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Introduction

Executive summary

Welcome to the eighth annual edition of the Deloitte Retailers' Christmas Survey. In the lead up to the Christmas trading period we surveyed a cross-section of executives and senior management from retailers operating in Australia about their expectations for Christmas 2019 and beyond. The report analyses retailers' sentiment for the Christmas period, key trends, expectations and priorities of Australian retailers for 2020.



Finding the recipe for Christmas success

After a challenging start to FY19 for many retailers, we saw some improvement across a number of categories including grocery which has benefited from some much-needed price inflation. Despite this, it has proven to be a challenging year so far for many. Some of 47% of our respondents told us they'd experienced flat or negative sales growth over the past 12 months.

This is reflected in the macro-economic situation, with a 1.3% increase in retail turnover compared to 2.5% in the previous year¹. Many retailers were pinning their hopes on the Federal Government's tax cuts, which were expected to have their largest impact during the September quarter. However, the latest trading data suggests consumers have chosen to keep much of these tax benefits in their pockets... retailers are no doubt hoping they've been saving up for Christmas.

These challenging market conditions seem to be affecting the optimism of retailers this Christmas. Just over half of respondents are expecting to increase their sales, compared to 80% in the prior year. This is the most pessimistic we've seen retailers since 2013 and the story doesn't stop there. Just under 40% of retailers are expecting to experience a decrease in margins this Christmas – compared to just 13% in 2018.

Every cloud has a silver lining

But it's not all bad news for retailers. Online sales continue to be a standout area of growth as investments in online platforms and distribution networks begins to bear fruit. Four out of ten retailers are expecting to grow their retail sales by between 10-30% in FY19. Whilst these growth rates aren't quite as strong as previous years, the higher baseline of online sales means that in dollar terms this is very positive.

Christmas sales

As always, when to discount and by how much remains a critical decision for retailers over the holiday period. Last year retailers told us they were intent on holding strong. But with difficult trading conditions this will be challenging, with 39% of retailers planning to discount before Christmas compared to 31% in FY18. And with the proliferation of sales campaigns in the lead up to December such as Black Friday, many retailers are concerned this will simply result in bringing forward Christmas trading at discounted prices.

Tilting to the customer

With increasing cost pressures, together with the impact of digital on consumer behaviours, many retailers have neglected the importance of customer service. Our survey suggests we can expect a very different customer experience this Christmas. Just behind digital and omni-channel at 28%, retailers' single most important focus to increase sales this Christmas is customer service at 26% with both of these priorities working together to enhance the customer experience. This is a really pleasing result – both because we believe it's a winning strategy for retailers and hopefully will also bring a lot of pleasure to Australian shoppers this Christmas.

Profit and purpose

Increasingly consumers, employees and other stakeholders are expecting companies to operate in a responsible manner – from ethical sourcing, sustainable materials and packaging, reduced CO₂ emissions to fair treatment of employees and making a meaningful contribution to the broader community. Whilst we haven't yet seen share prices impacted significantly from this growing trend, consumer and community sentiment is changing rapidly and it will start to become an increasingly important factor.

1. Source: Deloitte Access Economics, Retail Forecasts



Our survey gives a very concerning snapshot of Australian retailers' attitudes to this issue, with 42% of respondents believing that social, ethical and environmental responsibility is not important to their brand. In the same breath, 91% of respondents believe that customer loyalty to their brand is good or strong...this is a concerning perception gap. A recent survey referenced in our *Meaningful Brands* report found that consumers wouldn't care if 3 out of 4 brands they use every day vanished²... indicating that many brands today don't add meaningful value to the lives of consumers.

If Australian retailers don't quickly grasp the increasing expectation stakeholders have around responsible retailing, consumers will vote with their wallet and employees with their feet. Australian retailers need to be responding rapidly to this in a considered but meaningful manner which aligns their values and beliefs with these stakeholders. And it has to be authentic – if not, customers and employees will see straight through it. Responsible retailing has the potential to shape up as a Kodak moment for Australian retailers – it is not something to be ignored.

Amazon – Take 3

As we approach the silly season, 2019 marks the third Christmas trading period for Amazon in Australia. Amazon Australia generated c.\$300m in sales in 2018 with over 100 million different products, and we can expect sales in 2019 to double.

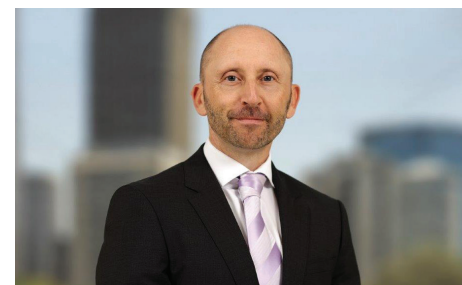
Whilst this represents only a very small percentage of the Australian retail market, the bigger impact has been how Australian retailers have responded. Over the past three years we've seen a significant increase by Australian retailers in their digital, online and fulfilment capabilities in a clear response to the Amazon threat. It's still early days for Amazon in Australia, but as digital becomes ever more important in the battle for consumer spend, expect to see Amazon's market share continue to grow rapidly.

Outlook

There are signs of more optimism amongst retailers for their prospects in 2020. Whilst nearly half of respondents told us their sales had contracted or remained flat in 2019, some 72% of retailers are expecting to bounce back in 2020 and grow their top line. However, most retailers aren't expecting growth in excess of 5%, so it looks like being another challenging year ahead. Key to growth prospects in 2020 are new products and online, which is broadly consistent with the growth drivers we've seen in 2019. In particular, as like-for-like store sales stagnate for many retailers, expanding their online business is imperative to maintain and grow market share. It's particularly noticeable that only 11% of retailers are expecting to grow through new store openings, down from a peak of 43% in 2017. With the growing presence of Amazon in the Australian market, it's critical that Australian retailers have a clear and well-funded digital strategy to remain competitive.

Retailers are particularly cautious in two areas as they enter 2020. Rising input costs following the depreciation of the Australian dollar are expected to bite hard, whilst retailers' biggest concern is higher property costs. With the Australian market facing an unprecedented period of disruption, it's critical that retailers, suppliers and landlords work together rather than against each other within the retail ecosystem.

So we are approaching this Christmas trading period with a high level of caution amongst retailers, with competition and market disruption reaching unprecedented levels. But with many consumers still holding on to their saving from recent tax cuts, strong online sales and the promise of an enhanced customer experience, there's still plenty of opportunities this Christmas and beyond for retailers and consumers alike.



David White

National Leader
Retail, wholesale & distribution group

2. Source: Havas Group Meaningful Brands® 2017



Christmas expectations



'Tis the season?

Retailers started off the year with high expectations. This optimism has slowly faded, with a combination of weak consumer spending, higher input prices and a subdued economy resulting in some of the toughest trading conditions in recent history.

As we approach the holiday season, retailers are less confident than we've seen in several years. Only 62% of our survey respondents expect to increase sales this Christmas compared to 80% last year.

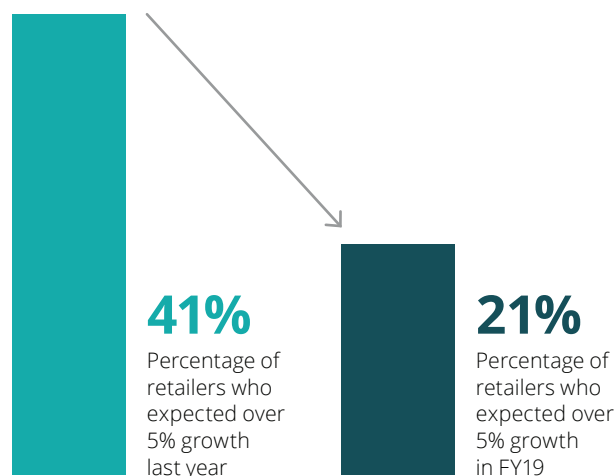
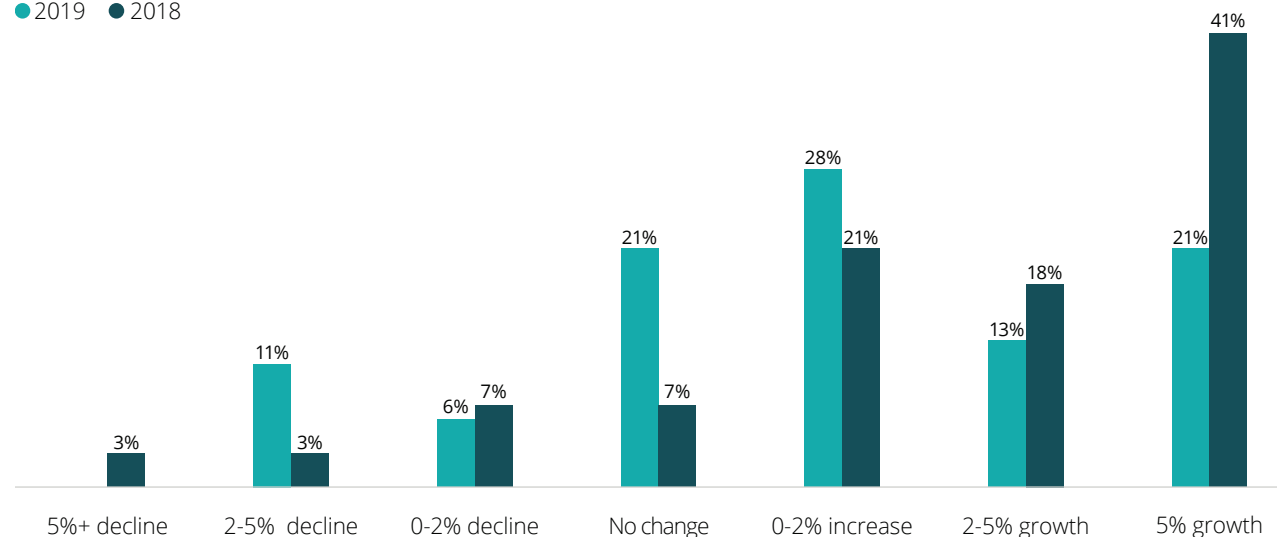
Clearly, retailers are cautious about their prospects this Christmas, with sales in the lead up to the holiday period struggling for many. With a tough Christmas period forecast, it is more important than ever for retailers to focus not just on short-term sales but in building longer term customer loyalty.

