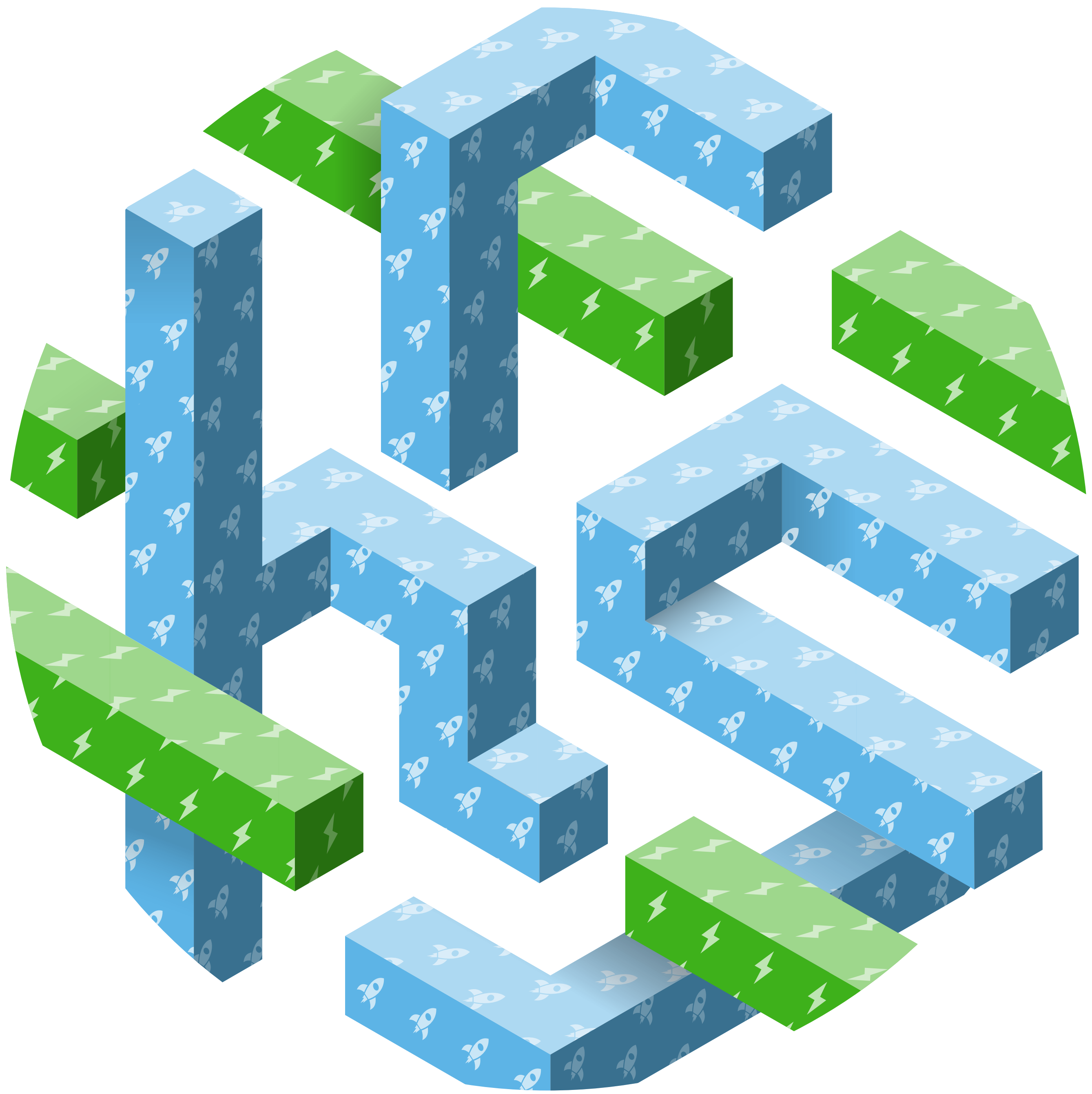

2023 Retail Holiday Report

Resilient Retailers

Navigating retail challenges in a shifting economy

Contents

Executive summary

Welcome to the 12th edition of our Retail Holiday Report.

As the calendar turns to a new quarter, Australian retailers are navigating some of the most challenging economic conditions in over a decade. The landscape has shifted significantly with a substantial downturn in consumer spending. Retailers have already survived the worst of the retail recession and with a more promising year ahead, retailers should start preparing for the recovery phase.

In last year' study, retailers rebounded from the pandemic, with in-store re-openings and a recovery in consumer demand. However, it's been a challenging 2023 with Australian businesses feeling the economic pressure.

Controlling costs is now the priority as retailers look to financial discipline relative to growth initiatives. Managing increases to the minimum wage, superannuation guarantee and payroll tax changes, as well as state government levies like Victoria's mental health surcharge are adding to the pressure. A relentless year of unexpected interest rate hikes is impacting borrowing costs, mortgage repayments, and the price of everyday essentials are leading consumers to take a more measured approach to spending.

Many retailers are adapting to the market conditions by lowering prices, discounting to clear stock, and focusing on affordable assortments. There's an understanding that consumers will be hunting for bargains this holiday period but despite these shifts, there are opportunities in the summer ahead. Competition for consumer wallets is heating up and retailers are adapting to this new reality by offering value-driven products, enhancing customer experiences in-store, and embracing innovation to help acquire new customers.

However, it remains that retailers are cautiously optimistic about holiday season growth, with 14% (vs 6% last year) of respondents expecting sales to increase by 5% or more over the period.

Beyond our shores, we've seen **progressive approaches** to sustainability and circular economy, retail experimentation in the metaverse, implementation of data and automated ordering tools to optimise supply chain and order management tools to meet on demand delivery, and gaining pace is "quick commerce" as the UK and Germany lead the race delivering packages at an average of just 10 minutes.

