



dentsu

**RETAIL
EVOLUTION
2023**

AUSTRALIA

ABOUT THIS PIECE

This report is an evolution of the Future of Retail, reviewing the events of 2022 and the future implications for retail success and innovation in 2023 and beyond.

In this climate of geopolitical and financial uncertainty, we also wanted to explore how Australian consumers are feeling about their financial situation and the Australian economy and what they are buying and cutting back on.

Our analysis was based on our DISCUS survey – conducted as an online survey with fieldwork running each week from Monday to Friday. We recruit n=400 randomly selected Australians 16+ from an online panel each week. The sample is recruited with specific nationally representative quotas in mind; based upon age, gender and location – as well as extensive secondary research from various sources.

KEY CHALLENGES REMAIN BUT SAVVY RETAILERS ARE TURNING THEM INTO OPPORTUNITIES

After a very strong year for retail, the last quarter of 2022, and particularly December showed the beginning of a slowdown in consumer spend. Most experts predict a more difficult 2023, as consumer sentiment starts to be reflected in consumer behaviour. The rising cost of living, higher housing costs and mortgage payments within a global backdrop of uncertainty will have a negative impact on consumers' sentiment and spending in 2023. According to the ABS¹ retail sales volumes fell 0.6 % in the March quarter of 2023.

In addition, the industry continues to face other ongoing challenges, in Australia, but also globally. Businesses face staff-shortages and difficulties finding, training, and retaining 'human' talent, but at the same time a 'new retail workforce' is shaping; the use of digital humans continues to advance at a fast pace, some retailers are already using them as chat bots and influencers, or to model fashion online and help with customer fittings² like Japanese fashion brand ZOZOtown, and AI companies such as Soul Machines, are now offering GPT-3 integrated digital influencers like Suki. Other retailers are opting for 100% automation solutions: Buddy's bar, a new bar in Sydney's Newtown has no bartenders and in December 2022, McDonalds opened its first fully automated restaurant in Texas.

Supply chain issues are likely to continue at least until mid-2023 according to ARA. Management of supply chains and inventory visibility and optimisation should be a key area of focus for retailers in 2023 and moving forward, considering that 65% of AU customers experience stockouts, with nearly 40% of those going to a different retailer for the same or a similar product³ but technology is helping; and RFID, smart shelves, robots, cloud computing and machine learning keep gaining momentum for stock management and inventory optimisation.





In July 2022, Hugo Boss rolled out RFID technology globally in all its stores and Intel is currently working on AI powered smart shelves to determine out of stock products and to deliver personalised experiences at point of sale.

Last mile continues to be a challenge for all retailers, as it is probably the most complex and expensive part of the supply chain, but a key part of the shopping experience for customers. Our own research shows that online delivery delays (36%) was the biggest source of frustration when shopping online during the 2020 COVID-19 outbreak and current 2023 DISCUS data shows that cost of delivery (35%) and not wanting to wait for delivery (29%) are two of the main reasons stopping Australian consumers from shopping online after the desire for a physical experience. Brands are tapping into innovation and exceptional delivery customer service to satisfy consumers demand for faster and better last mile experiences. In November, Coles tested a pilot drone delivery service in the Gold Coast and some premium fashion brands are partnering with luxury courier services such as British' Toshi or Harper Concierge⁴ to handle at home adjustments and returns; with the launch in August 2022 of Amazon free one-day delivery for Prime members in Sydney and Melbourne, Amazon is again setting new expectations for consumers and a new benchmark for retailers in this space.

Despite research showing that most Australians (53%) will be more loyal to retailers that offer seamless cross channel experiences⁵, retailers are still playing catch up and only ¼ of Australian retailers let consumers start transactions on one channel and complete them in the other⁶. Savvy retailers such as Walmart, Nike or Zara are leading the way, evolving omnichannel experiences to reduce consumer friction and implementing more flexible options such as BOPIS, ROPIS, 'fulfilment stores' and other new 'omni services.' The aim is to get closer to the customer and satisfy their expectations whilst trying to reduce the massive costs of delivery and returns.



WHAT CONSUMERS ARE TELLING US RIGHT NOW

As Australian consumers are increasingly impacted by the rising cost of living and inflationary pressures, we have asked them how they feel. We have also asked about their main concerns and whether they are cutting down on expenses or planning to cut down on expenses in the next 6 months.