Our secret ingredient: Offering an amazing customer service experience both in our physical stores and online. Value for money without sacrificing quality.

Survey respondent

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

● 2019 ● 2018



Whilst we have seen some beneficial price inflation on parts of the food and grocery sectors, most other retail sectors have remained flat. Higher input costs and lower consumer confidence is a dangerous combination for margins, and retailers are feeling the pressure.

Almost 40% of respondents have flagged expected declines in margins this Christmas, as competition restricts further price inflation despite rising costs. Retailers who compete on price will be most exposed to these pressures as consumers shop around for the cheapest option.

Retailers have generally been successful over the past few years in growing the top line. However this has not always translated into increased profitability with higher pressure on margins and greater competition.

Our respondents have consistently reflected this sentiment in our survey, with those expecting margin growth generally in a tight band around 40-50%.

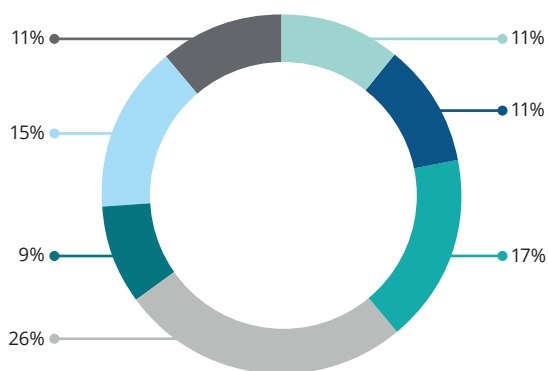
This has ticked down this year from 56% to 35%, one of the lowest results since the survey began.

The marketplace will toughen up due to rising prices and lack of wages growth. We expect input costs to rise.

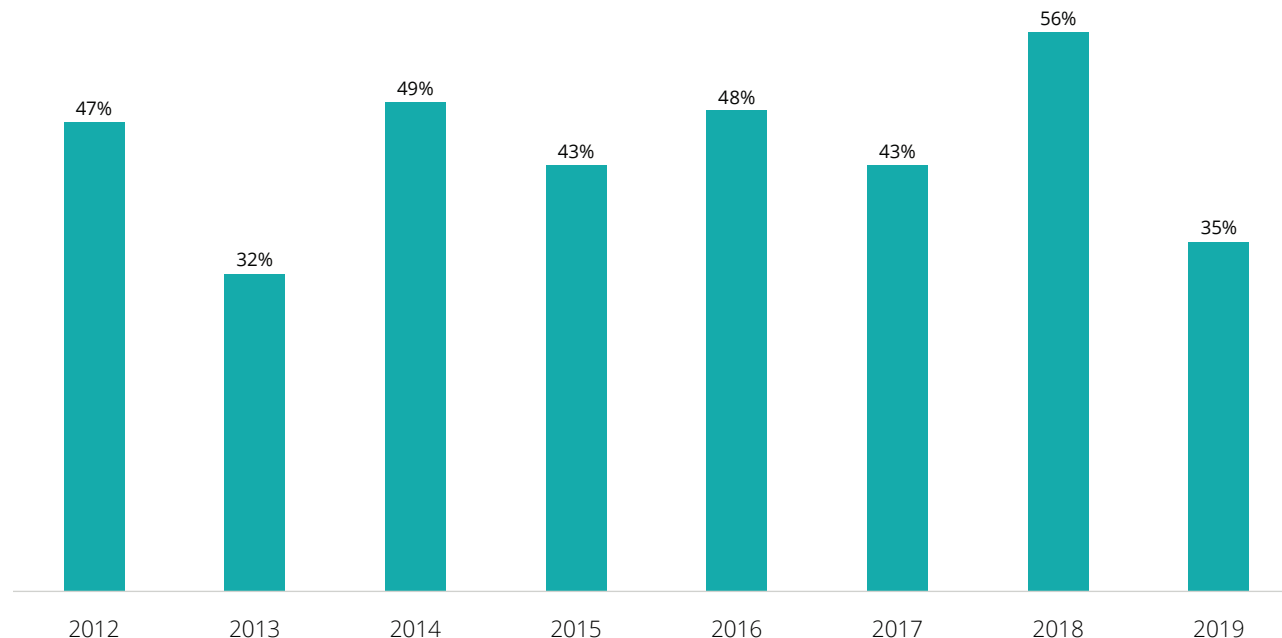
Survey respondent

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

- 2%+ decline
- 1-2% decline
- 0-1% decline
- No change
- 0-1% growth
- 1-2% growth
- 2%+ growth



Percentage of retailers expecting margin growth – 2012 to 2019



With the challenging conditions this Christmas, retailers will be counting on the right mix of discounts to drive sales and maintain margins throughout the holiday season.

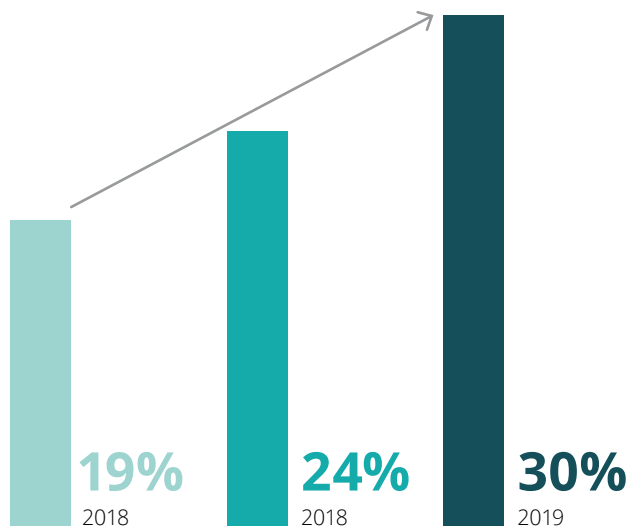
Reflecting this uncertainty, our respondents expect to begin discounting earlier this year, with 30% reducing prices in early December, up from 24% last year.

This largely reflects the deterioration of consumer sentiment throughout 2019, as well as the expected impact of Black Friday sales which last year reduced Christmas footfall in major shopping centres. The shift to discount earlier has been underway for a number of years, as increased competition has forced retailers to fight harder over price. In 2012, only 19% of respondents planned to discount in early December compared to nearly a third of retailers in 2019.

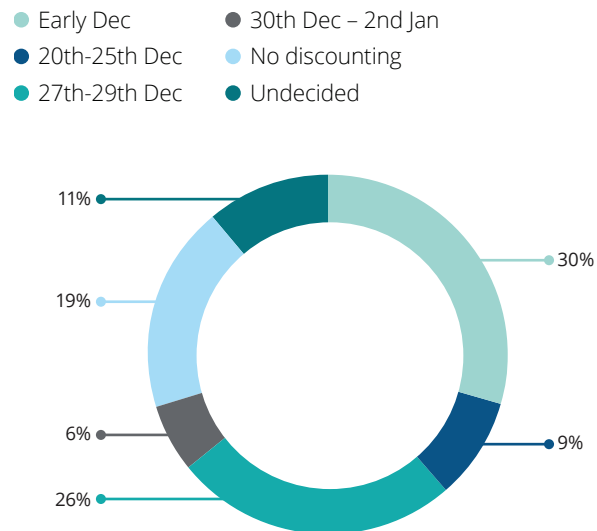
Shopping centres are responding with tailored dining, entertainment and experiences to encourage customers to spend time and money in retail precincts.

With this in mind, retailers will be looking to develop their strategies to carry the early Black Friday momentum into Christmas.

Percentage of retailers who plan to discount in early December



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



Shape your offering, maximise your portfolio, optimise your performance: why working with landlords can set retailers up for success

With footfall decreasing and costs increasing, the retail landscape continues to face significant challenges – and the financial impact on retailers with large store footprints has been substantial, particularly in light of increasing rent costs.

So more than ever, retailers need to make the right connections between their product, people, places and touchpoints, to support their omni-channel strategy and maximise their product portfolio to optimise performance.

