is one direct way of reaching customers in Asia. However, if a brand is not well known in the market or if there is a lack of resources to develop a comprehensive market-specific brand and marketing strategy, building awareness and reaching your target customer directly may be challenging.
- **B2B:** The business-to-business (B2B) model is common for goods of a lower value or that do not have a strong brand presence in the relevant market. It involves selling products wholesale to a local eCommerce platform, which will then manage the marketing, sales and distribution directly. Although an advantage of this method is that a large number of customers will be exposed to the products at once, sellers should note that large eCommerce platforms tend to heavily discount products and that this tends to adversely affect profit margins.
- **B2C:** Brands that enjoy strong awareness globally may consider opening an online store on a local eCommerce platform. This gives businesses the ability to customise the storefront and take advantage of the platform's payment systems infrastructure and existing consumer audience. This approach works well for global brands that local customers are familiar with but have not been able to purchase online locally. It can be an expensive option however as a store on China's Tmall Global for example can cost up to USD 25,000.
- **B2B2C:** A popular option for brands that local consumers have less awareness of is to sell through an online supermarket on an eCommerce platform. These are online stores, housed on an eCommerce platform, that sell multiple brands from a range of different suppliers. Evaluate potential stockists based on the strength of their existing range of products and their stable of regular customers. Online supermarkets that stock other Australian products are likely to be taking advantage of the reputation that Australia has, in many of these markets, for producing premium products with high quality ingredients. Assuming there are few substitute products stocked by the store, this approach will reduce time and resources necessary for marketing and promotion.

Tips for selling online in Asia

- **Marketing:** Key opinion leaders' (celebrities, social media stars and public figures) recommendation or endorsement of a product is one of the most effective marketing tools.
- **Trust:** Detailed product information and genuine customer reviews help to build consumer trust.
- **Price competitiveness:** In some markets, customers are willing to pay premiums for high quality, international products while in others, price competitiveness is critical – how well a product is able to meet consumer preferences should guide market selection.
- **Consumption drivers:** Consider how shopping festivals and/or religious holidays will impact a spike in demand for products and time your marketing push to take advantage of these. Singles Day in China for example has consistently broken global online retail records, generating over \$17.8 billion in a 24-hour period in 2016.
- **Shipping:** Free and fast delivery is a common expectation in all Asian markets.
- **Payments:** Most markets have unique payment portals or non-digital modes, including payment and pick-up at local convenience stores. Understanding local payment preferences and accepting all common payment methods is critical to sales growth.
- **Regulations:** A country's rules governing certification, testing and labelling can differ when it comes to online sales. A thorough understanding of the differences is important to ensure products are not seized at customs. These rules can also vary depending on warehousing arrangements (bonded warehouse, free trade zones, etc).
- **Intellectual property:** Protecting a brand or product's IP, including trademarks and designs are essential to mitigating the risk of counterfeits. Initiating IP protection should be the first step in activating any market entry strategy, given the process can take up to 24 months in some countries.

Keep Cup – Asia case study

Katherine Underwood, International Account Manager Asia Pacific. Many people when they consider selling a product in China think of offering low prices.

When Australian business KeepCup realised their distributors in China were selling their products for three times the recommended retail price (RRP) they were astounded and wanted to know why. It was simple – “Our pricing which is calculated on an index of the local price for a cup of coffee, was way too low for China and impacting sales,” says Katherine Underwood, KeepCup International Account Manager for Asia Pacific. Established in 2009 as a family business, the organisation's objective is to reduce disposable coffee cup waste through the world's first barista standard reusable cups. Manufactured in Melbourne, and now selling in over 60 countries, the company recognised the value that producing locally in Australia could bring, while allowing them to retain quality and reduce their environmental footprint. “It is vital to get your price right, don't undervalue your product,” outlines Katherine. “China is an interesting market, on the one hand they are price sensitive, on the other, a lack of trust exists among Chinese consumers towards Chinese manufactured goods. There is this strong desire for manufactured Western goods, particularly Australian.”

The three Chinese distributors, each focused on a different type of market – cafe, retail and corporate clients, expressed that the product was undervalued and needed to be sold at a premium. To price otherwise, would encourage the Chinese consumer to perceive the product as manufactured in China and consequently of lower quality, a perception not valued highly by the target market of specialist coffee drinkers.



Having sold over three million cups globally since 2009, KeepCup trusted and listened to their Chinese distributors keeping the higher price. With the efforts of the distributors, sales have tripled in China over the past six months with the brand growing across the country in the last year.

However, as a result of the Chinese economy's rapid growth, distributors can be sensitive and worried of losing control of their market. A strong and trustworthy relationship with your distributors is fundamental in China but is an ongoing and sometimes challenging process. “You need to make them feel imperative to your brand and to do so from the beginning. They have to all feel reassured that everyone is working together, not against each other.” reinforces Katherine.

KeepCup does this by providing a ‘Letter of Authorisation’ for each distributor, making it official with the company stamp which distributor is responsible for a certain Chinese market.

“Nonetheless, we need to maintain control of our product from Australia so being reactive to market demands and handling our brand marketing, while setting sales targets to maintain growth is crucial.”

Source: Asialink Business China Country Starter pack – <https://www.asialinkbusiness.com.au/research-resources/china-country-starter-pack>



6. AUSTRALIAN ECONOMIC OVERVIEW



By Riki Polygenis - Head of Australian Economics, National Australia Bank.

Overview

The Australian retail sector continues to underperform compared to the rest of the economy. This reflects a confluence of events, including:

- Structural changes in the industry, driven by a shift to online shopping
- Fierce competition, leading to margin compression
- Changes in consumer preferences, including a greater emphasis on experiences
- Very low wage growth and higher inflation for essentials limiting consumers' ability to spend.

Despite some improvement evident so far for Q2 2017, there has been a fundamental slowing in the trend pace of growth of consumer spending since the financial crisis. Data underlining this trend includes:

- National accounts data showing real household consumption growth of 2.3% y/y in Q1-2017, compared with a long-run average of 3¼% y/y, notwithstanding a notable drop in the household savings rate in recent years (to below 5% from over 9% three years ago and a peak of over 10% in 2011). Meanwhile, record low wage growth has been reflected in ongoing weakness in household income growth.
- Retail conditions in the NAB Business Survey showing the weakest trend of any industry. While there has been some improvement in recent months, it continues to lag well behind most other industries. Personal services remain very strong however.
- ABS retail trade data showing turnover growth of 3.6% y/y in trend terms (in current price, nominal terms), compared with the 20-year average of 5%.

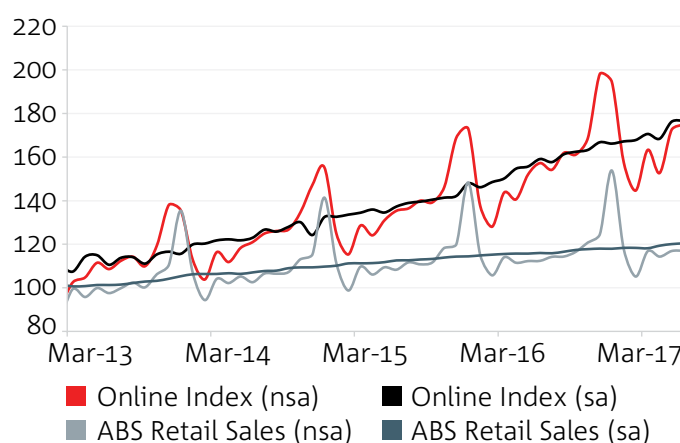
We expect real consumption growth of around 2¼% in 2017-18 and 2018-19. This is underpinned by our expectation for only modest improvement in the unemployment rate and a very gradual pick up in wages growth (from 1.9% y/y in Q1 2017). NAB's forecasts are softer than Treasury's forecast used in the

latest Commonwealth Budget, although both sets of forecasts rely on some further decline in the household savings ratio to its lowest level since the GFC. A more elevated level of consumer caution, prompted by higher levels of household debt would suggest even weaker forecasts for consumer spending (see below for further information), while a stronger than expected improvement in employment and/or wages would see somewhat stronger growth (although a return to pre-GFC average rates is unlikely).