HIGH LEVELS OF CONCERN

Consumers main fears at present are the Australia's economy (30%), Climate change (15%) and the Housing market (14%).

56% are moderately to extremely concerned about their current financial situation (14% are not concerned at all. 23% Baby Boomers are not concerned at all). 71% are moderately to extremely concerned about the strength of the Australian economy at this point.

Women are showing higher levels of concern about the Australian Economy - 73% of women are 'moderately to extremely concerned' vs. 68% of men. When asked to rate their level of confidence in the Australian housing market, the average Australian gave a rating of 41/100; men 45/100 and women 36/100.

Consumers are focusing on the essentials; the average Australian is allocating 37% of their income to housing and essentials (e.g. mortgage, rent, utilities, essential bills) and 26% of their income to groceries.

56%

Over half of Australians are moderately to extremely concerned about their current financial situation.

BUT TRYING TO STAY CALM AND IN CONTROL

When we asked them about their most dominant emotions, some were negative; 'Anxious' (19%), 'Depressed' (11%), 'Sad' (6%), 'Bored' (6%) and Angry (4%) but also positive; 'Calm' (16%), 'Grateful' (11%), 'In-control' (10%), 'Hopeful' (9%) and 'Joy' (8%). Our DISCUS survey is showing that overall Australians are still feeling slightly more positive than negative emotions. When we asked them what they need now, they responded that Security (19%), Stability (13%), Positivity (11%), Freedom (10%) and Normalcy (9%).

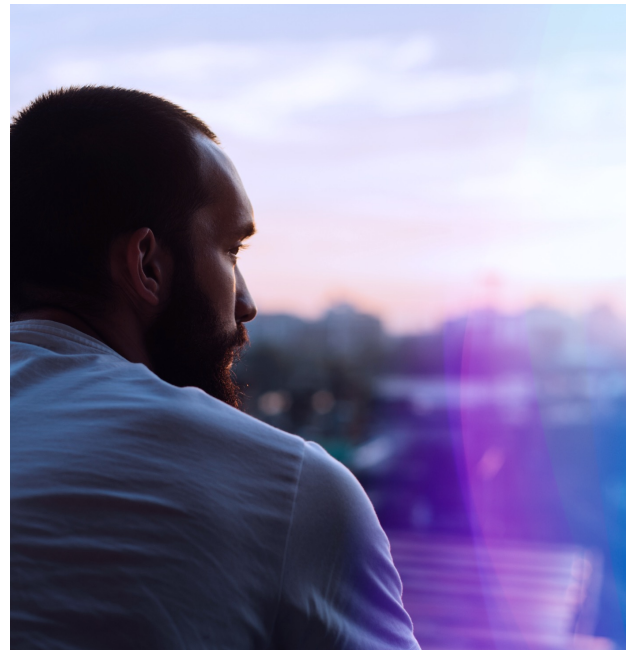


THE 'GREAT CUT BACK'

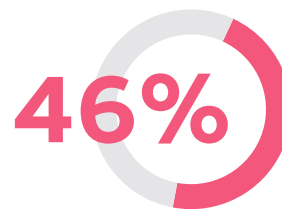
Consumers are trying to stay in control of their finances, and they are cutting down on expenses. When we asked Australians about the methods they are currently using to cut down on expenses, 60% responded that they are cooking more meals at home, 54% are dining out less frequently, 54% are purchasing cheaper groceries, 49% are delaying major purchases (i.e., car, home appliances), 48% are cutting back on other entertainment outside of home (i.e., movies, concerts), 47% are cutting back on food delivery, 45% are dining out at cheaper establishments, 44% are cutting back on international or domestic travel, 43% are switching to home / white label brands, 40% are cutting back on paid gym/ sports fees and 35% are purchasing more or started to purchase more second-hand items. 22% respondents have no plans to cut down on expenses.

The global subscription e-commerce market size is expected to reach \$904.2 billion by 2026⁷ but many small DTC subscription services may not survive the 'Great Cancellation' already felt in the UK and the US. Australian consumers are certainly cutting back on entertainment subscriptions. Australians cancelled more than 1.3 million video streaming accounts in the December quarter and data show that they continue to do so in 2023⁸. Our research shows that 29% are currently cancelling entertainment subscriptions (i.e., Netflix, Stan) to cut down on expenses.