The US and UK experience

In the US, the majority of recent store closures have involved “balanced” retailers – those delivering value through a combination of price and service, but neither premium or price-based.

Over the last five years, premium retailers have experienced revenue growth of 81% and price-based retailers 37%, while balanced retailers have only seen growth of 2%¹.

In the UK, an unprecedented number of retailers have been using the Company Voluntary Arrangement (CVA) process over the last two years, a legislative mechanism that can be used by a tenant company to restructure its rent obligations or change the terms of its leases across some or all its premises, often to the significant detriment of its landlords.

However, to date, over half of retail CVAs have failed, with the retailer ultimately entering into insolvency. This highlights that the CVA process, if used only as a short-term liquidity relief, will not help the retailer survive in the long term.

A retailer must identify the root cause of its underperformance and re-evaluate and reset, if required, its core strategy. CVAs used in isolation of a considered turnaround plan, are a blunt and ineffective tool.

Experience in both markets emphasises just how critical it is for retailers to develop and articulate their value proposition, understand who their target consumer is and identify the optimal route to deliver value to them.



1. Based on analysis of the largest US retailers (by sales) of the 2017 IBIS World Report, filtered for those that are primarily retail, serve the business-to-consumer market, and are publicly traded.



Maximising the physical portfolio

With little improvement forecast for Australia's already challenging retail environment, and current growth the weakest since the 1990s recession, retailers and landlords need to, more than ever, work together to seek a collaborative solution that works for all parties.

There are real opportunities for retailers to optimise their physical portfolio by asking questions like:

- Are we maximising our current physical estate?
- Are we operating in the right markets for our business?
- Are our stores located in the destinations that our target consumers visit?
- Is there sufficient demand in our existing retail hubs for our products or can we tailor our offering based on local demographics?
- Are our competitors, or complementary retailers, nearby?
- Are there any other retail hubs that are more appealing for expansion or replacement of underperforming stores?

The power of data analytics can be one key to unlocking answers to these questions, enabling retailers to really understand their portfolio at a granular level, and identify opportunities to improve their portfolio through strategic exits and/or expansions.

A lack of agility and urgency to deal with underperforming parts of a business will catch up with you, and can restrict the value attributable to, and availability of, restructuring options.

Optimising performance

With consumer preferences constantly changing, retailers need to continuously review their market channels and implement a multi-channel sales approach that seeks to provide consumers with a seamless shopping experience, whether they're shopping online from a desktop or mobile device, by telephone, or in a brick-and-mortar store. This does not mean more or bigger is better, it means constantly finding ways which are smarter.

Whilst retailers continue to experience margin pressures, they can no longer afford to retain underperforming stores and need to work together with their landlords to deliver a manageable solution, where a keep, fix or move on approach can be deployed.

Working together to optimise a retailer's turnaround plan

Retailers should not underestimate the level of understanding landlords have of the current issues facing the sector or their willingness to work together. Landlords need to be seen as a fundamental partner and integral to the likelihood of a successful turnaround.

Retailers need to demonstrate to landlords that cost reduction is only part of the company's greater turnaround plan and not only a short-term liquidity solution. Optimising the retailer's physical portfolio to support its omni-channel strategy, growth strategy and customer value proposition must also be part of the longer-term survival plan.

What are you giving back to your landlord? Longevity, increased foot traffic, improved tenancy rates, or is it just a one-way street?

A prominent theme we have seen in the UK market has been frustration, as landlords have looked to 'share the pain' with retailers, rather than having it forced upon them through a CVA. The Australian law provides greater protection to landlords, and so they need to be part of the journey to recovery.

In a continuing period of change, both retailers and landlords need to align mutual interests and work together to navigate through the challenges of the modern retail market.

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Retail trends



The unified customer experience

The online share of wallet has been steadily increasing over the past eight years, as digital strategies have become more important to delivering both online and physical sales.

In 2019 online remains a key part of retail strategies, but increasingly the lines between the digital and physical are blurred as the customer decision-making process evolves. The customer journey this Christmas may involve research online, price comparisons on a mobile device, reviews from social media before a click-and-collect purchase from the retail store. In the US, 51%¹ of consumers enter the store with a specific product in mind, and the majority of this research comes from either online retailers or retailer websites.

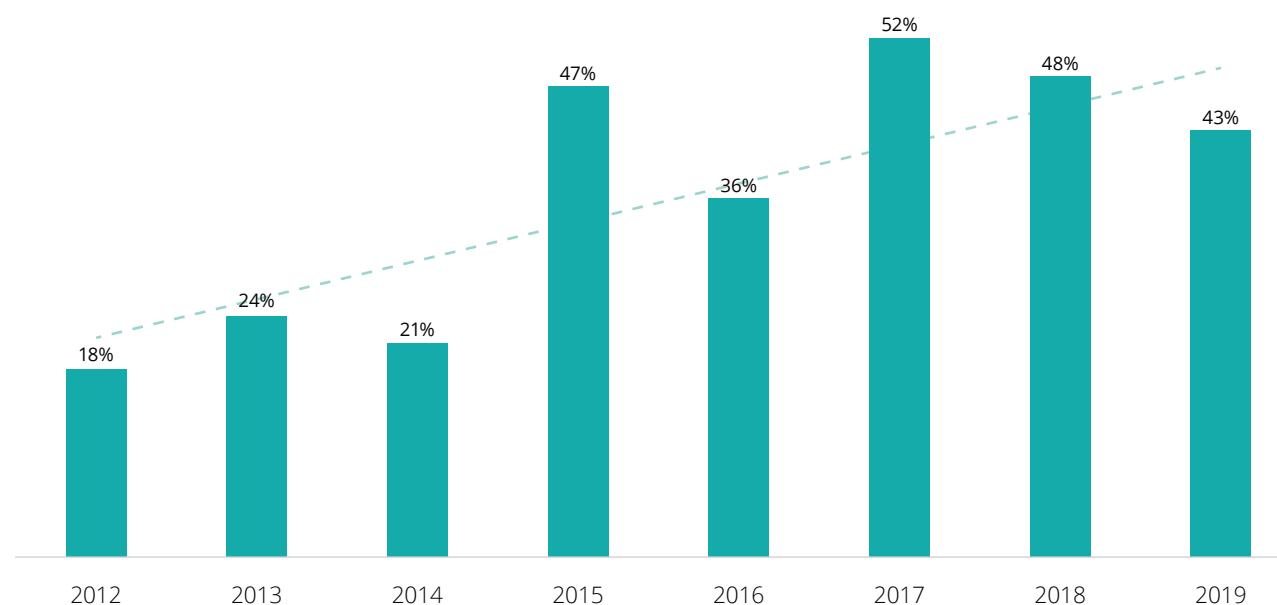
This unification of strategy between the digital and the physical has been one of the major trends of recent years, as digital enablement breaks through the computer or mobile screen.

Successful retailers identify the customer purchasing journey and build in opportunities across the journey to surprise and delight consumers. Despite retail sales making up 6.1% of retail spending in the June quarter², digital influence extends far beyond the cash register.

We expect a continuing decline of bricks and mortar stores, with an increase throughout online and omni-channel offerings. There will be a resurgence of customer service focused selling in boutique stores.

Survey respondent

Expectations of online sales above 10% at Christmas: 2012 to 2019



1. Deloitte US 2018 Holiday Survey

2. Deloitte Access Economics Retail Forecasts August 2019

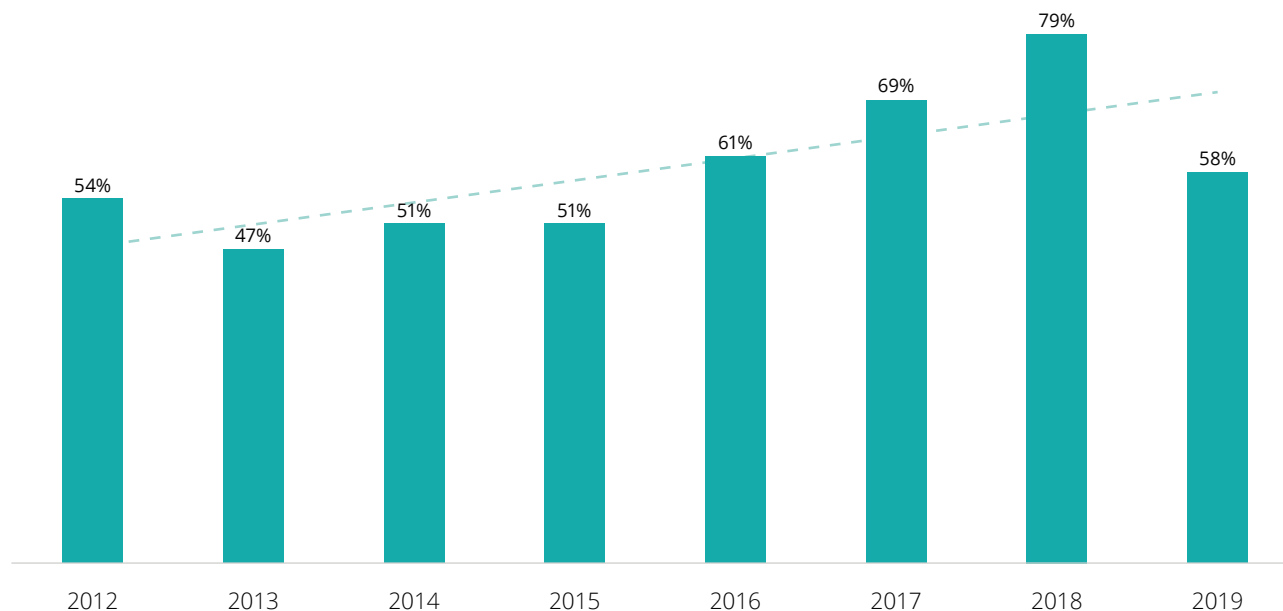


So what level of digital sales should retailers be aspiring to? Our respondents are clear; a digital sales mix of 6-20% is the goal with nearly half identifying this as the optimum level.