Technology continues to change the way we live, work and shop. Australian retailers still lag the world in traditional AI applications such as personalisation, recommendation engines, cross sell, upsell, pricing and promotion optimisation. These technologies are now mature, and retailers of all sizes should be using some of these tools to grow basket sizes and maximise profits. Leveraging tools like virtual shopping assistants powered by generative AI to truly connect with customers, personalise the experience and foster brand loyalty and repeat business.

Sustainable fashion, textiles and tools have emerged as crucial to the global push for a more environmentally and socially responsible retail industry. Closer to home, textile waste has become an urgent issue in Australia where only 3% of textile waste is recycled. Practices like ethical sourcing, responsible production processes, and the use of eco-friendly materials aim to minimise the industry's footprint, while promoting longevity in clothing and encouraging more mindful purchases of durable, timeless pieces. Consumers also continue to seek out circularity with a rising appetite for 're-commerce'. Will retailers follow the trend to resell, rent and recycle – and will 're-gifting' play a role in Christmas this year?

Despite the importance of the new **ESG disclosure standards,** few respondents consider sustainable product ranges an important focus to build sales. However, Regulators are intensifying the spotlight on greenwashing or 'green-hushing' – where one omits material information**.** There is much to do to transition from a linear 'take, make, dispose' model to a circular one. Retailers can unlock economic opportunities and begin to prepare for their next holiday season to include this new way of ESG transparency and start to think about: data systems, processes, and which controls will need to be improved or – in many cases – be implemented for the first time.

Embracing transparency and data privacy is a continually evolving area for retailers, and staying ahead of threats is critical to keep customer data secure. Almost all retailers making online sales are using increasing sophisticated data methods to understand customer interests and then target sales accordingly. With 95% of retailers highlighting some level of digital enablement of holiday sales, and 81% seeing a rise in customer acquisition costs, it's not surprising that consumers are feeling more cautious than ever about sharing personal information. And with the retail industry ranked 9th lowest for responsible data handling by the Deloitte 2023 Privacy Index consumers are more anxious than ever about the type of information organisations are requesting from them.

We've seen over the years the Australian Retail Industry navigate the holiday trading challenges with resilience and creativity – pivoting as spending habits shift. The industry has weathered many seasons and with a shared commitment to adaptability. Now, more than ever they are ready to chart a **new course for growth in 2024** – and it's a future full of potential.

We hope you find this report interesting and useful and wish all our retailers a prosperous holiday trading period.

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Introduction

In the lead up to the all-important holiday trading period, we surveyed a cross-section of executives and senior management from Australia's leading retailers on their expectations for the season and beyond.

This year, the impact of inflation, rising interest rates, and declining consumer confidence have driven uncertainty to its highest point since the pandemic. At the same time, new technologies are creating opportunities to transform the way we do business.

The results of this survey reveal how retailers are shifting their priorities and investing shrewdly to succeed despite the economic environment.

In the pages ahead, you'll find detailed analysis of retailers' sentiment and priorities for the holiday trading period, along with deep dives from our leading experts into key trends and expectations for 2023 and beyond.

Discover previous Holiday Reports

Australian Retailers Association

From Paul Zahra,
Chief Executive Officer

As we edge closer to the all-important Christmas and holiday trading quarter, retailers are waiting with bated breath for economic headwinds to subside. This year, the sector has been rocked by a perfect storm of challenges – a spending slowdown, coupled with the rising cost of doing business, the largest set of government reforms in decades and a retail crime wave that is impacting the wellbeing of workers and the bottom line of companies.

There's no doubt Australians have become spending-conscious, cutting back on discretionary purchases and seeking out sales, deals and bargains.

As the cost-of-living crisis continues to throttle retail activity – it creates an uncertain outlook heading into Christmas. We expect retail performance will largely depend on two of the predominant factors driving cost-of-living pressures, inflation and interest rate increases.

While Australian Bureau of Statistics[3] data suggests inflation has peaked, it remains to be seen what approach the Reserve Bank of Australia will take in upcoming monetary decisions.

As has been acknowledged by government, the RBA and many economists, this is a unique period in our economic history and on that basis, it is very hard to make predictions.

It would be expected that if inflation and interest rates fall, retailers will potentially be in for a jolly Christmas – however, the contrary also applies.

It is often said that crises drive innovation. If that is true, it makes the present a fantastic time for retailers to branch out and pursue new strategies. We're seeing considerable investment in technology overseas – and expect this to be reflected in the Australian market in due course.

Personalisation, social commerce, augmented reality, and loyalty programs have been at the forefront of customer engagement strategies.

Retailers also remain conscious of the importance of embracing sustainability – not only to future proof their business, but to meet evolving consumer expectations. A big sustainability focus this year has centred around the circular economy.

Key findings

The stockings are stuffed, but holiday uncertainties loom

The cost of living continues to rise, and consumers are expected to reduce discretionary spending.

Retailers made hay while the sun shone in 2021 and 2022: money was cheap, and consumers were spending their pandemic savings. But as interest rates rise and inflation remains uncomfortably high, consumer confidence has taken a hit.

The rebound of the housing market has continued to challenge economic expectations as consumers look for a stake in the Great Australian Dream. With the value of new loans being 18.2% lower than last year – and the RBA increasing the cash rate target to 4.10% for the first time since 2012 - first home buyers have tapered their spending, with the number of new loan commitments for first home buyers reducing by 12.2% from last year.[4]

From **Deloitte's Global State of the Consumer Tracker**, fielded across 24 countries, we have seen that Australians are the second most anxious about their financial wellbeing with 74% of those surveyed concerned that prices for everyday products will go up. (Just behind South Africa at 75% with Chinese consumers being the least concerned at 38%).[4]

Over the past year spending intentions have started to signal eroding confidence and this has shifted share of wallet on spending categories. In 10 of 24 countries globally, more discretionary categories (excluding Saving & Investing) represented a smaller share of the consumer's wallet.[4] Consumers are therefore mitigating the concern of rising prices by cost-saving behaviour.