Luxury fashion, jewellery & accessories and electronics & white goods are the categories most impacted by cuts in spending.



When we asked Australians about the methods they are using to cut down on expenses



Are switching to cheaper brands

When we asked consumers about the method they would consider to cut down on expenses in the next 6 months, the outlook looks more positive. Less respondents are planning on cutting back across all categories and the number of people that have no plans to cut down on expenses increased to 39% (from 22%). It will be interesting to see if this 'Great cut back' is short-lived and whether these more positive intentions will translate into actions in the next 6 months.

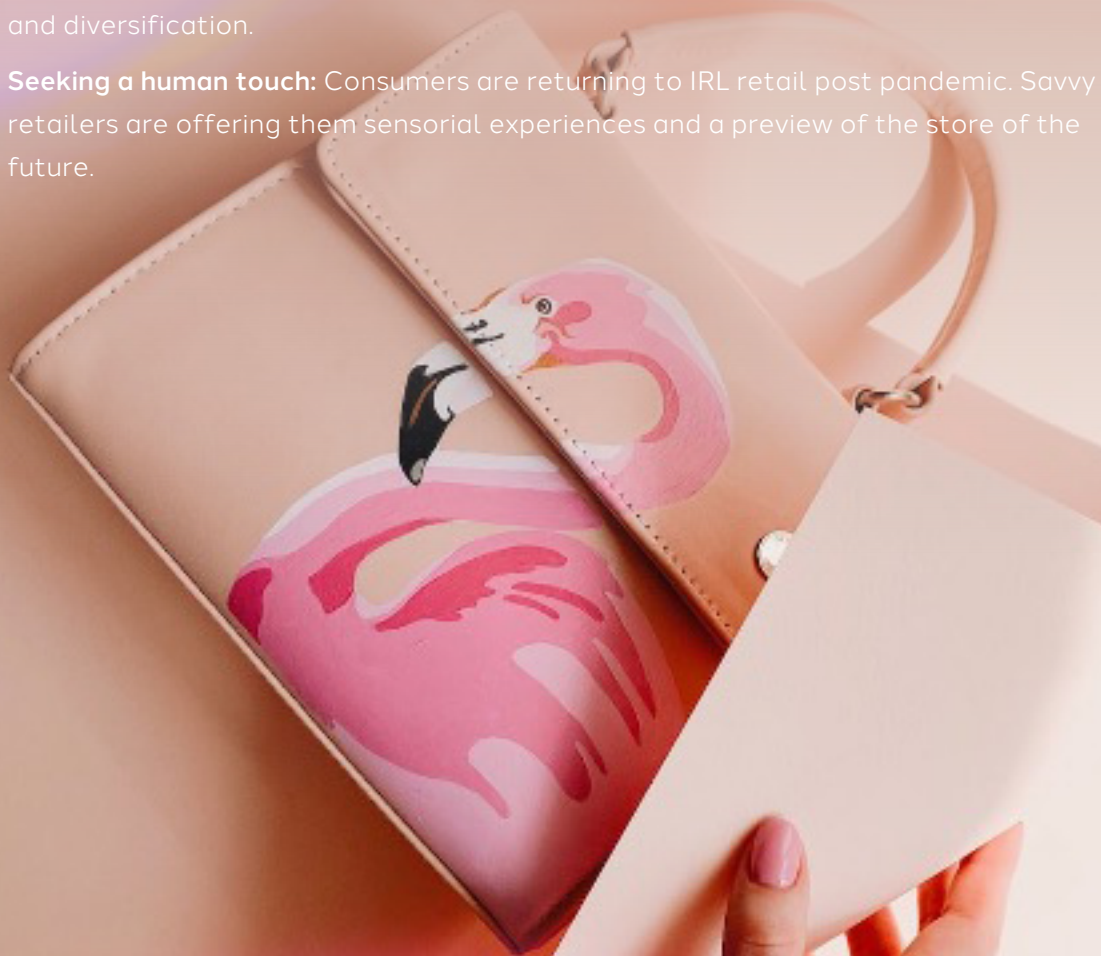
QUESTIONS FOR BRANDS AND RETAILERS

1. How can we best align our marketing strategy with consumers' needs and concerns for 2023?
2. How can we design new commerce strategies to help consumers feel in control of their budgets?
3. Are we providing them with the security, stability and positivity they need right now?
4. Are we clearly and transparently communicating how we are supporting them via price discounts, loyalty and re-commerce schemes? Are we transparently communicating price increases and why this is happening?