With the US consumer spending more online than through physical stores in the holiday season for a number of years, does this show a lack of ambition in the Australian market, or is our market fundamentally different to those overseas? Only time will tell, but there is clearly a difference in expectations of the importance of online sales between Australian retailers and other markets.

Growth expectations continue to be bullish. Throughout the history of our survey, more than half of respondents have expected more than 10% growth in online in each year apart from 2013. Whilst this has slowed from the peak of 79% last year, retailers remain confident that their online strategies will continue to deliver growth.

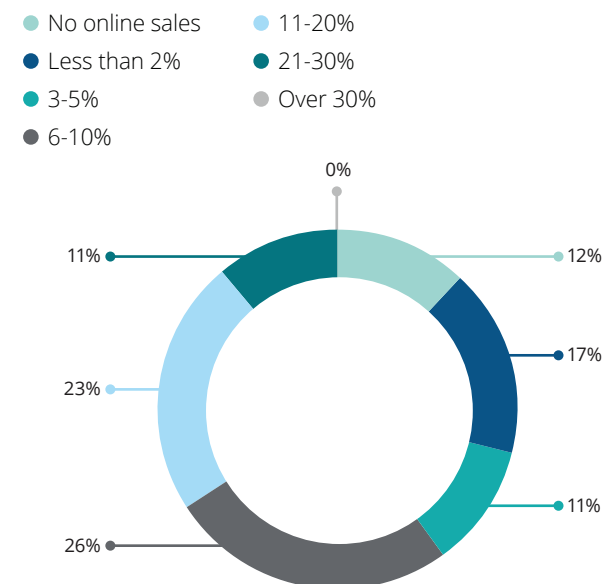
Expectations of online growth above 10% at Christmas: 2012 to 2019



Omni-channel retail will continue to grow fast, disrupting the market. Retailers not ready for the transformation will get knocked out.

Survey respondent

What is your ultimate goal for online sales in your business?



Getting personal

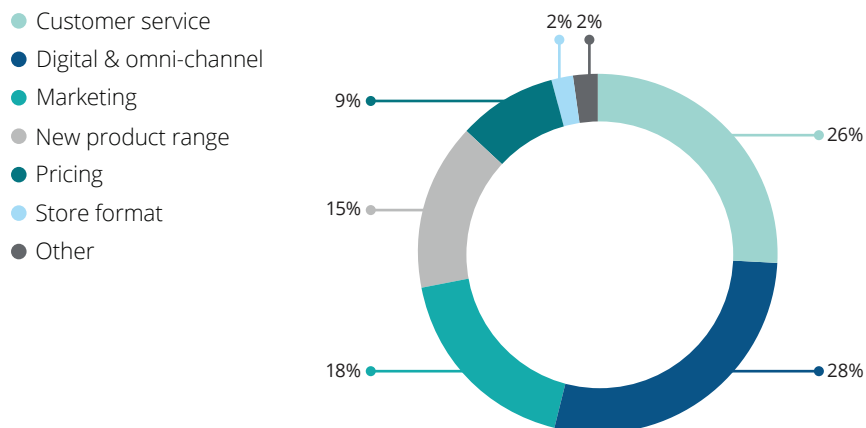
Customer service is core to the retail experience, but has taken a backseat over the past few years as retailers focus on new products to deliver growth.

The cautious consumer has brought customer service back to the fore, as retailers can no longer rely on buoyant consumer spending to drive customers into stores this Christmas.

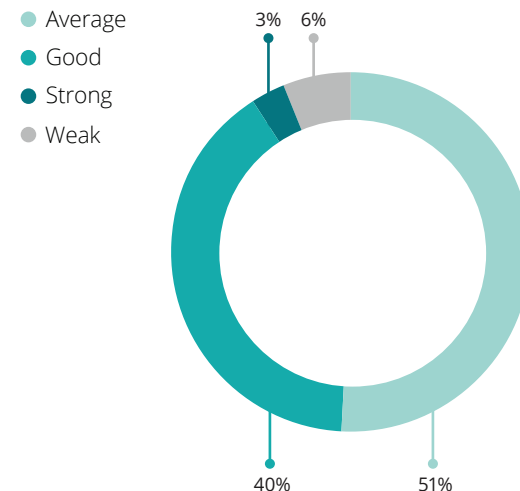
Over a quarter of our respondents have highlighted customer service as the most important driver of sales this Christmas, and 28% nominating digital and omni-channel. These two strategies are not mutually exclusive; forming a strong digital connection with the consumer is critical to building trust in the brand, regardless of where the customer spends.

This connection to the customer flows through to loyalty, and over 90% of our respondents consider their customer loyalty as good or strong. Are Australian retailers over-estimating their connection with their customers? We'll have to wait and see. Brand loyalty is hard won and easily lost. In the era of cancel culture, retailers should understand the reasons when things go wrong and how poor customer experiences are identified and dealt with to ensure that a bad experience does not destroy brand reputation.

What is the single most important focus area of your business to increase sales this Christmas?



How would you rate the loyalty of your customers to your products and brands?



New products have been the clear driver of growth in the last 12 months with 41% of respondents identifying this as the most significant factor, up from 28% in 2018.

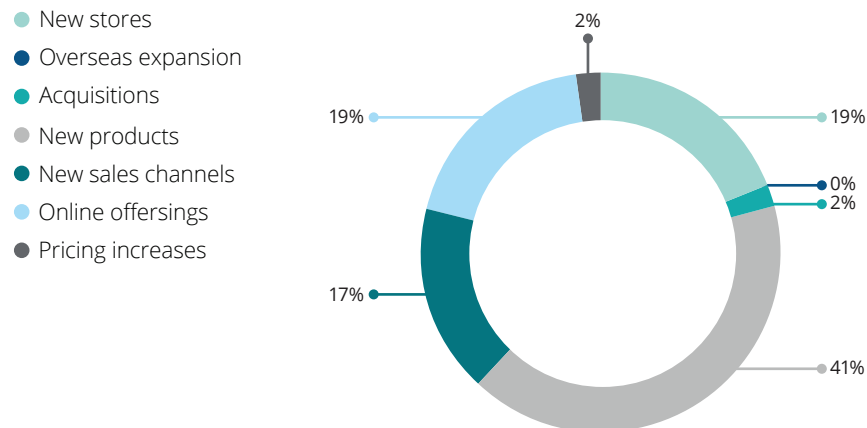
But this isn't set to be the only focus area for growth this Christmas, with customer service and digital taking the lead.

Concerningly, Australian retailers don't appear to be concerned about brand reputation from a social, ethical and environmental perspective. Increasingly, consumers, employers and other stakeholders expect companies to operate in a responsible manner. Whilst we've seen some Australian retailers embark on this journey, it seems that too many have failed to grasp its importance. If Australian retailers don't wake up soon to society's expectations of them, they are simply going to be left behind.

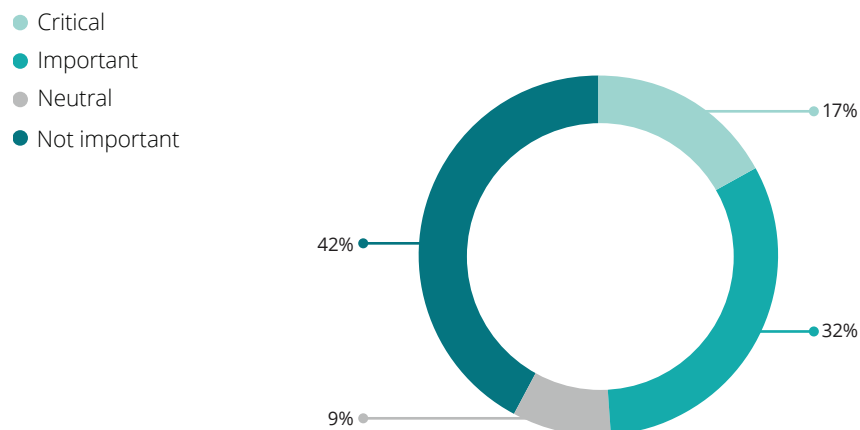
We are pursuing marketing personalisation and range optimisation through digital integrations, with a larger investment in above the line brand marketing across all channels – digital, television and radio.