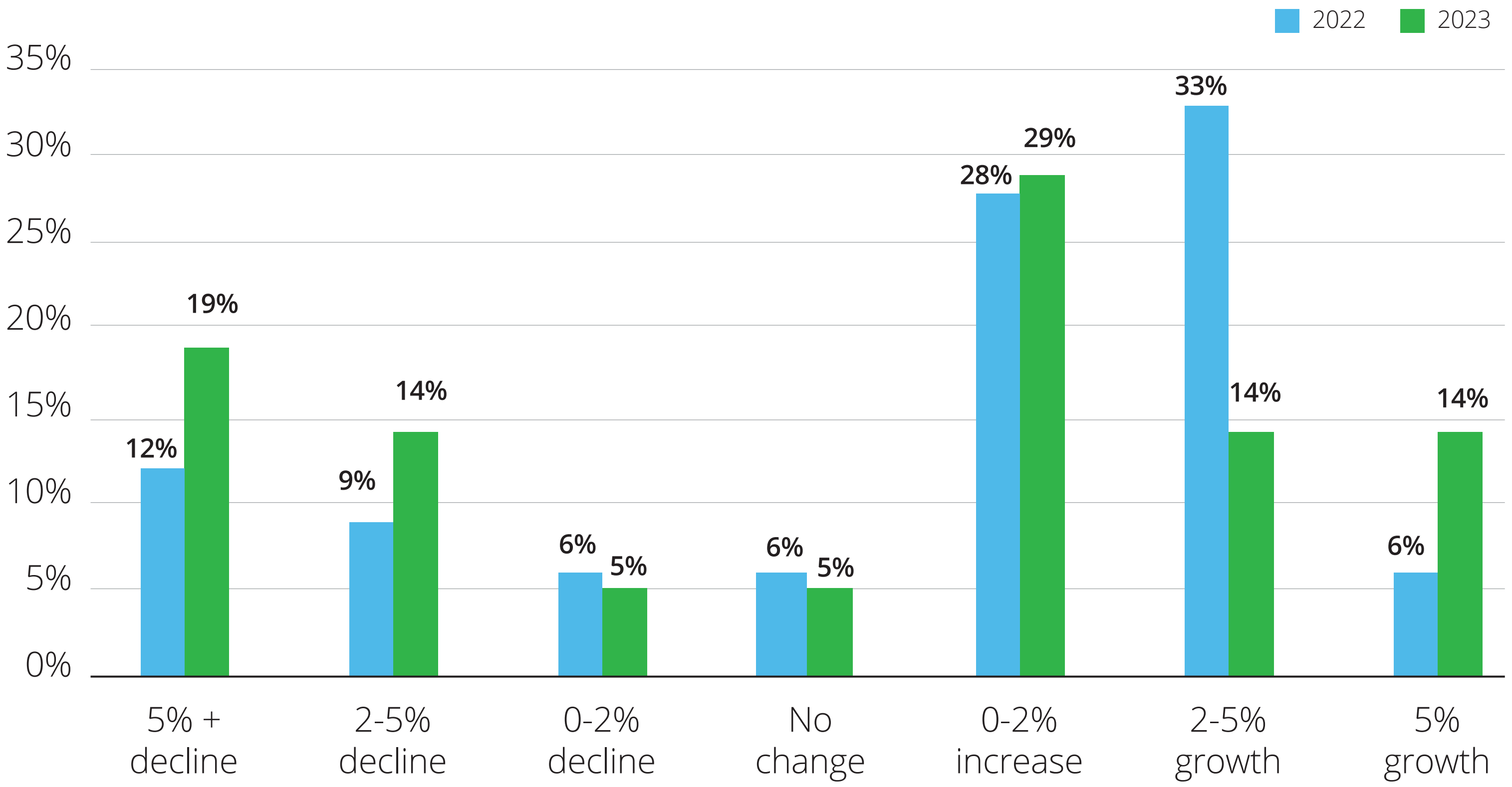
47%

Percentage of Australians feel their financial situation worsened over the last year.

74%

Percentage of Australians concerned that prices for everyday products will increase.

Top-line sales confidence has decreased with 57% expecting growth versus 67% last year.



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

What are your expectations in relation to the retail sector for the next 12 months compared to the previous 12 months?

We expect continued flat/declining sales through the September quarter with an improvement in the Christmas period with a heavy focus on discount products to compete with other retailers.

2023 Retail Executives View

Retail in the red: Navigating declining profits

Retailers are cautiously optimistic about holiday season growth, with **14% of respondents expecting sales to increase** by 5% or more over the period (a notable uptick from 6% last year), and 57% anticipating some level of sales growth compared to the previous year.

Despite the top line growth, **71% of our respondents expect the levels of discounting to increase** over the last holiday period, and 52% of respondents expect a decline in margins.

