

Australian Retailing Trends

ACRS Secondary Research Report
November 2007



The Australian Retailing Trends Report

I am delighted to introduce the "Australian Retailing Trends" report to you.

In order to achieve success within the dynamic retail market, it is important for retailers to stay abreast of the latest retail trends and to be aware of how these could impact on competition now and in the long run. Recognising this, the ACRS has produced the Australian Retailing Trends report to provide a comprehensive overview of retailing trends both local and global. There is also a particular focus on best practice and innovative examples from around the world.

Using secondary research garnered from a multitude of resources, this report draws together available knowledge to highlight those retailing trends most likely to have a profound affect on the Australian retailing landscape. This in-depth report covers the emergence of hybrid retailing, changing formats and concepts, new technologies, recruiting and retaining staff, evolving ownership models, and the push for sustainability.

The team that worked on this report trust that you will find the information thought provoking as well as useful in shaping your future strategies.

If you would like to delve deeper into certain aspects of this work, or to develop an in-company presentation, please do not hesitate to contact us.



Jeff Rogut
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1 Australian Retailing Trends

1.1 Introduction and Executive Overview

"It's all very well having a flashy store, cutting edge technology, the latest products and fashions, and the most welcoming staff on the shopfloor, but the retail industry changes as fast as the weather – and is just as unpredictable" - Mullin and Kennedy, 2006

In today's turbulent business world, the issues facing successful retail executives are daunting. With an endless array of customer choices, fierce competitors, pervasive use of the internet, and a complex global economy, retailers need to focus on finding ways to sustain and grow their businesses. Traditional growth models focused on rolling out more stores and adding more product lines no longer enjoy the return on investment they once did. Yet, despite the many challenges and pressures in today's tough retail environment, a handful of retailers are significantly outperforming the market. As market forces compel retailers to revisit their growth strategies, the very largest retailers are thriving – as are some of the smallest. Those left in the middle market are finding it a very difficult environment for growth (Deloitte, 2007). These retailers are succeeding because they are able to adapt and change to the environment and develop new ways of serving customers.

Leading retailers focus on offering the best products, service, quality, value, and innovation in order to earn customer loyalty. To achieve this, retail organisations need to be aware of the key retail trends influencing the market now and in the future. Social, political, economical and cultural trends define the environment and constraints that retailers operate within. As noted in the ACRS 2006 Australian Consumer Trends Report, trend cycles are emerging more rapidly now than ever before. It is therefore crucial for retailers to identify and track retail trends, forecast their future direction, and construct plans to take advantage of the opportunities they offer or to ameliorate any potential negative consequences.

In today's competitive, margin-driven retail environment, effective trend monitoring is vital to ensuring that an organisation's operations are squarely aligned with its business goals. Trend analysis can also generate new ideas and capitalise on the old; the accurate prediction of short and long-term trends can also be translated into smart investments (The Strategic Edge, 1999). This will ensure retailers are suitably prepared when making strategic decisions and that consumers are actually provided with what they want, rather than what retailers think they want.

Further, today's market forces are shaping a global consumer and retail marketplace that will look radically different in the years ahead, forcing retailers to make profound changes to their practices and business models to survive. Traditional strategies will not be adequate to cope with trends that will push the retail industry to a 'world of extremes' (Gagnon and Chu, 2005). This report identifies a number of trends that retailers are beginning to recognise and react to accordingly. While not all are seen to their full extent within the Australian market, all will eventually be seen on local shores.

Advancements in technology will play a crucial role as consumers seek out experiences that can both save them time and money. RFID is becoming more widely applied, enabling self-checkout facilities to be greatly simplified, and personal shopping devices that speed up and/or organise a trip (i.e., phones and iPods) are now more common. In-store advertising is more digital, while promotional emails and text messages are replacing traditional mail flyers and coupons (Xtreme retail, 2006). Kiosks are being deployed at an accelerated rate, as are vending machines and new payment technologies.

While technology presents new opportunities and challenges, retailers are still encountering more familiar problems such as efficiencies in the supply chain and the acquisition and retention of staff. There is also a renewed focus on ensuring companies are recruiting and training the right staff for the job. Though successful retailing is sometimes attributed to a company's ability to drive out costs through the use of technology, many would argue that success in retail still comes down to having the right people in place to lead the company and to serve the customer (Mullin and Kennedy, 2006). This realisation is inspiring companies to use motivational and empowering strategies to attract and retain talent, as well as thinking differently about skills assessment and training as key drivers to success.