Survey respondent

Of the following, what was the most significant driver of growth in your business in the last 12 months?



How important do you consider social, ethical and environmental responsibility to the perception of your brand in the marketplace?



A data-driven approach to inventory management

Accepting the things you cannot change, having the courage to change the things you can, and having the wisdom to know the difference, is a well-worn approach to driving business recovery – and it certainly applies to the current retail environment.

Over Christmas, retailers and wholesalers will continue to wrestle with challenges (and, don't forget, opportunities) born out of the speed of change that is placing added pressure on margins and raising the question of how brick and mortar retailers, in particular, can respond.

One key area often overlooked is the link between top-line performance and working capital. And more specifically, it is understanding not only how much inventory should be held, but what the optimum inventory holding should be across the entire range of stock keeping units (SKUs) through the use of gross margin return on inventory (GMROI) and the statistical setting of stock levels.

While GMROI, or gross margin dollars divided by average cost of inventory, is a performance measure increasingly used by retailers to optimise their product mix, confusion still exists as to the best way to interpret the perspective it provides, and how to best use it in the real world.

GMROI has attracted some criticism for being too simplistic, and it can be misused. But there is 'good' GMROI, and the advent of new data analytical tools makes it much easier to use and much more relevant. When used in the right way, and in combination with other financial measures, it provides powerful insights and a valuable measure and benchmark for optimising performance and return on capital employed (ROCE).

The great inventory conundrum

Understanding the financial returns of different inventory holdings leads to the fundamental question: how much inventory should a business, or operating unit, hold? But it is too often met with a response based on 'gut feel', driven by wanting to be all things to their customers, or 'min and max' levels that were set too long ago, or artificially hiked as a reaction to previous stock-outs.

Setting the appropriate inventory levels requires clear and accurate understanding of variation in the end-to-end value chain and external impacts, including:

- Demand variation major events, force majeure, seasonality and competitor movements
- Supply variation in manufacturing capacity, production scheduling and DIFOT (delivered in full, on time) performance
- Desired service levels in anticipation of stock-outs or over-stocking
- Order frequency balanced with supplier lead time through cycle and transit stock.

Understanding these variations over time allows a business to:

- Identify under and over-performing SKUs
- Calculate appropriate 'min and max' levels by SKU
- Determine appropriate economic order quantity (EOQ).



Achieving optimum inventory

Once the target level of inventory is identified, moving from current to target holdings is more straightforward. However, although target inventory holdings provide a good yard stick for cost reduction opportunities, the real question is how to achieve 'optimum' inventory holding.

One method is calculating a target GMROI for the business and using this as a benchmark and measure as a best means in conducting SKU rationalisation of inventory with the end result of achieving optimum inventory holding, gross margin and desired ROCE.

Establishing the benchmark is a fairly simple series of steps. The first is confirming desired ROCE to allow the setting of a target gross margin. The second is to calculate the GMROI using the target gross margin and required inventory holding for trading, providing a target GMROI directly linked to desired ROCE.

And once target GMROI is established, the final step is to calculate the GMROI at the individual SKU level to provide a measure for approaches to optimising inventory. As an example, using the GMROI target and measure to conduct SKU rationalisation or ABC-XYZ analysis, will provide a lens through which appropriate decisions can be made on under and over-performing SKUs to achieve optimum inventory holdings within the desired ROCE.

Establishing a GMROI target, and statistically setting inventory holdings, is not, in its entirety, the complete answer, but it is the starting point to supporting inventory opportunities such as:

- Better portfolio SKU rationalisation
- Improved focus on demand forecast
- Renegotiating minimum order quantities
- Working with suppliers to improve DIFOT performance and lead time
- Implementing a vendor managed inventory program
- Better handling stock-outs and holding stock too long at the SKU level.

Visibility critical

With the above in mind, and as with any approach to working capital optimisation, visibility is a critical first step. Once the view of the opportunity is clear, the 'fix' is often reasonably straightforward (and even inexpensive). But, the cash benefits can be significant and quick.

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competitive landscape



Shifting sands

Black Friday has been a fixture of the US retail market for many years. As the Australian consumer has become more globalised, the ability to purchase direct from the US has led the Australian market to adopt a similar strategy here.

Australian retail sales rose 3.6% during Black Friday in 2018 compared to the previous year. It remains to be seen whether consumers ultimately spend more in total or whether events like Black Friday and Click Frenzy simply bring sales forward.

28% of our respondents have told us that the Black Friday and flash sales have a positive impact on sales, with 13% highlighting a significantly positive result. On the flip side, 21% say that the events simply shift sales from Christmas to the event resulting in little change to the overall sales.

In the US, consumers who shop early including Black Friday and Cyber Monday tend to spend more overall¹. This didn't appear to be the case in 2018, but the opportunity is there for retailers who can take advantage.

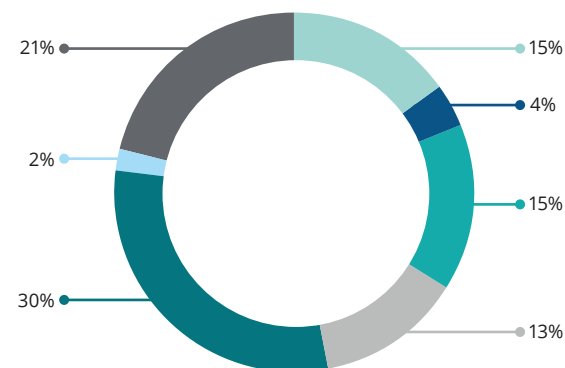
One thing is for sure – Black Friday and event sales are here to stay. Successful retailers will capitalise on the opportunity to grow net sales, without the cost of excessive discounting eating into overall margins during the now extended holiday season.

We expect customers to continue to seek out special offers and sale periods rather than paying full price.

Survey respondent

What do you expect the impact of 'sales events' like Black Friday and flash sales to be on your overall sales?

- Decreases overall sales marginally
- Decreases overall sales significantly
- Increases overall sales marginally
- Increases overall sales significantly
- No impact / not relevant
- Other (please specify)
- Shifts sales from Christmas to event sales with no overall effect



1. Deloitte US 2018 Holiday Survey



Australian retailers have been investing heavily in online platforms over the past few years, and the market is taking notice: for the first time, respondents are most concerned about the online threat from local competitors as online strategies start to bite.

More than ever, a customer-led digital strategy is critical in building connections with customers and influencing both digital and physical sales. The low rates of online sales cited by respondents illustrates the importance of getting it right.

Whilst physical stores might not be the growth driver they were in past years, don't write off the store just yet. 37% of our respondents highlighted the in-store purchasing experience as the most important purpose of the store (other than the selling of product), 26% knowledge, information and advice and 22% citing brand engagement as the most important purpose of the store.

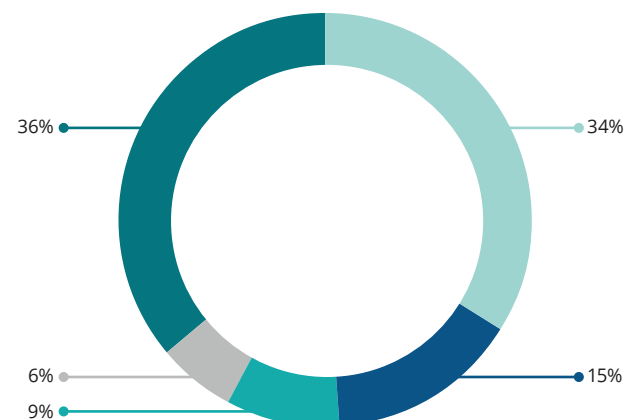
Bringing compelling in-store experiences to customers, backed by data and personalisation will be critical to success in an environment more competitive than ever.

Our strategy is high quality products with unique design and a deeper branding experience. With competition coming from brands from all over the world, the best thing we can do is offer uniqueness and continual fresh offerings each year.

Survey respondent

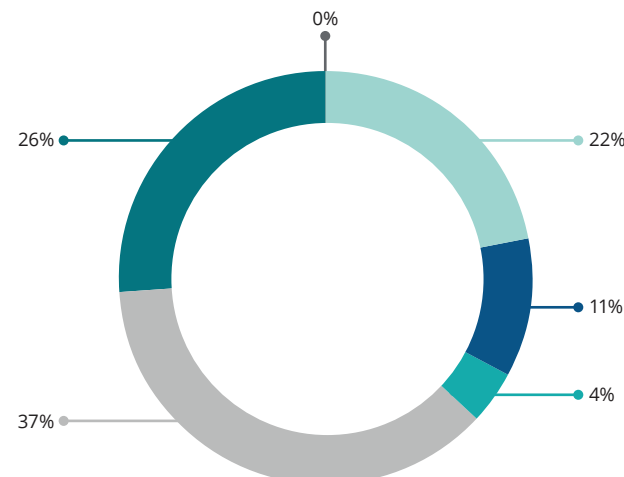
From which source do you expect to see the most increased competition?

- Australian online competitors
- International online competitors
- Foreign owned bricks and mortar stores
- Locally owned bricks and mortar stores
- No change in the competition landscape



Other than selling of product, what is the most important purpose of your physical store?