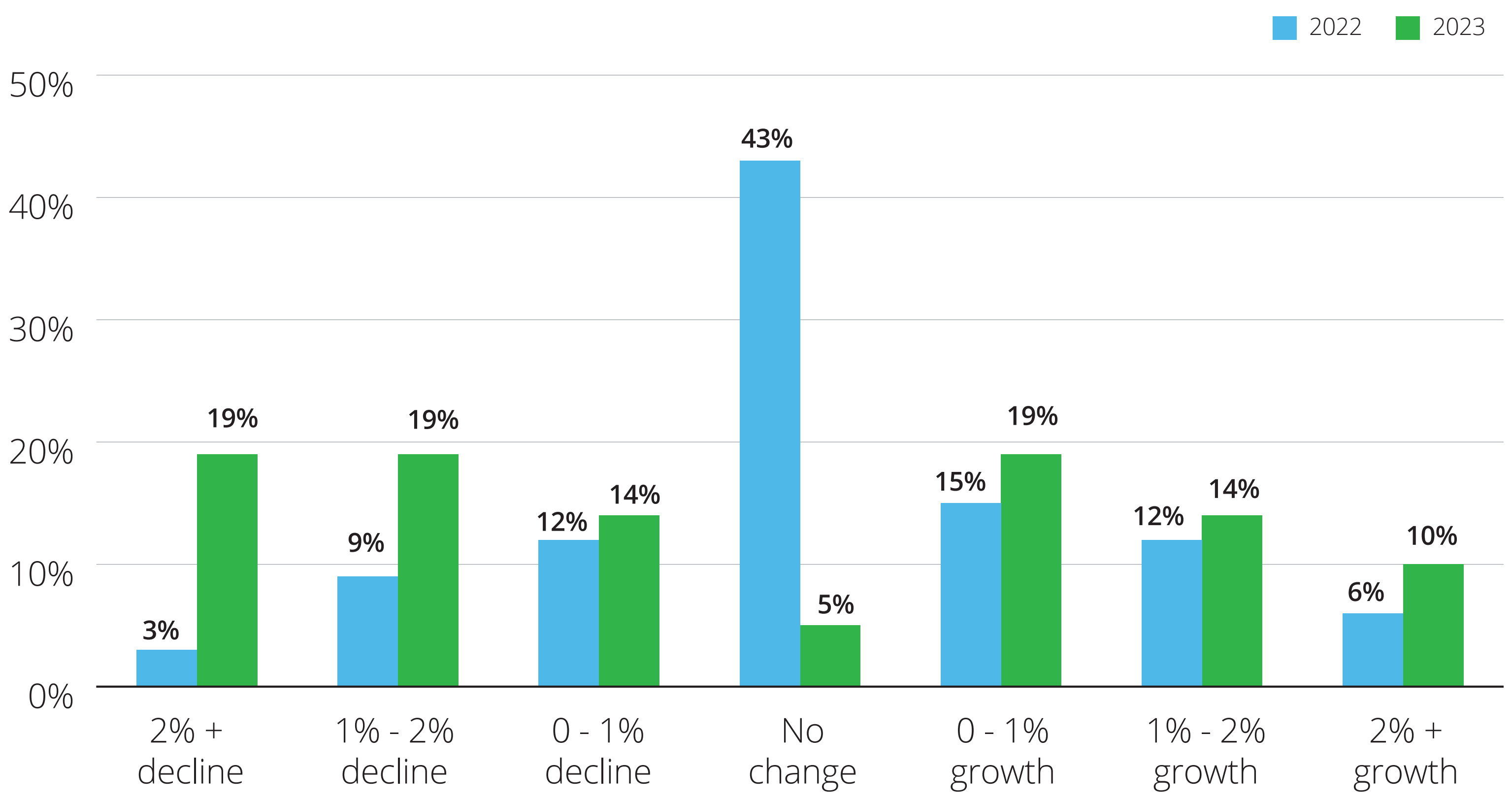
As mortgages put pressure on discretionary spending, consumers look for value. Clearly, inflation will be taking a bite out of profits for Australian retailers, who will be looking for more cost-efficient ways to engage sales over this critically important period.

But with volumes down and costs up, retailers should be wary of overstocked positions in 2023. 43% of retailers believe it unlikely that consumers will pay full price these holidays – a warning for those that want to maintain profit margins.

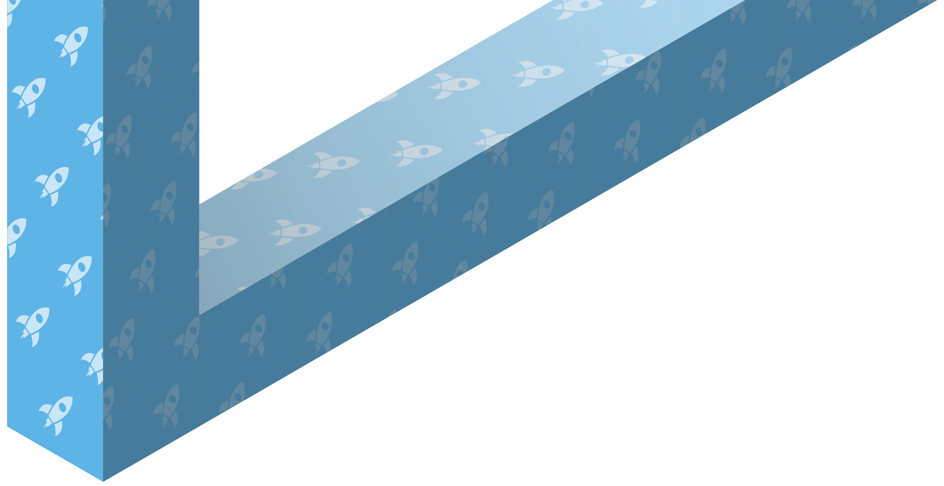
Economic headwinds are likely to make conditions difficult this holiday period. Retailers should focus on doing the simple things well: efficient stock turn, sales productivity, and customer engagement.

Many retailers will focus their efforts on value products as consumers look to stretch their dollar further.

More than half expect a decline in margins for the Holiday period in-store



Overall, do you expect margins for the 2023 holiday period to exceed 2022 (on a same-store basis where applicable)?



With customers returning to in-store experiences, the proportion of online sales over the holiday period have declined heavily since the COVID-impacted years.

Despite expectations of a permanent shift in customer behavior driven by lockdowns, retail sales have continued to lean towards in-store purchases this year. Online channels have declined from the past two years, but they remain higher than pre-COVID with 42% of retailers expecting online sales above 10% (compared to 30% in 2019).

The fact that consumers aren't making online purchases doesn't diminish the critical role that digital and social platforms play in achieving success. Just 5% of respondents don't offer digitally enabled sales, and most retailers highlight 20% of sales through digitally enabled channels.

To entice customers to the store, 38% of retailers are focusing on personalising the retail experience to strengthen relationships. To make the sale, pricing remains front of mind for 29% compared to 18% last year.