The major trends in retailing from the larger retailers lie in brand, format and channel extensions as they seek growth (McIntosh, 2007). In addition, lifestyle destination stores which feature multiple brands and product types are growing in popularity and are attracting increasing numbers of consumers. The past few years have also witnessed significant changes in where Australians shop and how they are entertained, requiring developers, retailers, and service providers to create new types of stores and shopping centres to remain competitive. In response, the retail market has effectively split into two extremes, with mega-retail formats dominating one end of the spectrum and focused specialists dominating the other. Lost in the middle, undifferentiated retail concepts are stagnating and may eventually fade into irrelevance.

As the marketplace polarises across a variety of dimensions, corporate thinking needs to shift from ‘bell curves’ – where firms try to serve a generic mass market but do not meet anyone’s needs particularly well – to ‘well curves’ – where companies drive growth by applying distinct business models in each part of their business to deliver the greatest value to explicitly defined groups of customers (Gagnon and Chu, 2005).

Retailers today must also define themselves by the shoppers who visit them and not by the products they sell; the key is to know your consumer. For example, Wal-Mart took this notion to a new level recently when they opened their Plano Texas supercenter to better meet the needs of local shoppers. A visit there reveals the availability of sushi, a coffee bar, organic products and 400 thread count sheets – quite different than Wal-Mart offerings in small towns and rural areas. Wal-Mart’s focus to stay one step ahead of the game will likely push their earnings to the half-trillion mark by 2010 (Xtreme Retail, 2006).



Observers are also expecting an increasing number of mergers and acquisitions as producers and retailers struggle to remain competitive (McMahon, 2005). Private equity houses are also increasingly approaching the retail sector and buying up retail business with the view of making large short-term gains. Although this has been occurring in overseas markets such as the US for some time, the recent ferocity of investments of this type has been unprecedented and will likely continue well into the future. Franchising and the evolution of buying groups is also a strong feature of the Australian retail marketplace.

Finally, the trend towards more sustainable retail practices cannot be ignored. The push to more environmentally conscious retailing is evident in store design, sourcing, packaging, and distribution developments. But sustainability is also merging with corporate social responsibility initiatives and is leading to ‘ethics’ as a key retail differentiator and strength.

1.2 The report

It is clear, then, that there are many trends and circumstances that represent fundamental changes in the Australian retail market and can impact the potential for retail trade development (Capgemini, 2006). Surviving these changes will take foresight and a willingness to go above and beyond existing retail strategies (Xtreme Retail, 2006).

The ACRS 2007 Australian Retailing Trends report describes the most critical trends for the next three to five years and discusses how retailers can best react to these trends. Academic and trade publications, national reports and journals, and recent Internet articles were collected to provide the foundation for the report. In doing so, six 'mega-trends' were identified as redrawing the rules of competition for retailers and are discussed in the following sections. It is hoped that this information will be useful to Australian retailers and other organisations concerned with the growth potential for and changing nature of retail business.

This report forms part of the ACRS series of secondary research reports. These reports address relevant topics and issues affecting the Australian retail industry and shoppers here and abroad. Published throughout the year, these reports are intended to provide retailers, consultants and service providers with information to evaluate and address critical retailing issues.

The Australian Centre for Retail Studies

About the Australian Centre for Retail Studies

The Australian Centre for Retail Studies provides knowledge leadership to those involved in the retail sector through broad based research and information generation, management education programs and the promotion of retailing as a career.

As a commercial centre within Monash University's Faculty of Business and Economics and Department of Marketing, the ACRS is a bridge between the academic and the commercial retail worlds, enabling clients to access resources and knowledge that may not be otherwise available to them.

The centre engages in the following areas of activity throughout Australia, New Zealand, South East Asia, and Asia:

- Management development programs;
- Presentations, conferences and seminars;
- Retail research, reports and publications;
- Study tours.

Given its unique retail focus, the ACRS imparts knowledge, skill, and understanding to all levels of management from first line recruits to CEOs; offering invaluable expertise over other general management training providers.

The ACRS Secondary Research Report Series

The ACRS series of secondary research reports addresses relevant topics and issues surrounding the Australian retail industry. Published throughout the year, these reports are intended to provide retailers with information to evaluate and address critical issues. The reports also serve to help gain an insight into key trends and activities taking place within the industry.

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