- Brand community engagement
- Cross-selling and up-selling other products
- Experiential marketing / events
- In-store purchasing experience
- Knowledge / information / advice about products
- Other (please specify)



Look beyond the commercial: operational impacts of digital transformation in retail

Pursuing digital transformation – bringing people, processes and tools together to deliver far-reaching, sustainable (and profitable) change to business operations – should be top of mind for Australian retailers.

But when executing an omni-retail (or even a plain old e-commerce) transformation, retailers and brands need to consider more than just cost and the features of the preferred platform in their selection criteria.

Increasingly, the type of digital transformation a retailer implements can have far-reaching ramifications for operational models, particularly when it comes to how omni, digital, e-commerce and IT teams work together (across structure and output capability) both during the project, and post-implementation.

Technical resources will be spread beyond just IT, and once the new platform transformation has achieved its first go-live, re-tasking and re-training some technical team members will be required.

Key commerce platform features can be primarily grouped into the following:

- Hosting model – from true Software as a Service (SaaS) Cloud through to on-premise hosted
- Commercial model – from a pure license subscription model to some form of shared success
- Update model – from every upgrade requiring a new major project through to continual under-the-hood upgrade streams
- Customisation and extensibility model – from full ready-to-go industry-specific accelerators to full headless Application Programming Interface (API) driven commerce-as-a-service engine.

The hosting model

This can have the most impact on traditional IT team operations, with a significant number of technical people potentially required to monitor and maintain the physical hardware and infrastructure on which the platform runs, and most likely a team of specialist developers who understand the proprietary system. Re-tasking one or two infrastructure people to maintain a new SaaS platform may be an option, but there won't be any need for server, bandwidth and infrastructure maintenance like there used to be, nor for as many developers for ongoing business-as-usual development.



The commercial model

A shared success commercial platform would normally include some form of rolling or ongoing update model as well. In this model it should be possible to stay up-to-date without the disrupting impact of the three-yearly big-bang upgrade projects that normally come with a static update model. The flip side to this is paying more for the platform when making more on the platform.

The update model

Depending on a business's maturity and scaling model, a shared success commercial model may not make sense, and it may be worth more to fix the cost of the platform while dramatically scaling output from it for a short period. It's important to note, however, that the faster the business scales through the fixed cost (and therefore fixed capability) commerce platform, the faster it can accumulate technical debt which will eventually have to be paid at some later stage.

The customisation and extensibility model

In the past five years, the trend in commerce platforms has been to move away from proprietary, specialist technology stacks to more extensible and ubiquitous approaches. And even more recently, some technology teams are rolling-out a commerce engine as a services layer (sometimes called headless) where there is no specific commerce development done to surface the commerce features of the platform – it is simply provided as a micro-services component that an existing front-end team then accesses as part of implementing the key commerce journeys required. This approach typically involves longer timelines for the initial implementation phase (meaning longer time-to-value), but the existing digital team can manage the roll-out as well as ongoing maintenance.

In conclusion, some key digital platform features beyond actual e-commerce system functionality have the potential to significantly impact a retailer or brand's technical team operating model (in the short, medium, and even longer term), and when selecting a new platform, business leaders really need to understand and consider these impacts. It can't, and should not, just be a commercial decision, it needs to also be about your people.

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The next 12 months



Looking for green shoots

Reflecting the subdued consumer landscape, retailers are expecting further deterioration in consumer confidence as they look towards 2020.

Sales volumes are down and as yet the benefits of the federal government's tax cuts have not had the stimulus that retailers were hoping for. Interest rates continue to fall, and these have not yet resulted in an improvement in overall sales.

Despite this, retailers are hoping for the best. 72% are expecting growth in 2020, with most respondents expecting new products and online offerings to drive growth throughout the year ahead.

Only 11% expect new stores to drive growth, which has consistently trended down from the height of 2017 where 43% highlighted this as a key growth driver.

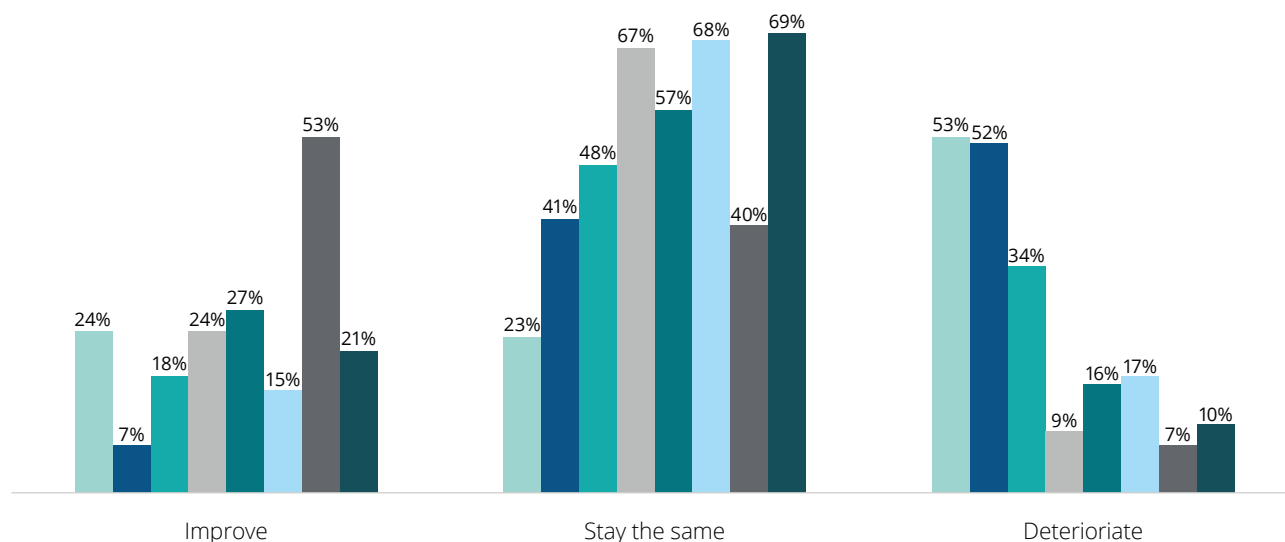
Store networks continue to be critical to many retailers, but they are increasingly being redesigned and repurposed to align with consumers who are more diversified and digitally-connected than ever.

2020 will continue to be a challenging environment. Customers will need a good reason to part with their money.

Survey respondent

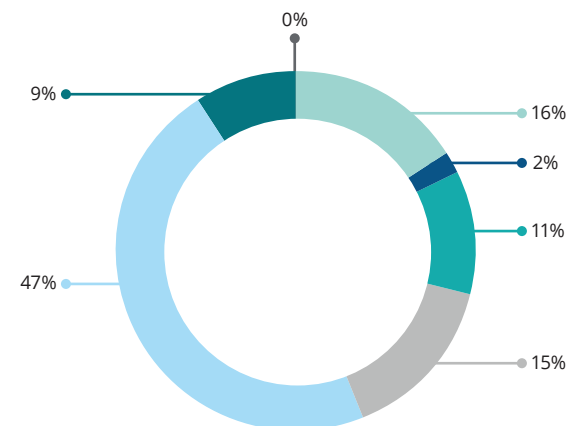
What is your expectation of consumer confidence in the next 12 months?

● 2019 ● 2018 ● 2017 ● 2016 ● 2015 ● 2014 ● 2013 ● 2012



What do you expect to be the overall earnings growth in your business in the next 12 months?

● 10%+ decline ● 0%-5% growth
 ● 5%-10% decline ● 5%-10% growth
 ● 0%-5% decline ● 10%+ growth
 ● No change



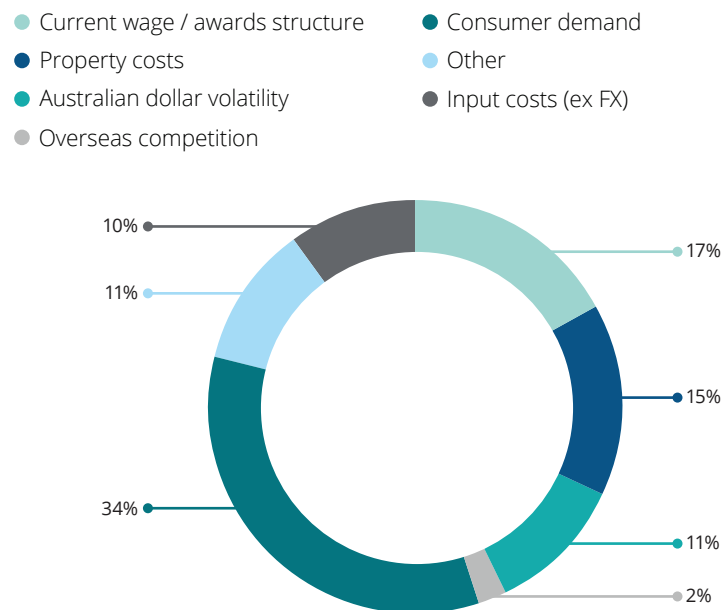
The level of retail spending that we are seeing now is the new normal. Any growth that we see in the next 12 months will be based on population increases. There will be further downward pressure on prices and downward pressure on rents.