WHAT WE EXPECT FOR RETAIL IN 2023

In 2023 we expect 4 sub trends that stem from the main retail trends identified in the [dentsu Shopper DNA: The Future of Retail](#)

- **Pragmatic sustainability:** In 2023 sustainable actions will be a lifestyle choice but also an economic necessity.
- **Subtle Tech:** Retailers are turning to technology to future proof their business, cut costs, and deliver better CX. However, moving forward it is important to find the right balance between human and automated experiences. Technology should be useful, convenient, and unobtrusive.
- **Battle of Titans (for the customer, their data & the media)** Titan brands continue their battle for consumers, their data and the media in their never-ending quest for growth and diversification.
- **Seeking a human touch:** Consumers are returning to IRL retail post pandemic. Savvy retailers are offering them sensorial experiences and a preview of the store of the future.



PRAGMATIC SUSTAINABILITY

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Sustainable products have seen sales grow 5.6 times faster than those not marketed as sustainable.

Harvard Business Review

In 2023 we will see that sustainable values & habits and the cost-of-living crisis will encourage many consumers to reduce their consumption. Sustainable actions will be a lifestyle choice but also an economic necessity. Actions like buying second hand items, repairing products instead of throwing them away, driving less to control petrol spending or cutting back on heating, electricity or water consumption to manage utility bills will be pervasive in 2023.

Our research shows that 35% respondents are currently purchasing more or start to purchase more second-hand items to cut down on expenses.

Whilst research shows that 80% of consumers now prefer to buy brands that align with their values⁹ recent APAC dentsu Kantar research shows that there is still a disconnect between consumer intention and action when it comes to sustainable consumption, and one of the most common challenges for marketers (56%) is convincing consumers to walk the talk, as few people who report positive attitudes toward ecofriendly products and services follow through with their wallets¹⁰. There are obviously a wide range of reasons behind this consumer behaviour but there is no doubt that there is still a big gap in the market for brands to make cost-effective products that align with consumers' environmental values.





SUBTLE TECH

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60% of organisations in Australia will scale up their robotic process automation (RPA) or achieve an enterprise-wide RPA by 2025.

UiPath

The retail sector continues to increase the adoption of automation. It is estimated that 40% of the sector is now automated, but this could jump to 60-65% over the next three to four years¹¹. In 2022, we have seen an expansion of automated stores and an increase in the number of self-checkouts and automated interfaces or robots in stores as well as AI and industrial robots in supply chains. AI and machine learning are also increasingly used to personalise shopping experiences or to forecast demand.

Australian retailers have faced many challenges during the past few years. From COVID lockdowns and rapid changes in consumer behaviour, to supply chain issues, labour shortages and inflationary pressures. Retailers are relying on technology to future proof their businesses¹², improve their bottom line and deliver the omnichannel, convenient and hyper-personalised CX that consumers increasingly demand.

However, technology should be useful, convenient and unobtrusive and moving forward it is important to find the right balance between human and automated experiences, an example of this is the move by some retailers from online AI bots to more traditional 'human' SMS customer service as consumers seek a human touch in digital channels.¹³

BATTLE OF TITANS (FOR THE CUSTOMER, THEIR DATA & THE MEDIA)