Structural changes

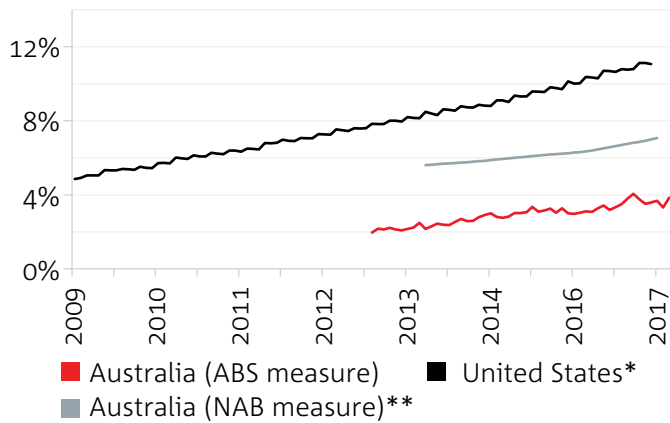
While growth in Australian online retail has been slower than the U.S., it is still rapidly outpacing growth in the traditional retail sector. NAB's online retail measure showed year-ended growth at 7.6% in June, compared to total retail growth of 3.8% (seasonally adjusted). NAB's online retail measure differs from the ABS in that it includes sales from international online retailers to Australians. The NAB measure is currently over 7% of total trade compared to over 11% in the US. With Amazon coming to Australia, it is likely this figure will rise. Meanwhile, cash transactions at retailers have been falling as a share of total sales, with NAB's new Cashless Retail Sales Index (which measures cashless retail spending by customers using debit and credit cards (both in person and online), BPAY and Paypal) growing at a faster pace (5.6% y/y in June) than total retail sales.

NAB online, NAB cashless and ABS total retail sales indexes



Source: ABS, Quantum, NAB Group Economics

Online sales as a share of total trade



* Excludes auto dealers, building materials and gasoline stations

** NAB's estimates includes sales from online international retailers to Australians

Source: ABS, Quantum, NAB Group Economics

Fierce competition

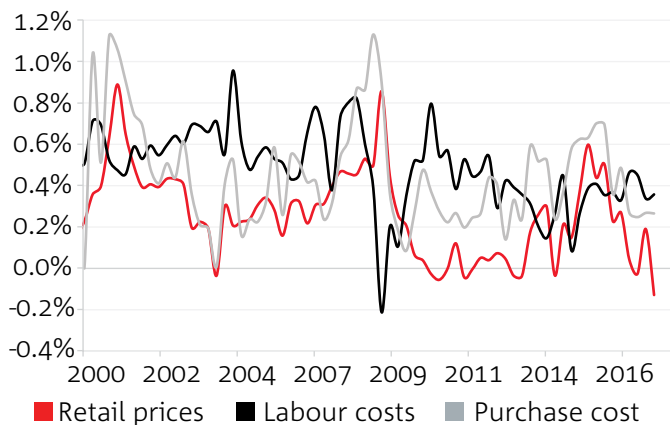
Fierce competition (from online, overseas and bricks & mortar retailers), combined with subdued consumer demand, has led to margin compression (an inability to pass on cost increases). While cheap goods have flooded the global market, currency movements have worked against retailers.

For example, the AUD has depreciated over 16% in quarterly trade-weighted terms since peaking in March 2013. However retailers have not been able to pass those increases on with retail prices in the CPI rising less than 1% over the same period.

1991

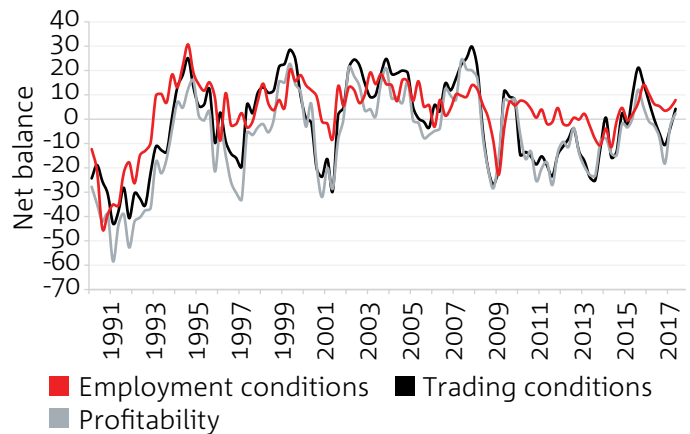
The NAB Business Survey also shows stronger growth in input costs and labour costs than final prices.

Retail prices growth (NAB Business Survey, Quarterly)



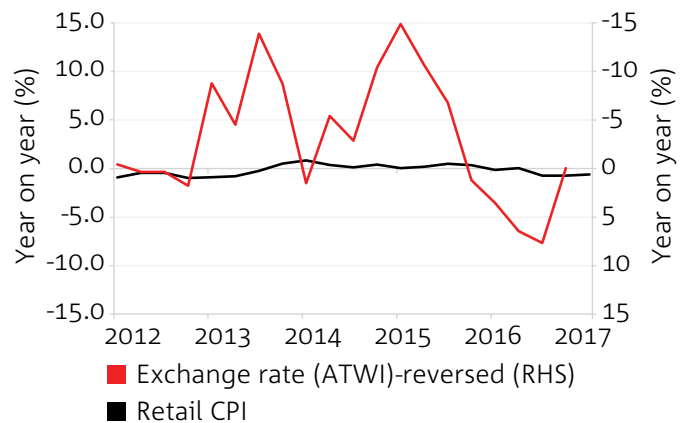
Source: NAB Group Economics

Retail business conditions



Source: NAB Group Economics

Retail CPI and exchange rate



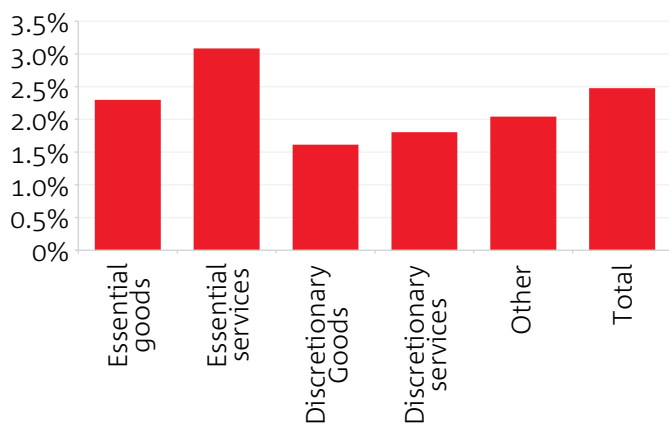
Source: NAB Group Economics

Change in consumer preferences and relative price shifts

Over the past couple of years, there has been stronger growth in consumption of essential goods and services. Within discretionary categories, there has been a shift towards spending on discretionary services and experiences.