Survey respondent

Consumer demand continues to be the most significant barrier to retail growth, with results from this year's survey remaining relatively consistent to last year. Pressure on margins has caused respondents to continue to eye wages and property costs as levers to reduce the impact on the bottom line.

Along with the focus on costs, 61% of retailers are concerned about the trade tariff dispute between the US and China. Uncertainty kills confidence, and the turbulence in the global economic position certainly isn't helping. Retailers will be waiting for a recovery in wage and jobs growth to provide a boost where interest rates and government tax cuts have yet to deliver stronger retail growth.

What is the biggest impediment to you achieving sustainable growth?



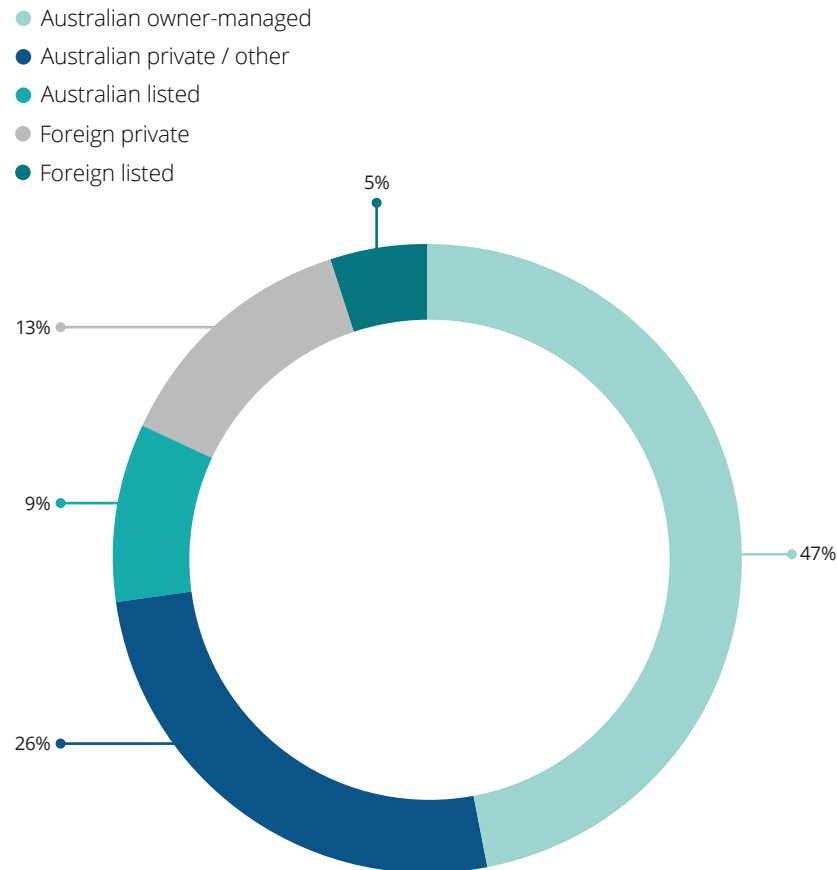
About the survey



About the survey

The Deloitte Retailers' Christmas Survey is based on a survey of 56 senior executives of leading retailers in the Australian market. The respondents are executive and senior management from a cross section of retailers inclusive of listed, private and foreign owned businesses.

Ownership structure of respondents

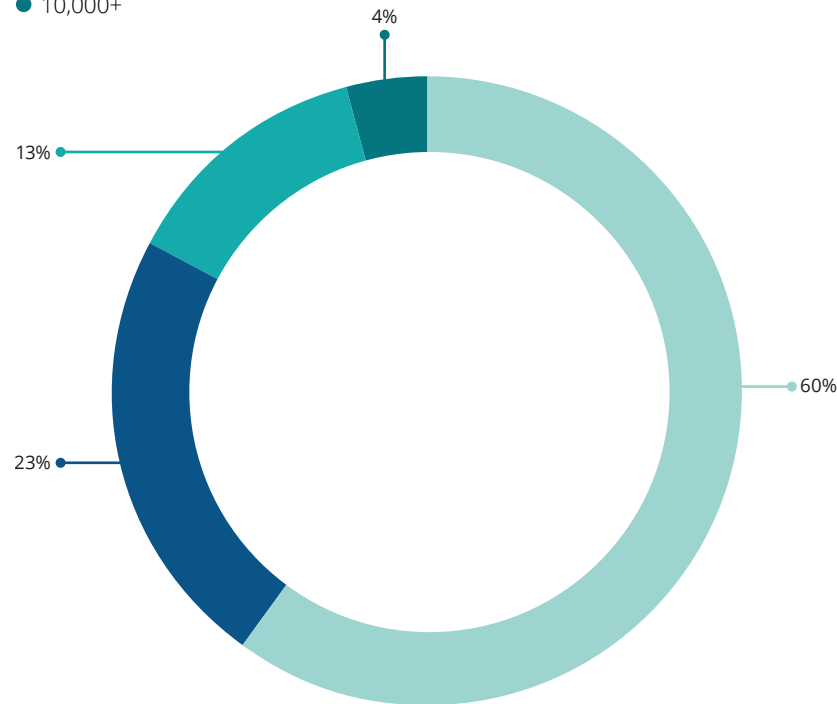


The selection of participants is intended to provide a representative sample of large and small businesses, with most participants made up of the sub-1,000 employee segment.

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

Number of employees

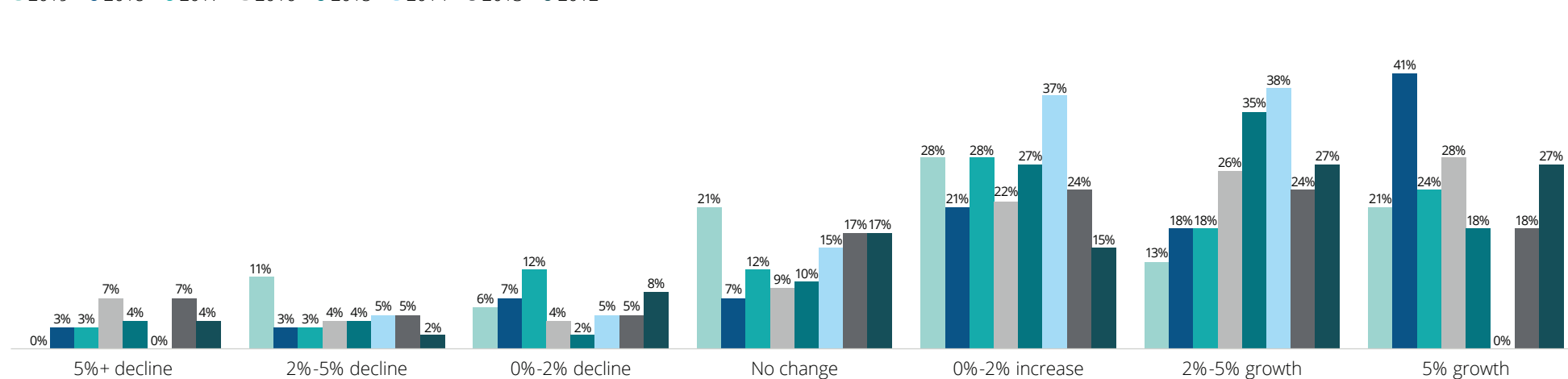
- 1-500
- 501-1,000
- 1,001-5,000
- 5,001-10,000
- 10,000+



Detailed survey data – Christmas expectations

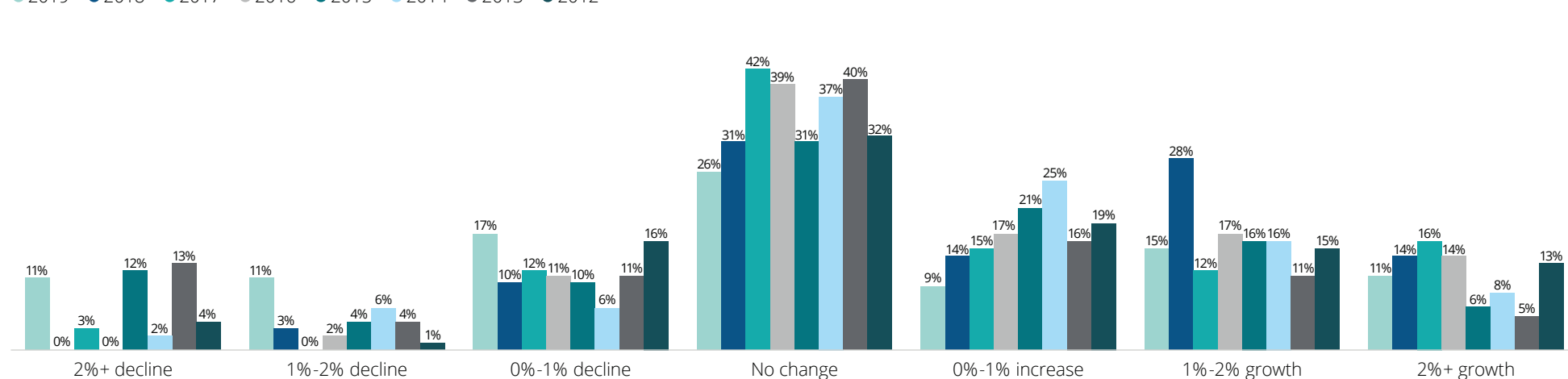
Do you expect Christmas sales to exceed the previous Christmas trading period?