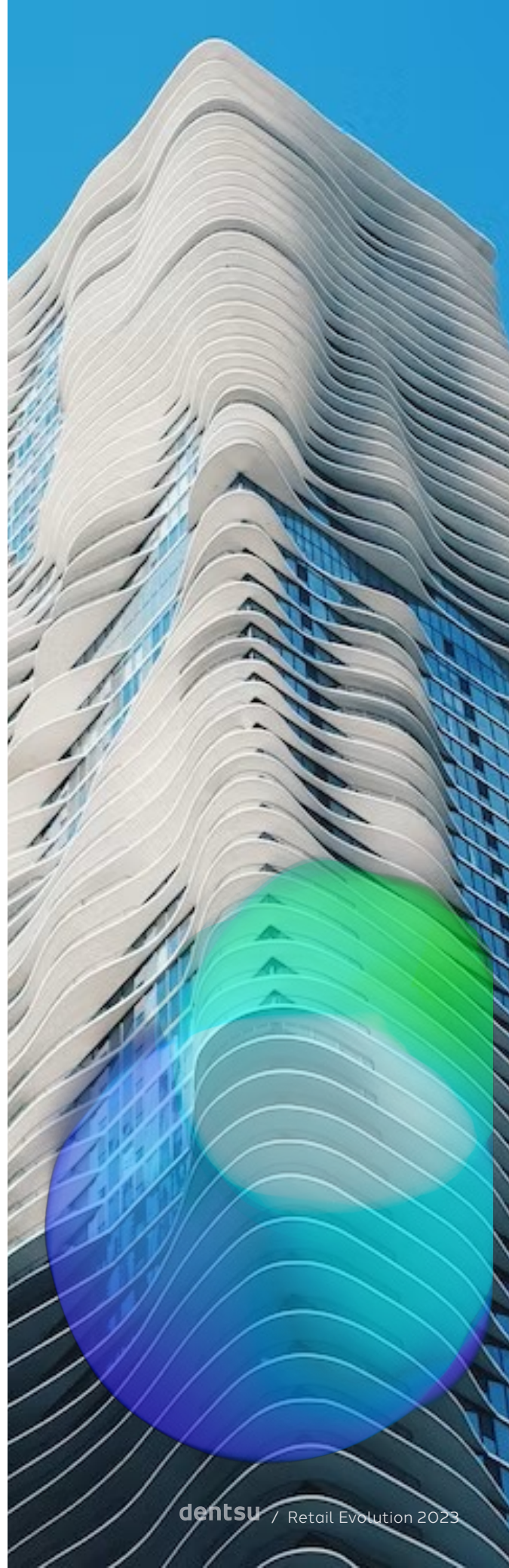
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RMNs will be the third big wave
in digital advertising following
search and social.

eMarketer

Titan brands continue their battle for consumers, their data, and the media in their never-ending quest for growth and diversification. The Growth of RMN's (Retail Media Networks) accelerated in 2022 and according to Forbes is now the fastest growing ad-supported digital media channel. eMarketer estimates that Amazon's net ad revenues in 2023 will be more than Google and Meta combined¹⁴.

Consumers' data is the force behind the rapid growth of retail media networks, and it is also at the core of other Titan Brands such as Google and Meta. The meteoric growth of Amazon as a retail media network shows that Titan Brands can diversify and scale very quickly, gaining competitive advantage in new verticals as they sit on an extremely valuable pool of data and predictive insights into their customers. More importantly, consumers respond to this 'serendipity' and consistent CX with loyalty. Our Consumer Vision shows that by 2030 Titan Brands will be a one-stop-shop for most consumers' needs. Foresight Factory research demonstrates that the more people use one brand (such as Amazon) for services today, the more open they are to offerings from the same brand in the future.





2023 SEEKING A HUMAN TOUCH

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1 in 10 Australians admitted to calling customer service just to hear a human voice.

Genesys

While eCommerce remains very strong in Australia and will continue to grow and potentially dominate retail in the future, it only represents 18% of the market at present¹⁵. Consumers have been returning to brick-and-mortar-stores to enjoy the tactile/ human experience and to discover new products post COVID-19.

IT'S NOT PHYSICAL VS DIGITAL. IT'S BOTH.

Australia Post shows that retailers with physical stores and online presence show a collective 7% increase in share of online spend compared to 2019 and the Ayden Australia Retail Report 2022¹⁶ highlights that 51% of Aussie consumers are more loyal to retailers who have brick-and-mortar stores and online stores, 48% of customers said personalised customer service was another reason for in-store popularity.

Our own DISCUS research shows that **most Australians shop instore or primarily instore:**

- 38%** say they shop primarily instore but will purchase some items online.
- 30%** only shop instore.
- 18%** shop instore and online equally.
- 12%** shop primarily online but will purchase some items instore.





The **main barriers to shopping online** are that

- 48%** like to physically see or touch the items they purchase.
- 35%** enjoy shopping and browsing instore.
- 35%** the cost of delivery is too high.
- 29%** don't like waiting for delivery.



One of the primary benefits of in-person shopping is immediacy, **29% don't like waiting for delivery** which means that same-day online delivery could potentially become more appealing than physically going to the store for a significant segment of consumers.