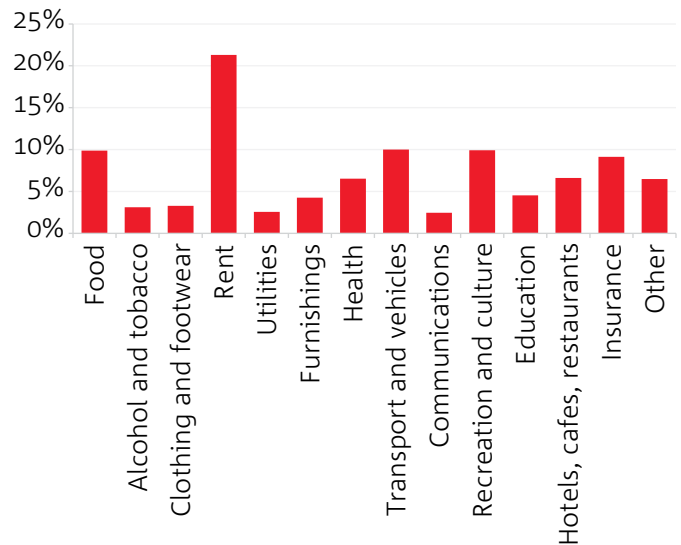
Indeed, food retailing has been one of the better performers in the retail sector, driven by a boom in cafes for breakfast and lunch and online ordered take-away for dinner. Recreation and culture now takes up a greater share of household spending than it did 20 years ago. Health spending has increased its share of total spending, while tobacco spending has markedly declined.

Household consumption volumes (5-year average annual growth)



Source: ABS

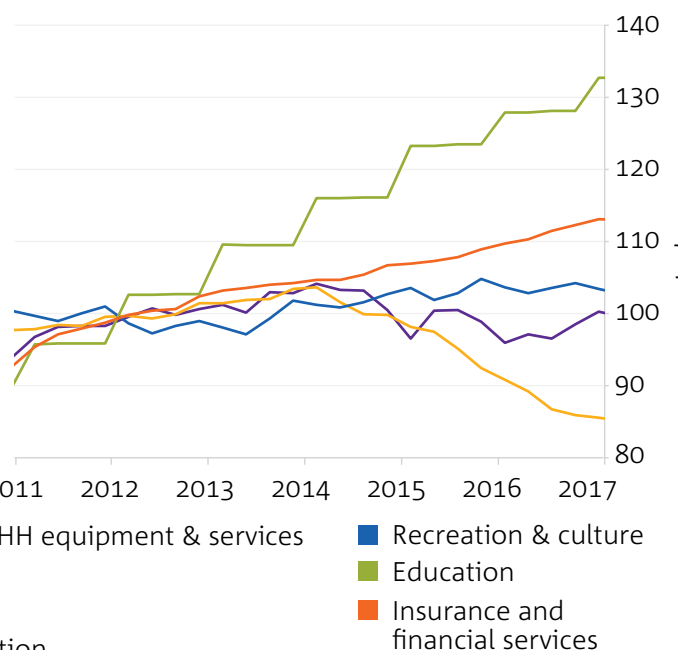
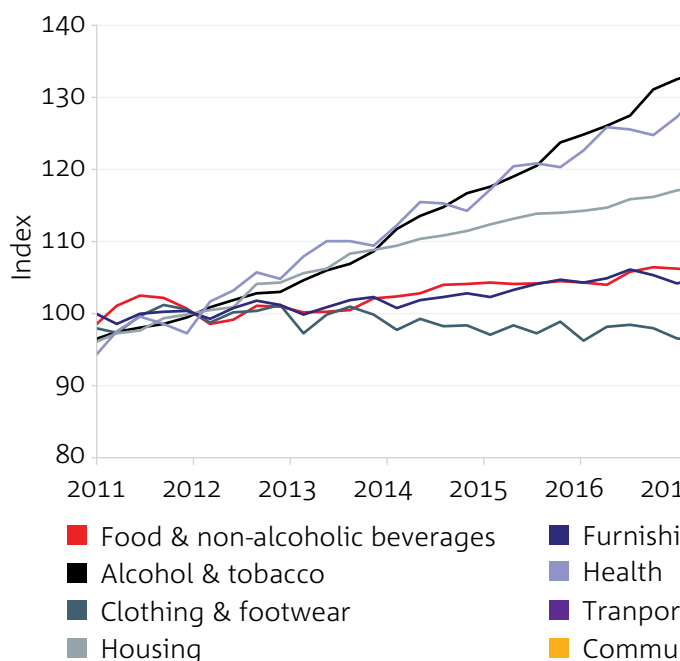
Share of wallet



Source: ABS (National Accounts, Dec 2016)

While household preferences appear to be shifting over time, relative price changes are also a factor. In particular, although CPI is low by historic standards, inflation for essentials such as health, housing and education is much stronger than for discretionary items such as clothing and footwear, furnishings and recreation. This is likely to be 'crowding out' spending on non-essentials, as a greater share of a household's disposable income is devoted to these essentials. This trend is likely to continue, with household energy prices likely to sharply increase due to a shortage of gas (used for electricity generation and residential heating) in the domestic market. This will make discretionary spending more difficult for those on low and middle incomes.

Consumer price index by major category

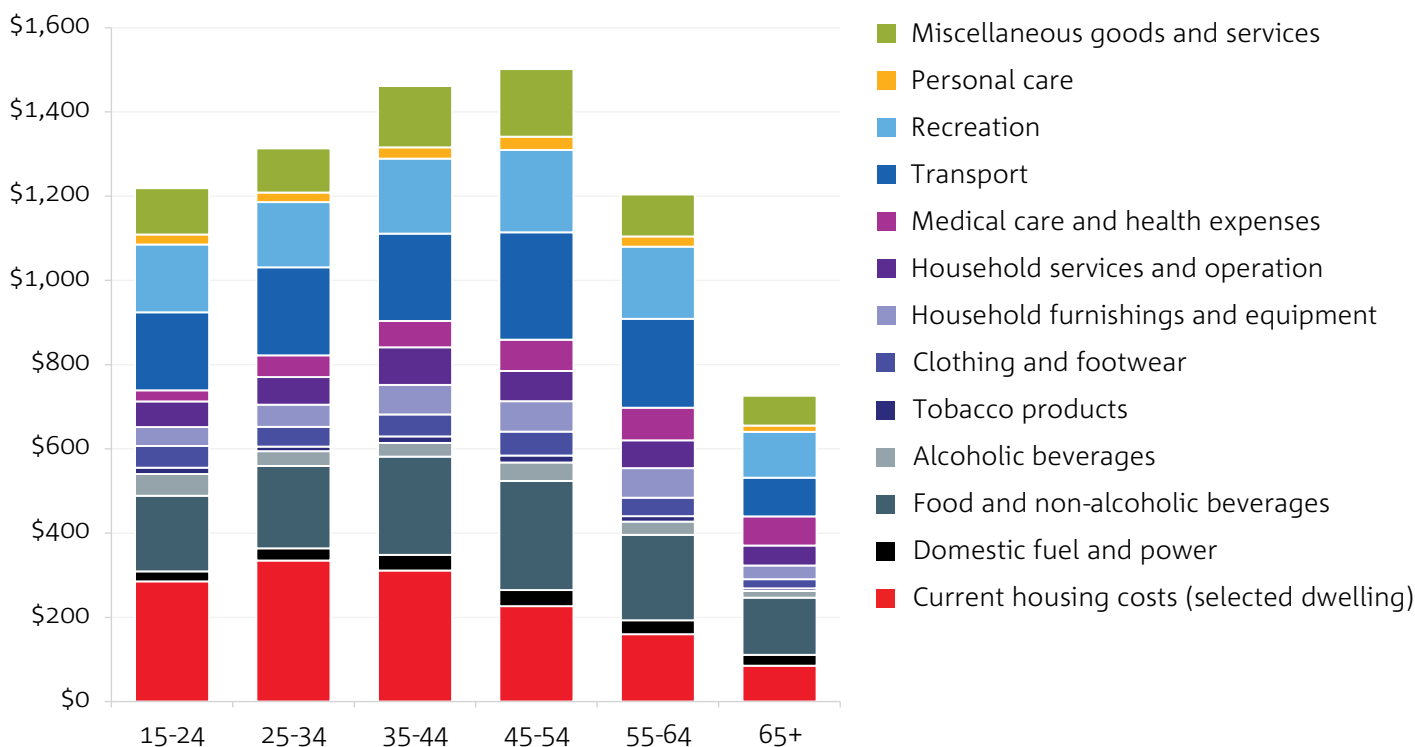


Source: ABS

Demographic shifts will also alter spending patterns

Older households tend to spend less on average, and allocate their spending differently. Housing is a major cost, particularly for those under 45, while food and transport are also major spending categories.