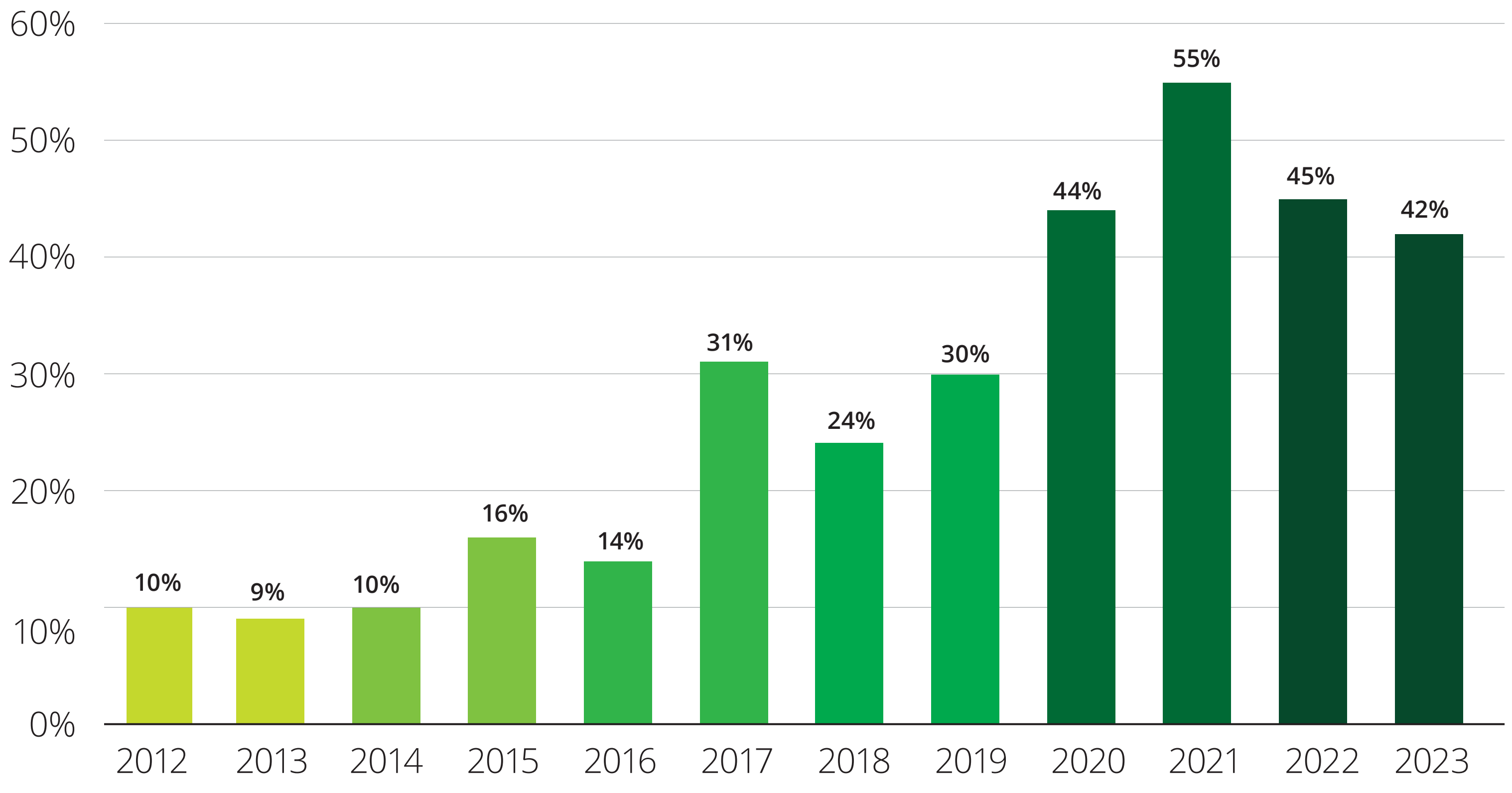
39%

of respondents expect an increase in online sales this year compared to

58%

of respondents in 2022

Online sales continue to drop as retailers look to personalise in-store experiences



What percentage, if any, do you expect your online sales to be over the Holiday period?
This graph shows percentage of respondents expecting more than 10%.

Whilst online remains crucial to growth we have seen customers returning to stores post COVID-19 and we expect this to remain the case this Christmas. We also expect customers to look more for value this year compared to last year, something we are well positioned for.

Troy Wilson
Chief Financial Officer, Retail Apparel Group

We've started to see a new cohort of customer in Gen Alpha, and to bring them in focus we will be diverting investment into social commerce channels like TikTok. That's already had a big impact for us, and will continue to help us acquire new customers.

Sam Bain
Chief Digital Officer, MECCA Brands

A dash to meet customer expectations

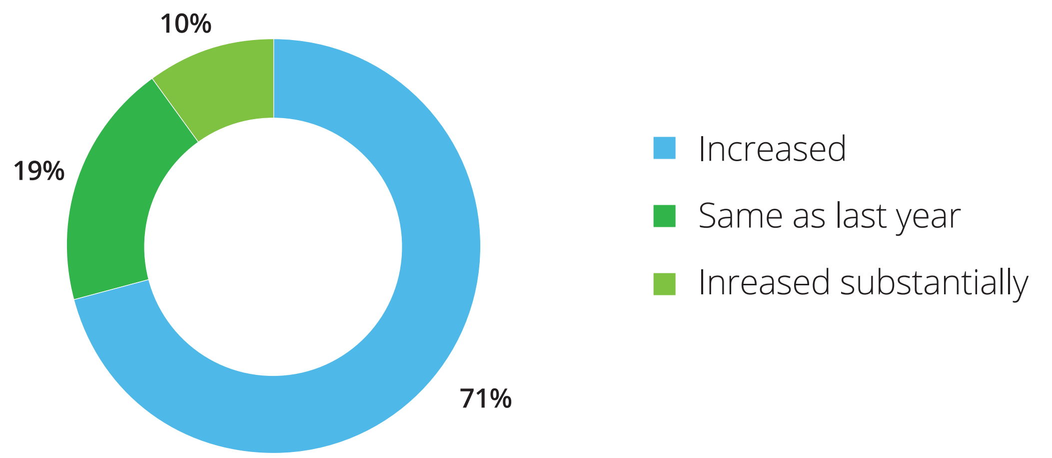
Many brands are racing to meet customers' ever-growing expectation for on-demand delivery. Global mobility companies are servicing major Australian retailers including the likes of **JB Hi-Fi** and **Woolworths. Amazon** and other global retailers offer this last-mile service in-house by hiring independent contractors to cater for the soaring demand for lightning-fast delivery.[7]