 **Women** (51%) are more likely than men (44%) to say that like to physically see or touch the items they purchase; they are also more likely to say that the cost of delivery is too high (41%) or that they never meet the minimum amount for delivery (16%).

 **Men** are more likely to say that they like to get expert advice from staff members (14%).



Boomers are the generation most likely to say they like to physically see or touch the items

they purchase (61%) they are also more likely to enjoy shopping or browsing instore (40%) and to get expert advice from staff members (15%). They are also more likely to say that they don't like to share personal details online (credit card details, address) 22%.

The **main barriers to shopping instore** are

- 27%** crowds
- 27%** better deals online
- 24%** better prices online
- 24%** enjoy shopping & browsing online.



Women are more likely than men to say they don't like crowds (31% vs 23%) and they are they are also more likely to say that they enjoy shopping and browsing online (28% vs 19%).



Millennials are more likely to say that they like to have their shopping delivered, compared with the other generations (18%), they are also more likely to say that it is hard to find what they want instore (23%), and that they don't like talking to staff members (18%). **Gen Z** are more likely to say that there is better availability of product online (31%), that shops are too far away/ it's difficult for me to go to the shop (27%). They are also more likely to say that they don't like talking to staff members (18%) and that their favourite brands don't have a physical store (18%).

Research from Genesys¹⁷ shows that Australian consumers feel most strongly (69%) that a company is only as good as its customer service, compared to the rest of APAC. An empathetic experience was ranked as the highest importance, and 58% agreed they will choose an empathetic experience over a speedy resolution. Australians want customer service employees to listen to them (84%), understand their needs (82%) and provide consistent answers (81%). As retail automation increases, 'real' human service and skills will be increasingly positioned and sold as a premium product or service proposition to consumers.



QUESTIONS FOR BRANDS AND RETAILERS

2023 will keep brands and retailers on their toes, acting as a reminder that agility must go hand in hand with uncertain times. However, agility doesn't mean inconsistency. In a context of declining loyalty and fleetly consumers, brands and retailers need to be consistent. Our research shows that 'Reliability' and 'Customer First' are the two most important 'trust' attributes for consumers when it comes to the retail industry. Some questions that brands and marketers need to ask themselves in this climate of declining loyalty are:

- 1** Do our customers trust us?
Are we truly reliable and customer first?
- 2** Do we really understand their values? Are we providing consumers with cost-effective products that align with these values?
- 3** How can we keep our customers truly satisfied so they want to return to us?

2023 will be a year that will challenge consumers' and retailers' readiness and resilience but also a year that will offer us a small preview of the retail outlook of the future. A year of growth and transformation for those retailers that keep evolving with consumers' needs and responsibly embrace the many opportunities that game-changing technologies have to offer. Some questions that brands and marketers need to ask themselves in this context of technological change are:

- 4** Are we responsibly adopting these new technologies?
- 5** Are we protecting consumers data and only using it to deliver better experiences for them?
- 6** Are we deploying the right balance between technology and the human experiences that our customers still demand?

RETAIL EVOLUTION ROADMAP



2019 (PRE-COVID)

"HEMA" pioneers blended shopping experiences.

'Spectacular' retail.

DTC trend.



2020/21

eCommerce growth.

'Quick' commerce - direct/functional consumers.

Titan Brands start to diversify.



2022

Retail 'everywhere'.

Metaverse retail.

Growth of DTC and D2A (Direct-to-avatar)



2023

"Buy it anywhere from anyone."

eCommerce (18% of market in 2023*) and MCommerce continue momentum.

IRL stores focused on providing immersive experiences, exceptional customer service and a human touch.

AI Retail: AI and machine learning for personalisation.

Re-commerce.



2030

Omniscient retail.

Consumer scoring. Brands will be able to rank consumers offering special products/services to '5 star consumers' and refusing to sell to others.

First global drone delivery system.



2040

Most transactions will happen online, VR and AR will provide more immersive experiences.

Physical stores will be smaller, more curated showrooms.

Custom products on demand.

Drone/robot delivery.



2050

eCommerce domination.

'Self-stores': Hyper-personalised physical stores or local community stores.

'Instantaneous' delivery.

Green retail or no retail.

Custom products on demand i.e. 3D printing.



THANK YOU

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