Household consumption by age (\$ per week)



Source: ABS Household Expenditure Survey (2009-10)

The changing face of the Australian shopping centre

There was a time when there were only a few coffee shops in a regional shopping centre like Macquarie Centre. They were busy, however you could always find a seat. Today there are 16 cafes at Macquarie and even with many other food operators selling coffee, they are still busy and full of customers.

The growth of Food and Beverage (F&B) in our shopping centres has been very strong and continues to grow. At Macquarie Centre in 2005, the total annual sales for meals and fast food was 17% of total centre sales and in 2015 it was 27%. The category has continued to expand since then. According to Urbis research¹, Australia has the lowest level of F&B on a GLA (Gross Leasable Area) compared to the UK, USA, Asia and Middle East. The US has 6% and the UK 10% while Asia has 15% indicating that there is a huge opportunity to continue to grow this sector in Australia. As customer trends have been changing so has the retail mix (the face) of the Australian shopping centre.

While online is changing the way customers shop for goods and merchandise, it is giving customers more time for experiences, which in turn is a great opportunity for shopping centres. Not only are shopping centres able to provide goods and merchandise but they can also offer experiences and

entertainment - both of which are in high demand from the millennials (those currently aged between 10 and 35). This customer demographic will start to have a larger impact on the spending in shopping centres.

The retailing of cosmetics is a good example of this. Products are available both online and instore however cosmetic sales continue to be a growth category in shopping centres despite the increase in competitors and online sales. The introduction of Sephora at Macquarie Centre, for example, had an overall positive impact to sales for this sector. Customers continue to support these retailers due to the experiences that they are offering such as make-up artists and the ability to try the product before purchasing.

Large regional shopping centres are expected to benefit most from changes resulting from online retailing as they have the ability to offer the deepest customer experiences including entertainment, F&B and services.

There is no doubt that online retailing has and will continue to shape shopping centres, however those centres that embrace these changes and enhance their offering to include a more diverse retail mix will see improved sustainable income and long-term success going forward.

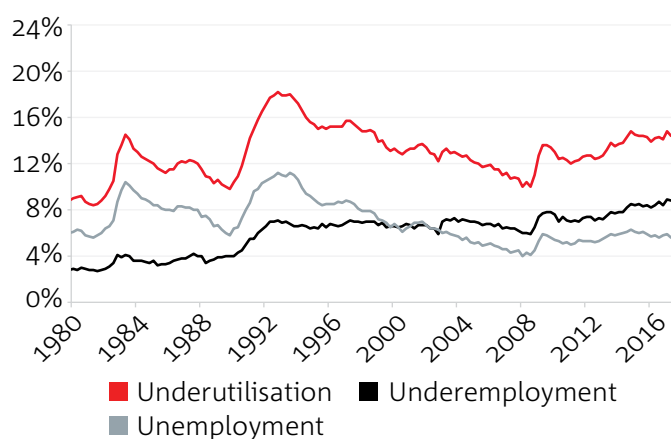


1. 25th edition of the Urbis Shopping Centre benchmarks 2016

Economic fundamentals – low wage growth

Economic fundamentals suggest moderate growth in household income in coming years. This is a function of both low wages growth (amidst ongoing spare capacity in the labour market) and moderate employment growth. While the unemployment rate has eased from a peak of 6¼% in late 2014, it remains elevated at 5.6%, and is only expected to ease marginally to just below 5.4% by the end of this year and 5.3% by the end of 2019, suggesting excess labour supply will remain in the labour market.

Unemployment, underemployment and underutilisation rates (seasonally adjusted)



Source: ABS

In addition, job security and therefore certainty about future income has reduced. A larger share of employment is now in part-time or casual jobs rather than full-time work, with the underemployment rate

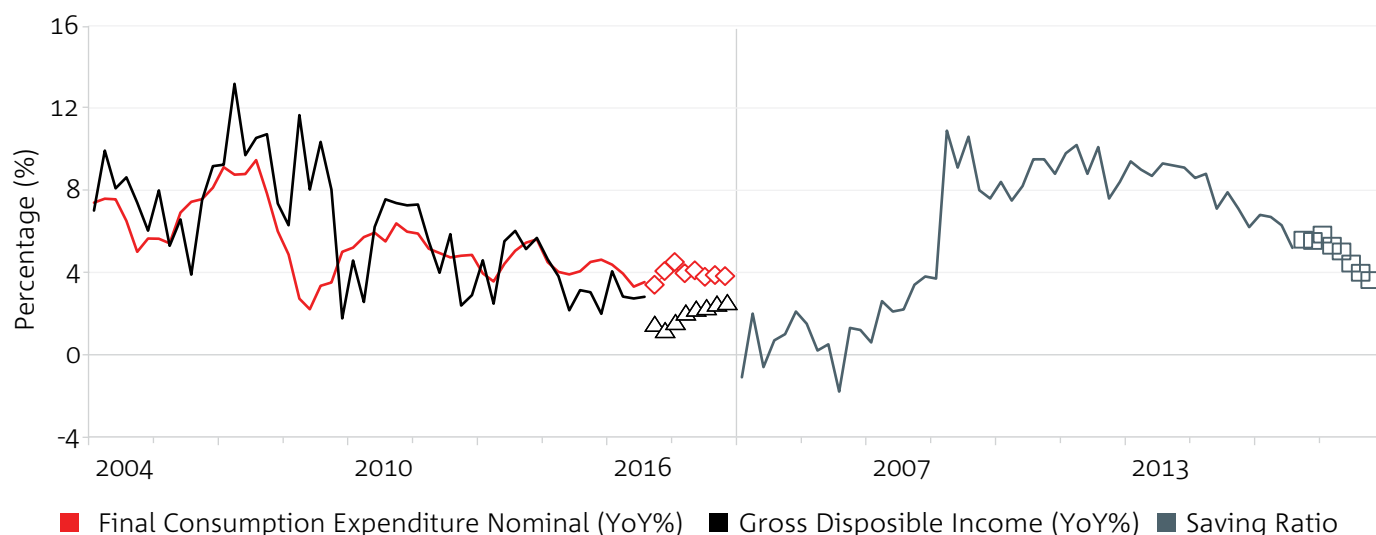
(those wishing to work more hours) stubbornly high at almost 9% of the labour force, and total underutilisation (underemployed and unemployed) at 14.4% of the labour force. Structural changes such as increased automation and digital disruption may be increasing the level of uncertainty for households about their future income.

On the other hand, employment growth so far this year has been stronger than H2 2016 and the lift in full-time employment is encouraging for household income in the near term. Indeed we have seen some improvement in consumer spending in Q2 2017. Nonetheless, we expect only gradual improvement in the unemployment rate, and weakness in wages growth is likely to persist and remain a constraint on consumer spending.