Gaining pace as a strategy for more and more categories, 'quick commerce' sets an even greater standard for speed and convenience by offering delivery within just one or two hours. Not an easy feat, this heightened expectation for shopping-on-demand will lead to smaller and more frequent baskets, demand more efficient fulfillment hubs, and rely on a nimble mode of delivery. Currently, the UK and Germany are leading the race, delivering packages at an average of just 10 minutes.[1]

With almost all retailers making online sales (and collecting associated data) they are using increasingly sophisticated methods to understand consumer interests and target sales accordingly. In doing so, the cost of building these customer relationships is expected to increase. An overwhelming 81% of our respondents have seen a rise in customer acquisition costs.

Clearly, the competition for engagement with customers is intense and the cost of doing so is eating into profit margins.

The vast majority of retailers are experiencing increased customer acquisition costs



Have your customer acquisition costs increased relative to last year?

Make or break: The crucial December trading period

Human beings are inherently tribal by nature; we may have our disagreements within our circles, but when an external threat arises, we unite. In light of this, retailers are placing their primary focus on the state of the economy and consumer confidence, rather than fixating on local or international competitors.

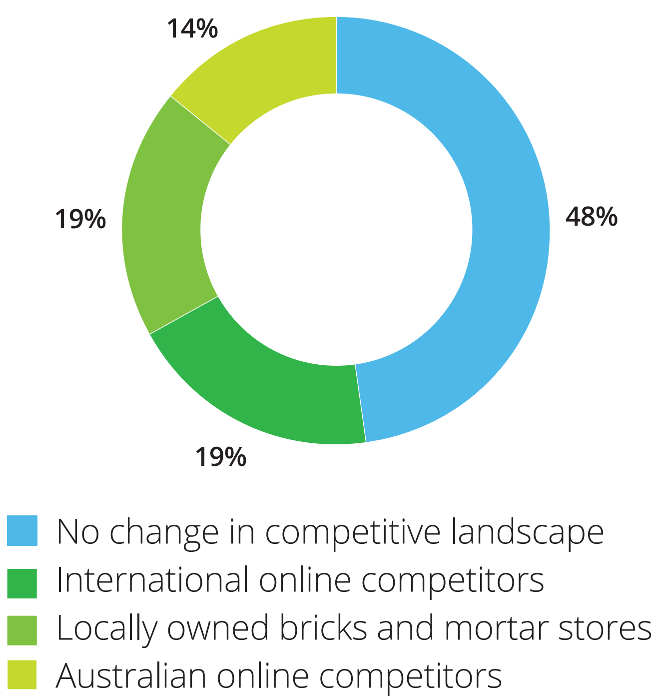
But whilst the economy remains front of mind, competition for a declining wallet share will likely increase this Christmas. Retailers tell us **discounting and promotional activity will be the key to enticing customers** as well as doubling down on omnichannel strategies such as online, delivery options, click-and-collect, and enhanced in-store experiences.

Right now, retailers are dropping prices to clear stock with one third discounting significantly more than a year ago. History demonstrates the danger of perma-discounting, and retailers will be hoping this activity is only temporary.

Christmas and the holidays remains the 800-pound gorilla on the retail calendar. Almost all our respondents remain focused on December to deliver overall profitability, and so getting the strategy right remains critical for sales and margins.

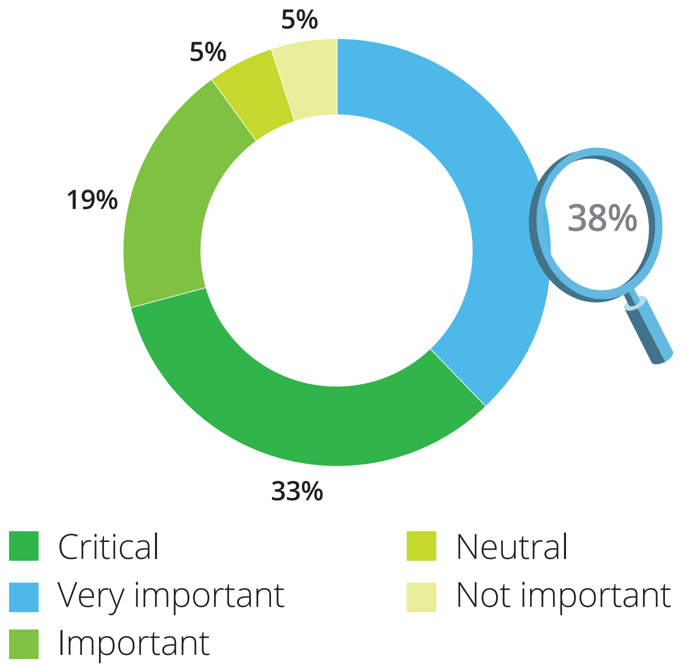
In challenging economic times, it can get more and more difficult to entice customers to spend, and a sustained period of spending will be even more important for retail

Nearly 50% of respondents do not expect any change to the competitive landscape



From which source do you expect to see the most increased competition in the next 12 months?

9 out of 10 respondents consider the December trading period as important to critical



How important is the December 2023 trading period to the overall performance of your company?

We know that value is going to be more important than ever this Christmas, so we've worked hard to assemble a festive, outdoor living and gifting offer that really resonates while helping households to stretch budgets further. We're matching this with a lot of theatre in our stores with workshops, community events, family nights, and demonstrations to cater for the strong return to in-store shopping we've seen post Covid.