2019 2018 2017 2016 2015 2014 2013 2012



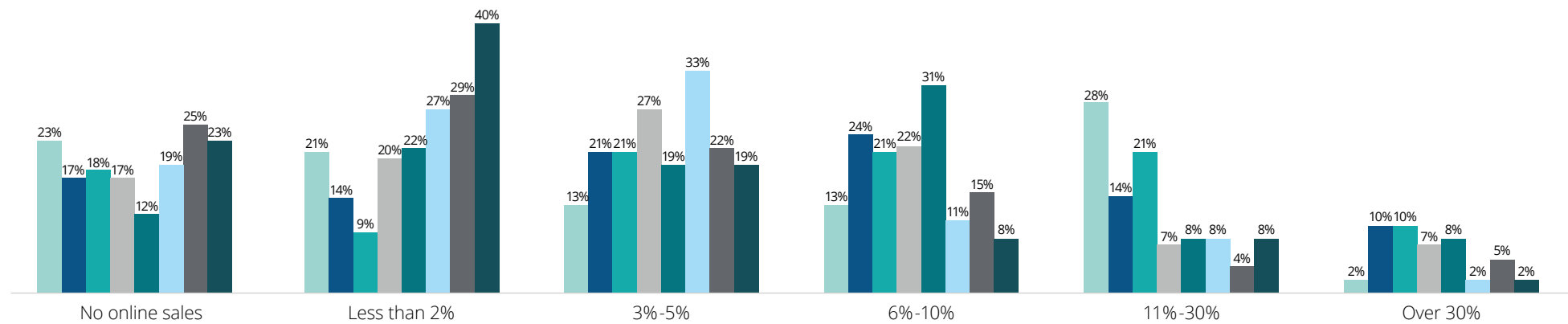
Do you expect margins for the Christmas period to exceed the previous year?

2019 2018 2017 2016 2015 2014 2013 2012



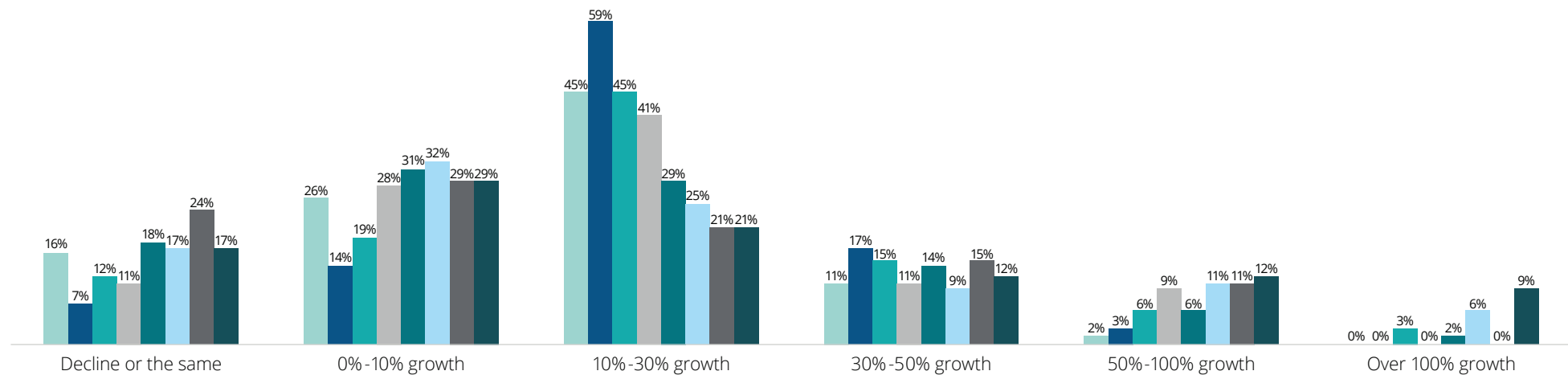
What percentage do you expect your online sales to be over the Christmas period?

2019 2018 2017 2016 2015 2014 2013 2012



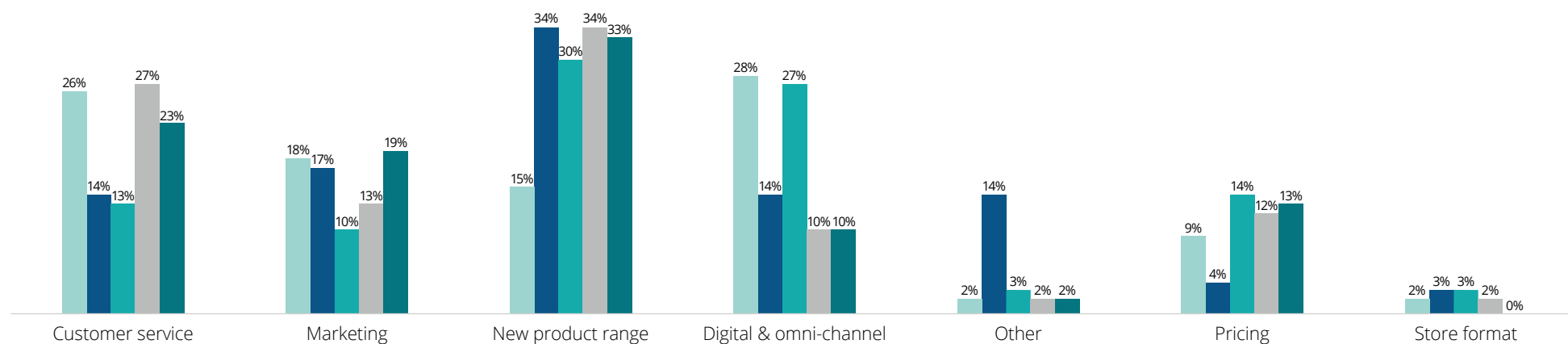
By what percentage do you expect online sales for the Christmas period to exceed last Christmas?

2019 2018 2017 2016 2015 2014 2013 2012



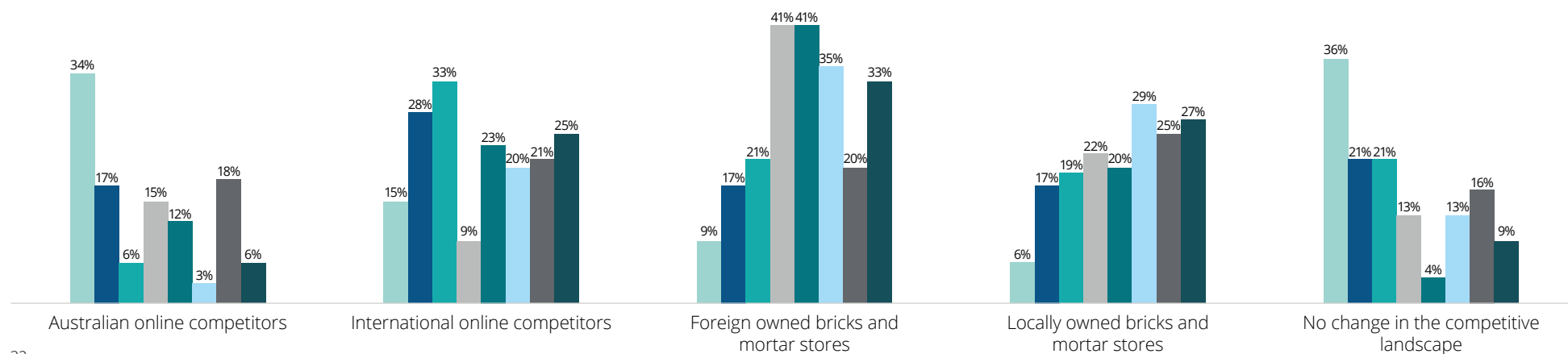
What is the single most important focus area of your business to increase sales this Christmas?

2019 2018 2017 2016 2015



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

2019 2018 2017 2016 2015 2014 2013 2012



Retail, wholesale & distribution group



Retail, wholesale and distribution group

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Operationally, we can help you better manage your supply chain, improve processes and implement new technology – delivering practical solutions that rapidly build your efficiency and productivity

Our services for retailers, wholesalers and distributors include:

- Mergers and acquisitions
- Restructurings and turnarounds
- Growth and channel strategy
- Trade promotion management and control
- Customer relationship management
- Supply chain planning and optimisation
- Store operations and locations
- Logistics and warehousing management
- Store redesign and strategy
- Integrated cost reduction
- Sourcing and procurement
- Corporate performance Management
- Security and fraud protection
- Information technology integration
- ERP and software implementation
- Tax structuring and advice
- Financial process improvements and advice
- Accounting advisory
- Outsourcing advisory



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If you would like further information about any of the topics in this report, or our advisory capability in the retail industry, please contact us.



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