Monetary policy considerations and channels

Growth in household wealth should be supportive of consumer spending. Stimulatory monetary policy settings (despite some tightening of macro-prudential measures) has seen strong asset price growth, particularly for housing. However evidence suggests that the 'household wealth channel' has become more muted, likely due to concerns about future household income growth. In addition, it is not clear that the household wealth channel will operate in a symmetric fashion. That is, consumer spending may slow more sharply in response to a fall in household wealth than a rise in household wealth, particularly if households' expectations of future income growth remain subdued.

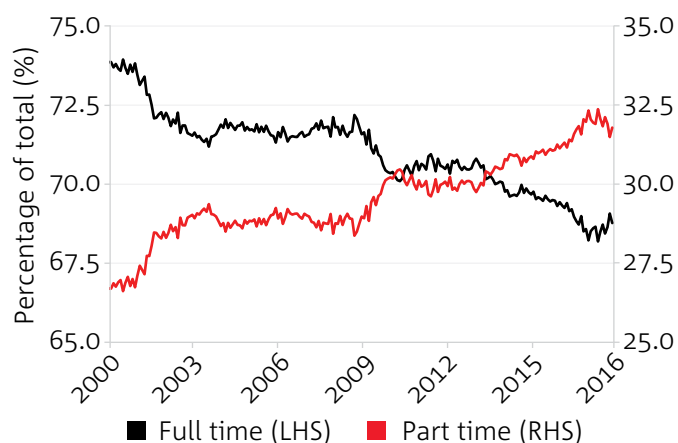
Household consumption, disposable income and savings ratio



Source: ABS

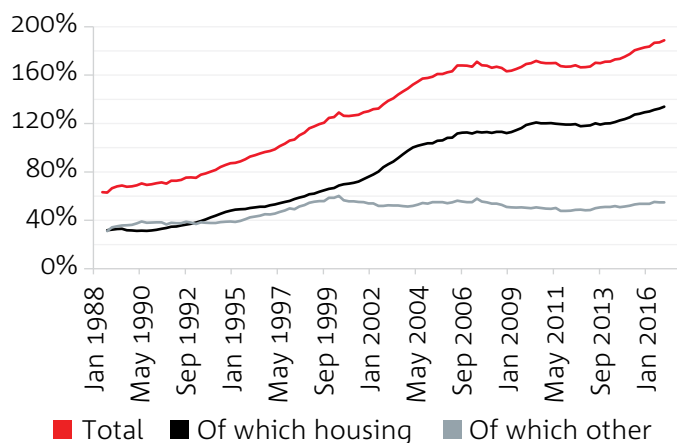
Another consideration is the impact of elevated property prices on first home buyers. While higher prices see more equity for existing homeowners, those seeking to enter the market will need to save more for a deposit and spend more on repayments when they own a property. This is a potential issue for the retail sector, especially in sub-sectors focussed on younger people.

Employment (percentage of total)



Source: NAB Group Economics

Household sector debt (percentage household income)



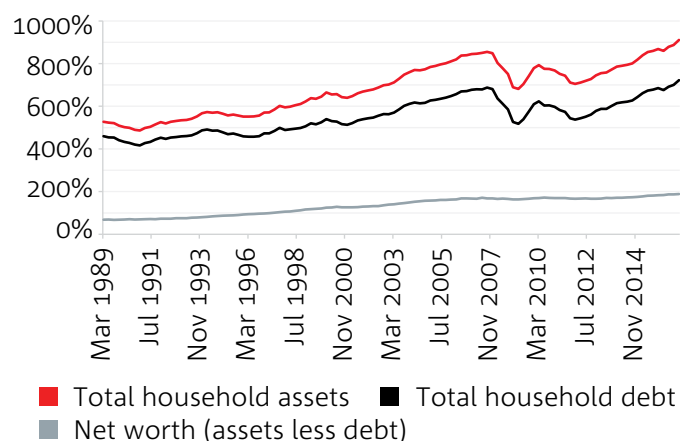
Source: RBA

Households also hold a relatively high level of debt, and household spending will be sensitive to any interest rate rises going forward. Note however that household assets have grown more quickly than household debt, and that a majority of households are ahead on mortgage repayments which will provide a buffer. Household debt is also concentrated amongst higher income groups who have a lower 'marginal propensity to consume'.

RBA Research suggests that household spending is sensitive to interest rates via the "cash flow channel", where a lowering of the cash rate by 100 basis points is associated with an increase in aggregate household income of around 0.9 per cent, which would, in turn, increase household expenditure by about 0.1 to 0.2 per cent through. Durable goods are more sensitive to interest rates than non-durable goods and services.

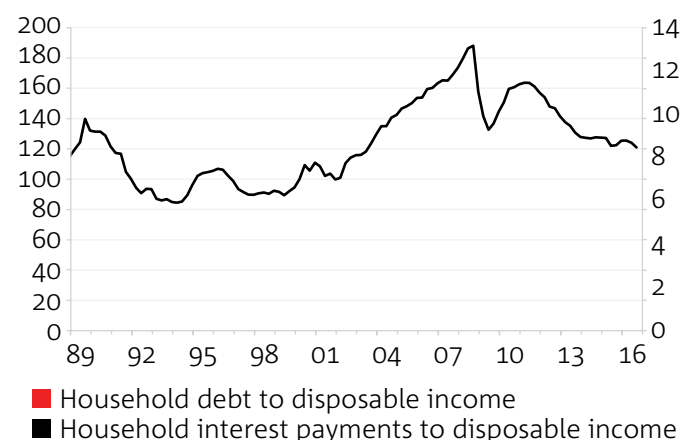
Interest rates are likely to have reached a low point in Australia and while monetary policy is likely on hold for a considerable period amidst low inflation, hikes are equally as likely as cuts. The RBA is very cognisant of contractionary impact of higher rates on household consumption and hence any tightening of policy will be cautious and gradual, and only take place if labour market outcomes are strong enough for consumers to manage.

Household net worth (percentage of sector income)



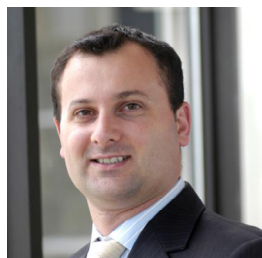
Source: National Australia Bank, RBA

Household debt and interest payments to income



Source: National Australia Bank, RBA

7. AUSTRALIAN ONLINE RETAIL



By Tom Mazzaferro
- General Manager,
Consumer, Diversified
Industries and Property,
National Australia Bank.

In the 12 months to June, Australians spent an estimated \$22.7 billion on online retail – a level that is equivalent to around 7.4% of the traditional bricks and mortar retail sector (which totalled \$306.9 billion in the year to May 2017 according to the Australian Bureau of Statistics).

In year on year terms (June 2017 versus June 2016), online sales grew by 7.6%, down from the 8.2% year-on-year growth rate in May. This is much slower than the growth recorded when the index was established. In June 2011 for example, year on year growth was around 34%. Growth has clearly flattened. Conversely sales growth (17.6% year on year) at SME retailers has never been higher.

Note: Expanding coverage to include food and smaller online retailers has caused seasonal adjustment factor constraints. In addition, the series has a shorter history. Accordingly as an interim measure we are using the seasonally adjusted NORSI Corporate series as a proxy for the total online index.