Ryan Baker
Chief Customer Officer, Bunnings

Retail trends

Trust and data privacy: Keeping Santa's list confidential

Data privacy remains a complex problem in an environment where it's expensive to engage customers.

Whilst there are fewer high-profile data breaches being reported this year than 2022, retailers should remain vigilant. Compared to last year, more retailers consider data privacy a medium risk in 2023, perhaps showing that data risks are becoming business as usual.

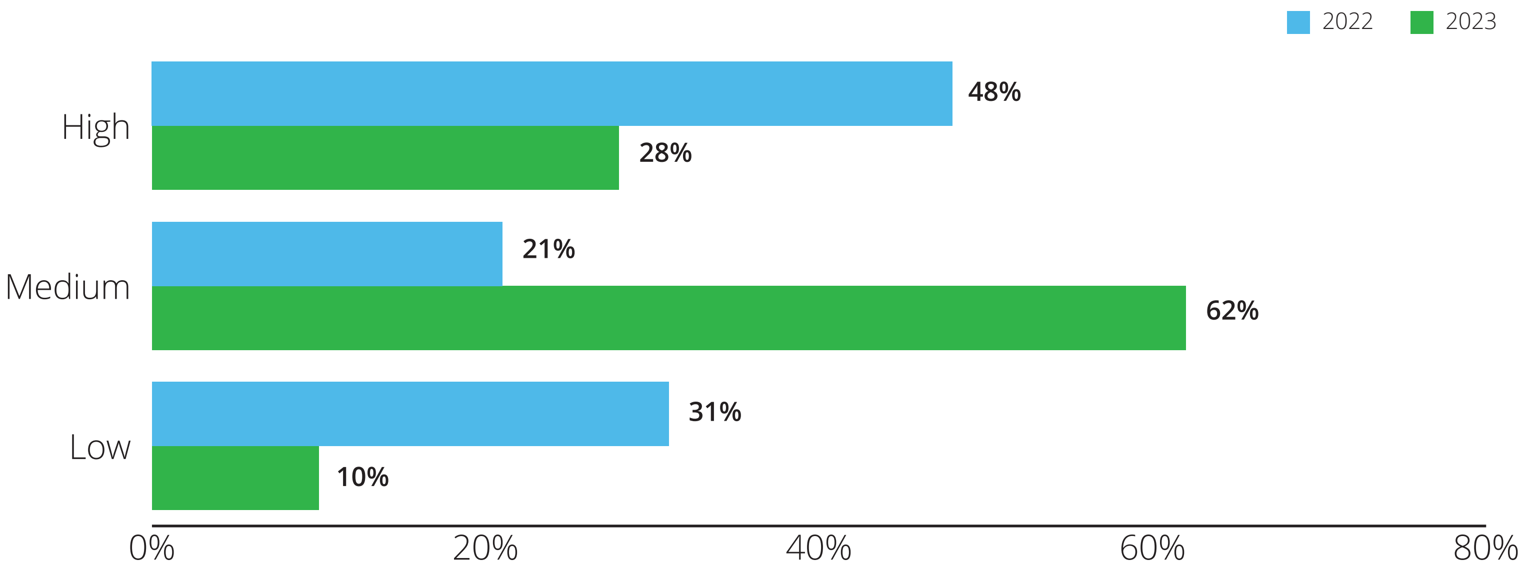
Data privacy is a continuously evolving area, and staying ahead of threats is critical to keep customer data secure. With **95%** of respondents highlighting some level of digital enablement of sales, retailers should understand they are only one data breach away from having their reputation challenged.

Several respondents highlighted that it's just as important to remove unnecessary data as it is to protect what's held – an effective way to mitigate the impact of a data breach.

Consumers remain concerned about privacy[2]

- In light of high-profile data breaches in the last year, 83% of Australian consumers say their privacy awareness has increased.
- 90% of consumers want more done to protect their data.

9 out of 10 respondents consider data privacy a risk in 2023

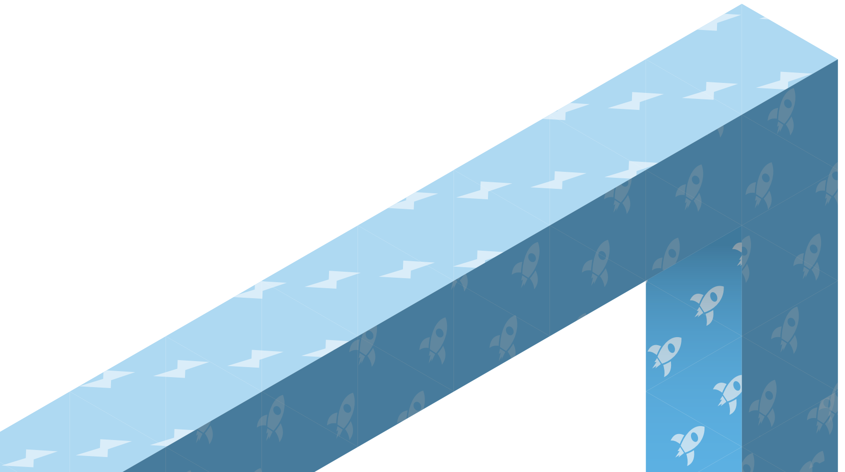


How significant a risk is data privacy to your business?

What are the most significant investments you are making to protect customer data?

We are constantly investing in technology to ensure customer data privacy is protected.

Retail Executive Insight



Australia's cyber threat: How are you protecting your customers' privacy?

Every day, millions of Australians jump online to browse and buy, knowing their perfect purchase is just a finger-tap away. But first, the data exchange: name, address, phone number, bank details. Privacy policy skimmed, T&Cs ticked, email verified. Purchase complete.

Data. It's the key to contemporary living. To live, work and play, we consent to a data transaction – our personal information in exchange for goods and services. To some, this quid pro quo was just part and parcel of modern life. But high-profile breaches and cyberattacks resulting in millions of Australians' personal details being stolen and misused have made us sit up and take notice.