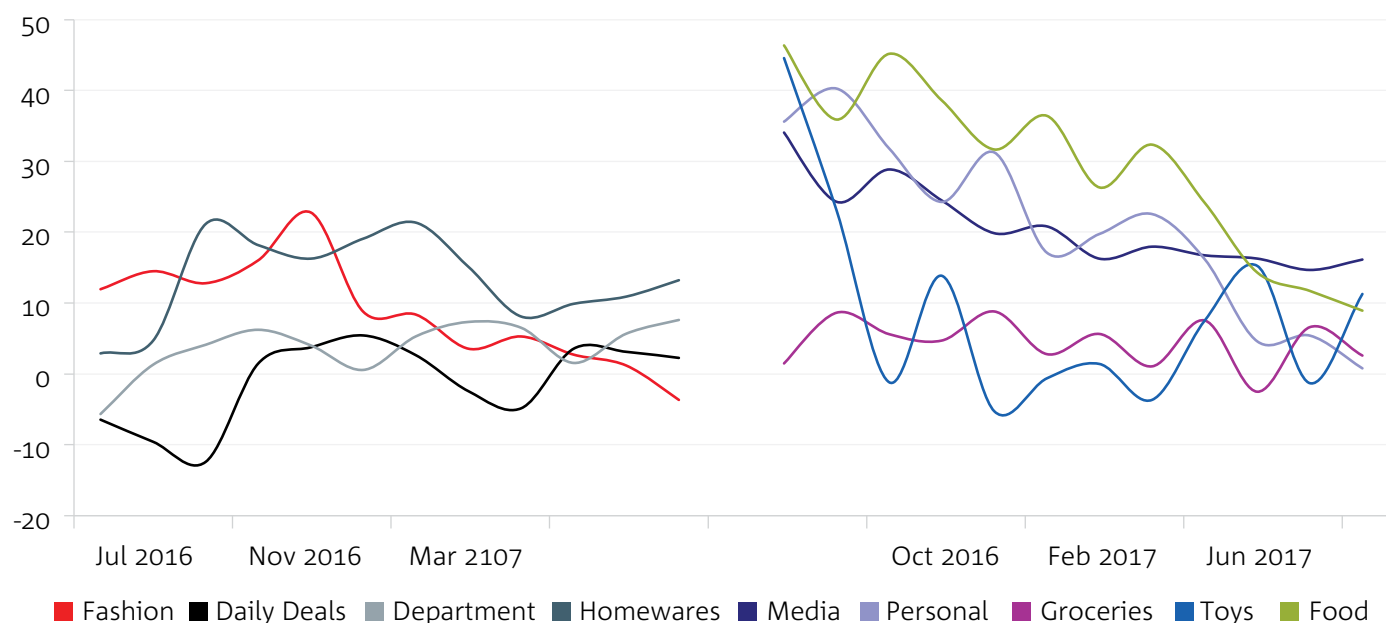
Key retail statistics

	April 2017	May 2017	June 2017
Monthly growth (%)			
Corporate	-0.7	1.4	0.7
SMEs	-2.0	11	-1.6
Annual growth (%)			
Corporate	7.6	8.2	7.6
SMEs	9.4	22.2	17.6

Source: NAB Online Retail Sales Index - Quarterly Update - June 2017

Over the year to June, Media had the fastest annual online sales growth. Online sales of Media, which represent things like streaming services has generally higher less volatile monthly growth than other categories. Homeware and Appliances retain the largest share of spend.

Annual growth of spending, by category (year on year percentage)



Source: NAB Online Retail Sales Index - Quarterly Update - June 2017

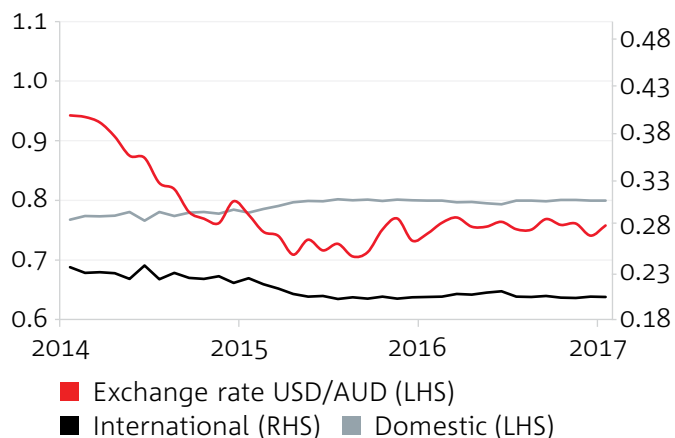
Category growth and share of spending

In year on year terms, large spend shares in Media and Homewares and Appliances have expanded rapidly.

	Annual growth (June 2017)	Share of total spending	Contribution to annual total spending growth
	%	%	%
Fashion	-2.6%	15.5%	11.6%
Daily Deals	3.1%	2.3%	0.0%
Department	8.4%	8.2%	3.0%
Homeware	13.8%	20.1%	22.1%
Media	16.7%	17.2%	26.3%
Personal	1.7%	9.6%	14.2%
Groceries	3.5%	16.6%	7.3%
Toys	11.9%	3.8%	2.4%
Food	9.6%	6.7%	13.0%
Total	7.6%	100%	100%

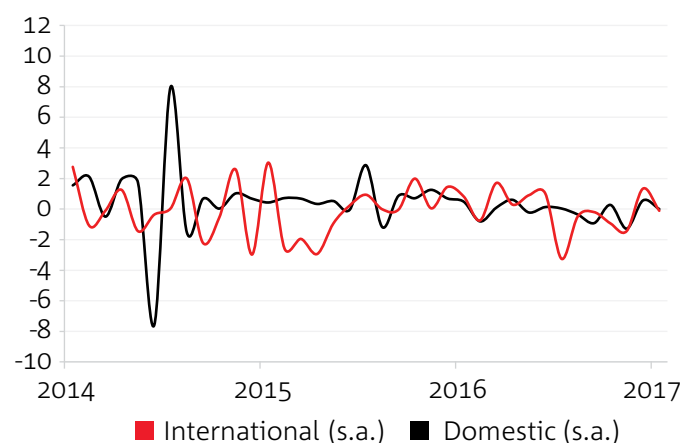
Note: Daily deal sites release for sale a single product or range of products each day. Media comprises movies, books and music.

Share of international and domestic online sales vs USD/AUD exchange rate



Source: NAB Online Retail Sales Index - Quarterly Update - June 2017

Growth of online sales, by retail location (month on month percentage)



Source: NAB Online Retail Sales Index - Quarterly Update - June 2017

International vs domestic - by category

Areas of significant overall online spend such as Groceries, Personal and Homewares are also areas where domestic online retailers dominate.

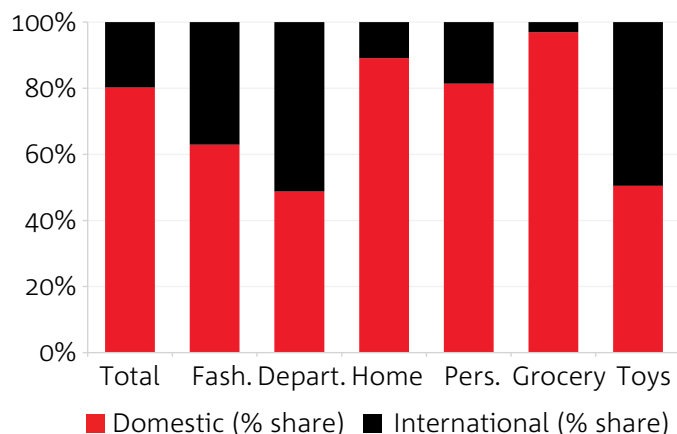
Department stores now join Electronic Game and Toy retailing in having a greater share of spend (albeit marginal) attributed to international retailers. To put this in perspective, it is worth noting that in total these two categories represent small shares of overall spend in the index (around 12% combined).

Domestic retailers still capture the majority of spending in our index.

In year on year terms, growth for domestic retailers has been particularly buoyant in Toys, Personal and Recreational goods.

For international retailers, growth was strongest in Homewares and appliances, Department stores and Fashion, all of which contracted for domestic counterparts.

Share of annual spend by category (percentage)



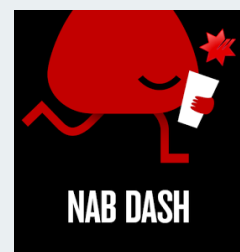
NAB Online Retail Sales Index - Quarterly Update - June 2017

"Food catering continues its rapid rise, with strong growth in New South Wales and Queensland, particularly with new online meal delivery aggregators."

– Wade Tubman, Quantum

NAB works with Start Up to develop order ahead solution

There is now over 7.5 billion¹ mobile phone subscriptions globally, of which some 3.9 billion² subscriptions are using smart phones.



The mobile phone is increasingly becoming the 'remote control' for consumers lives with these devices enabling consumers to do everything from mobile banking, social media, ordering taxis and chats with their friends via various messenger platforms.

For our retail corporate customers, having a mobile first strategy is becoming central to how they engage with their customers, improve the customer experience, make payments and enhance customer advocacy.

Illustrative of this shift Starbucks are increasingly engaging with their consumers via their digital app enabling mobile ordering and payment in a 'frictionless' way. From Starbucks' perspective it enables them to better understand their customer's preference and increase the velocity of the serving and ordering process thereby improving the customer experience. By 2020, Mobile ordering is expected to be a US\$20 billion industry in the US accounting for 10% of Fast Food sales.

In responding to these global shifts NAB has worked closely with a start-up to build an order ahead app, called NAB DASH, as a proof of concept.

The NAB DASH app, which debuted at the Metricon Stadium during the 2016 football season, allows users to order and pay for their food and drinks by phone using location based technology to alert staff when the customer approaches the food counter.

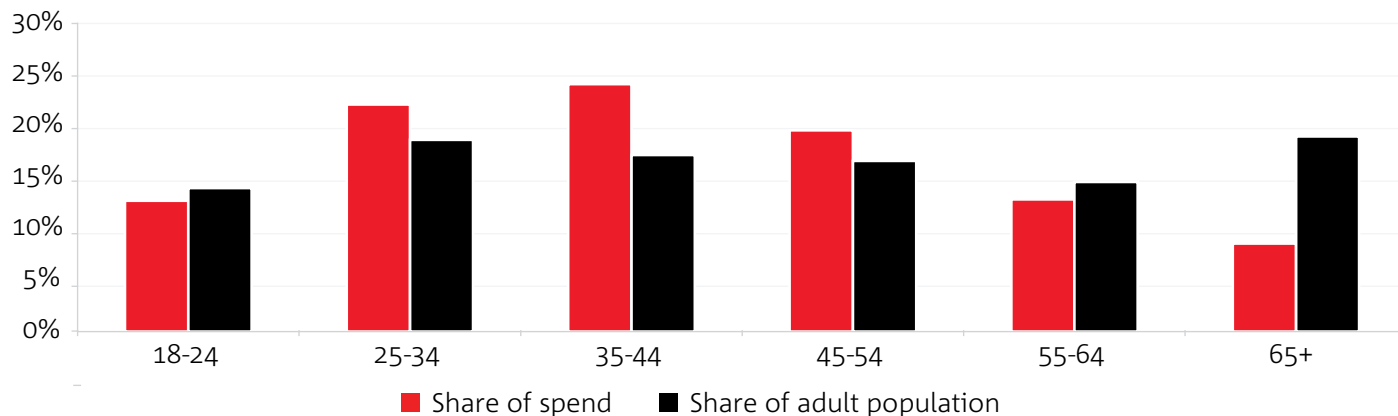
1. Ericsson Mobility Report June 2017



Performance of age groups

Online spending remains dominated by those aged between 35 and 44. Growth in the month was strongest for this group and the second largest group, the 45-54 year olds. Growth was weakest for the small spend share group of the over 65s and 18-24 year olds.

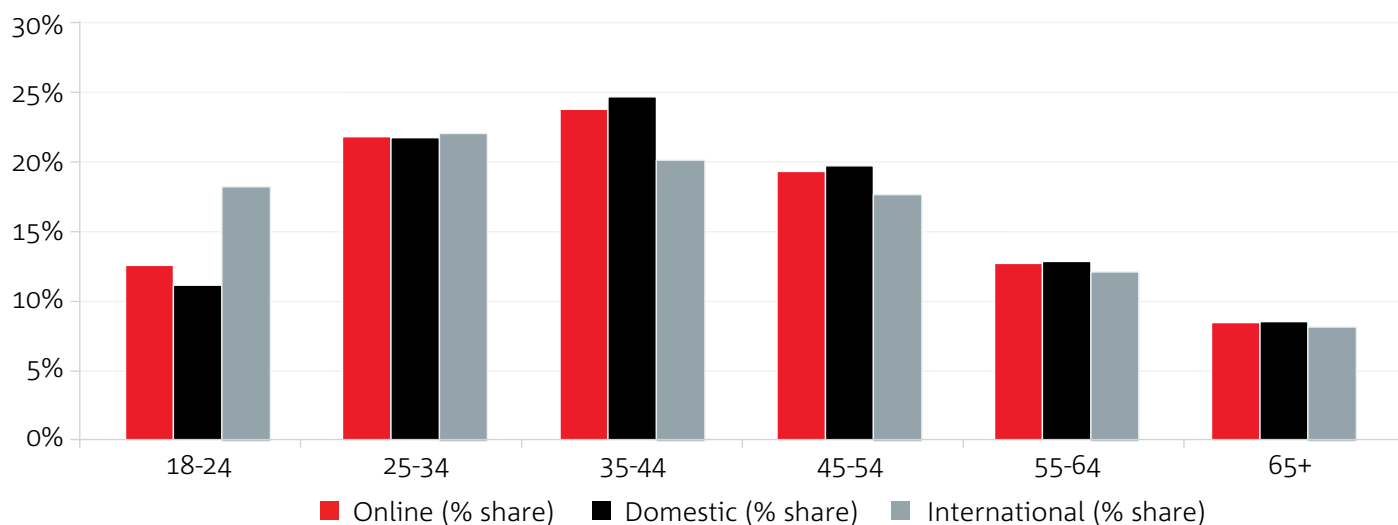
Share of spending, by age group (annual percentage)



Source: NAB Online Retail Sales Index - Quarterly Update - June 2017

Those aged 35-44 make up approximately 17.0% of the adult population, but their share of online spend is the highest at 24.0%. In contrast, over 65s make up 19.3% of the population and only 8.5% of online spend.

Share of spending, by age group and location (annual percentage)



Source: NAB Online Retail Sales Index - Quarterly Update - June 2017

Age groups by category

Spending patterns vary across age groups. On average, Homeware and Appliance Stores is where the share of spend is highest, particularly true of those aged 45+. However, those aged between 18 and 34 favour Fashion; while the over 65s favour Groceries and Liquor.

	Fashion	Daily Deals	Dep. & Variety Stores	Homeware & Appliances	Media	Personal & Recreational Goods	Groceries & Liquor	Electronic Games & Toys	Takeaway Food
18-24	20.9%	1.4%	6.1%	15.6%	20.5%	7.7%	4.4%	12.1%	11.3%
25-34	17.9%	2.4%	7.8%	17.0%	18.0%	8.4%	13.9%	4.1%	10.6%
35-44	14.7%	2.6%	8.5%	19.2%	16.9%	9.9%	19.4%	2.6%	6.3%
45-54	14.3%	2.5%	8.8%	22.4%	17.0%	10.7%	17.1%	2.6%	4.6%
55-64	12.7%	2.5%	9.5%	24.9%	16.0%	11.0%	19.3%	1.2%	2.8%
65+	10.1%	1.7%	8.7%	25.1%	13.7%	9.6%	28.9%	0.8%	1.4%
All ages	15.5%	2.3%	8.2%	20.1%	17.2%	9.6%	16.6%	3.8%	6.7%

Note: Daily deal sites release for sale a single product or range of products each day. Media comprises movies, books and music.

Age groups - international/domestic

Most age categories total online share is similar to their share of domestic spend, with one exception – those aged 18 to 24 – making up more of the share of international online retail sales than they do domestically. Conversely, those aged 35 to 44 make up more of the domestic share, the group with the largest overall online spend. Those aged 25-34 represent the largest share of international spend.

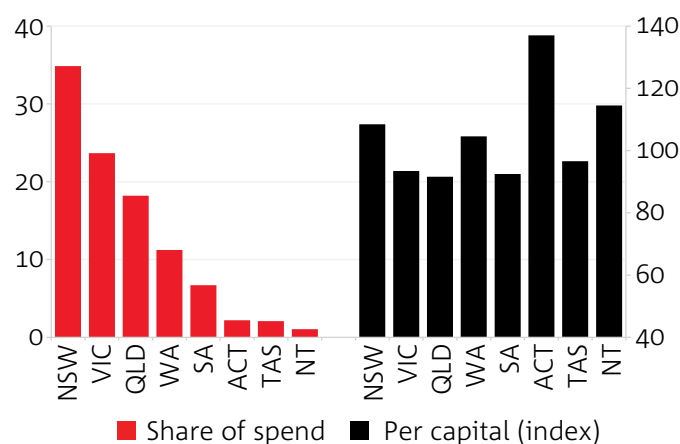
State performance

Residents of the bigger eastern states of NSW, VIC and QLD spend more online. ACT residents have the highest per capita spending, followed by NT, NSW and WA.

Almost 77% of total online spending in the past year was made by residents from the three largest states (NSW, VIC and QLD) whose combined population accounts for a little over 77% of the Australian total.

On the other hand, those in TAS, QLD, VIC and SA were spending less per person than the national average. Victoria for example, is home to 25.2% of the Australian population yet represents only 24.0% of total online spending, although this share is up marginally on March (23.8%).

Share of spending, by state (annual percentage)



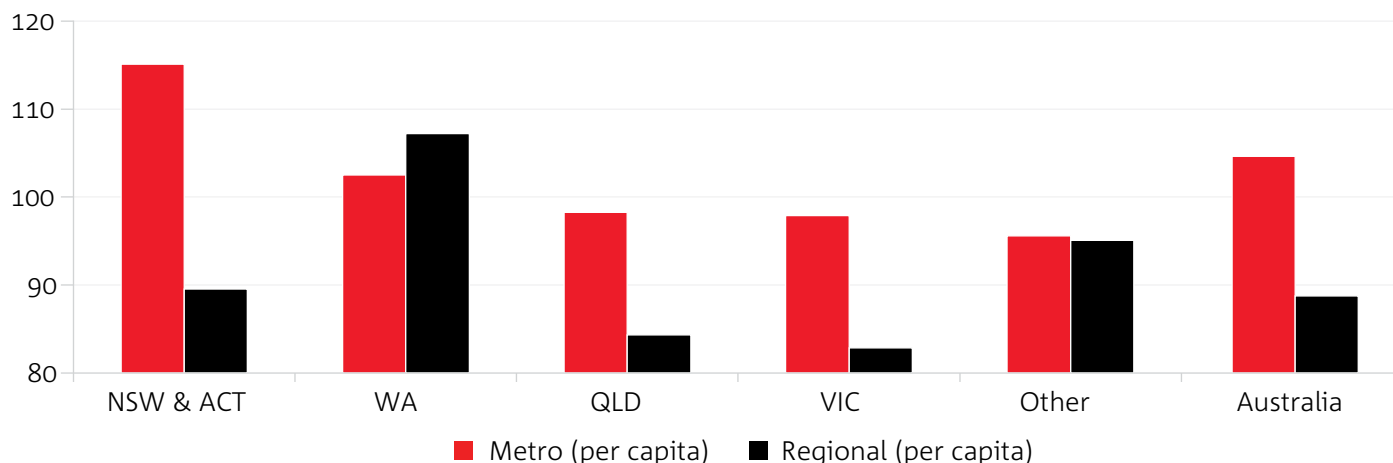
Source: NAB Online Retail Sales Index - Quarterly Update - June 2017

Metropolitan and regional performance

Metropolitan residents retain the largest share of spend on average around 17.3% more than those residing in regional Australia. However, those living in regional Western Australia spend about 5% more than the average Australian.

Metro NSW/ACT continues to lead per-capita spend, with WA highest per-capita in regional areas. Regional Victorian and regional Queensland residents remain below the national average.

Per capita spending index (Australia = 100)



Source: NAB Online Retail Sales Index - Quarterly Update - June 2017

Shining light in dark spaces – the evolving role of Big Data in retail

In May 2016, NAB Ventures became a shareholder in Sydney-based company, Data Republic.

The Sydney based start-up enables Government and companies to exchange data in a secure environment.

Retailers, airlines, banks, telecommunication providers and other companies are increasingly looking at sharing data with appropriate legal, security and governance frameworks to support customer-led innovation and insights.

A practical example of this was adoption by a large retailer of data as part of Control Store Testing.

Situation: Retailer Inc. has a proposed plan to reinvent the aisles of its store. The changes include new signage, a bespoke range, and adjacencies based on the customer insights which they're hoping to test in a few stores before rolling out changes across all of Australia.

Challenge: While Retailer Inc. has good internal data on their stores, the results need to show whether or not the changes were successful at (1) improving individual store sales and (2) capturing greater market share.

Solution: Partnering with a specialist in retail analytics, a proper test and learn methodology was devised. A sample of test stores were selected which were representative of the Australian market based on historical market place data from Bank Inc. In addition to a tightly matched set of control stores were selected to monitor the relative changes.

Outcome: In the end, while all the test stores outpaced the controls in terms of sales, it was the value segment of stores that met the objective to grow market share. The decision was made to roll out the changes to all of the value segment stores across Australia while withholding the other segments to rework the solution for further testing.



8. KEY CONSIDERATIONS FOR 2017 AND BEYOND

Customer experience

Retailers that focus on great customer experiences can set themselves apart from their competitors.

Some of the areas that can support this include:

- **Personalisation** – A recent Accenture Interactive study illustrated that “56% of consumers are more likely to shop at a retailer in store or online that recognises them by name.”
- **Logistics** – Same-day shipping is becoming increasingly prominent.
- **Omni-channel** – Consumers are increasingly wanting to engage with retailers via their channel of choice whether a retail store, mobile app or website.

Retail store

Consumers are increasingly seeking an ‘in-store experience’ given the alternative channels on offer and the need to differentiate the store as a destination.

Mobile

Increasingly the mobile phone is becoming the ‘remote control’ for people’s lives. Mobile Contactless Payments are expected to double by 2021. According to TechCrunch there were 447.9m mobile payment users worldwide at the end of 2016 with mobile payments anticipated to exceed US\$60bn globally by end of 2017.

Increasingly mobile apps are becoming the customer engagement platform of choice for Generation Z and Millennials.

Innovation, agile & digital are the new normal

The interplay between emerging technology, changing customer expectations and new business models are requiring all retailers to embrace customer-led Innovation, digital and more agile processes that are responding to shifts in customer needs. Examples of the shifts underway include emerging areas around interactive store displays, radio frequency identification stock tagging, mobile apps, digital customer service, social media analytics and engagement, voice search etc...

Data

Data will become an increasingly important component of a retail strategy from supply chain through to post purchase consumer experience.

Channels

As new digital channels emerge such as mobile, voice search, AR/VR and IoT new business models are emerging that reflect the nature and experience of the engagement with the customer.

Important information

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