In light of these breaches, Deloitte surveyed more than 1,000 consumers across Australia to understand how people feel about data privacy. We also looked into the privacy practices of Australian organisations, including their commitment to privacy and responsible data handling, how they compare to industry best practice and how they communicate their policies and practices to customers when collecting their data.

Firstly, we can confirm there's been a shift in consumer sentiment that impacts all industries, including retail. People are feeling more cautious than ever about sharing personal information and more anxious about the type of information organisations are requesting from them.

56% of respondents say they've needed to provide more personal information than necessary in the past year. They're particularly concerned about the collection of identity documents, with **74%** expressing strong preference against organisations collecting or retaining this type of personal information.

As a result, consumers are increasingly restricting the personal information they share: **52%** have chosen not to complete non-mandatory form fields. More importantly for retailers, **35% have chosen not to buy a product or service** because an organisation asked to collect personal information they weren't comfortable sharing.

However, when our Deloitte specialists investigated organisations' privacy policies and practices, they discovered it was the education and employment sector, along with travel and transport, that consistently collected more personal information than required. In fact, the retail sector was considered the least likely to collect more personal information than necessary.

This suggests that as a collective, retailers are more responsible than others with customer data. But that's just a small part of the story, so the industry isn't off the hook!

In fact, overall, the retail industry was ranked **9th lowest** by our specialists (out of 10) for **responsible data handling.** Consumers were also asked which industries they trust most to responsibly handle their data; retail received a **negative trust score, coming in third last place.**

There were hundreds of reported cyber breaches in Australia last year, with hundreds more going unreported. And cyberattacks are getting more sophisticated by the day. Sometimes organisations don't even know they've been hacked, and it's not uncommon for breaches to go undetected for a year.

So, retail organisations must step up and make sure their cyber plan is robust and that includes planning around people's data. Just as consumers are rethinking the data transaction, retailers must also review and rethink their side of the data deal. Why? They have everything to gain by listening to consumers' concerns: by understanding how people are feeling, looking at key stats and putting strategies in place to minimise data breaches, organisations can build trust and loyalty. The alternative is loss of trust, reputational damage, and potential legal and financial repercussions.

So where to from here for retailers?

The first thing is to prioritise privacy and data security to meet consumer demands. As we know, data and privacy breaches are on the rise, so prioritising the protection of identifiable information is crucial. This will foster a sense of trust, reassure customers and contribute to a safer and more privacy-conscious digital landscape.

There are also privacy protection essentials that no organisation should overlook. These include:

Robust protection measures: such as encryption, access controls and regular security audits, which are essential in reducing the likelihood of a breach.

Risk minimisation strategies: rather than just relying on prevention and detection, comprehensive risk minimisation strategies that respond to a breach must be a key focus. This includes developing incident response plans and conducting thorough breach simulations.

Data minimisation: a fundamental privacy principle and practice, requiring organisations to only collect and retain the minimum amount of personal information necessary for a specific purpose.

Other important considerations are customer communication, investing in privacy-enhancing technology and empowering consumers to make their own choices around privacy and personal data. But the final word will go to consumers. What will it be for your organisation: *'opt-in'* or *'opt-out'*?

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Discover Deloitte's 2023 Privacy Index

Embracing transparency and proactivity: Paving the way for positive progress

With the release of IFRS S1 and S2 by the International Sustainability Standards Board,[8] along with the Modern Slavery Act of 2018, most large retailers will need to understand their business operations deeply to provide clarity and transparency under the reporting standards.

Despite the importance of these two standards, no respondents consider sustainable product ranges as an important focus to build sales, and only 19% perceive environmental, social and governance (ESG) factors as critically important. The origins of operations (such as raw materials and manufacturing) stretch globally and will only pose challenges on quantifying risks under these new standards. New policies and processes may be needed to identify sustainability risks before the reporting rush.

What are you doing to respond to sustainability challenges such as climate change, ethical sourcing or packaging?

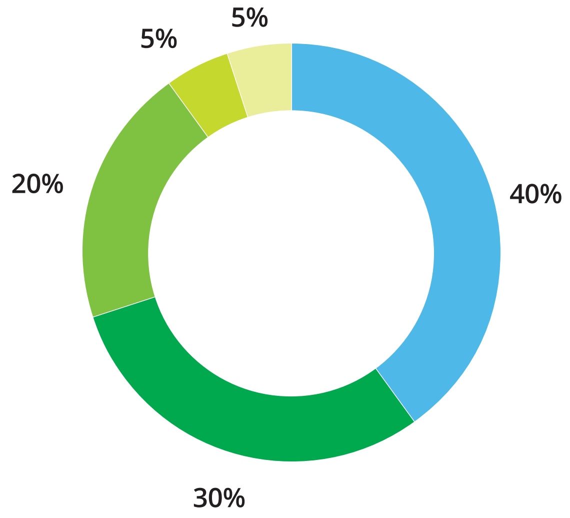
We are progressively moving towards 100% recyclable packaging from item level to freight and supplies.

Retail Executive Insight

Some respondents are heading in the right direction to address sustainability impacts, with **40% of respondents focusing on traceability and provenance within the supply chain**. Most are consistent on their approach this year, with the other major focus areas being physical risks and response measures, and strategies for social impact and responsibility.

When asked what they are doing to address sustainability challenges, some respondents mentioned fully recyclable packaging targets, whilst others are in the review stage and mapping out strategies. Regardless of the retailer's maturity in tackling sustainability, the public has spoken: they want transparency and proactivity.

ESG focus areas are moving to supply chain clarity and physical risks



- Traceability and provenance within the supply chain
- Physical risks and response measures for changes in climate
- Social impact and social responsibility strategies
- Risks and response measures for transitioning to a low-carbon economy
- Changing climate and sustainability reporting requirements

What are you focusing on to meet the ESG expectations of customers and regulators?

Collaborate for climate

With the imminent arrival of new climate reporting regulations, there's a renewed focus on Scope 3 emissions. Managing greenhouse gas emissions across the full consumer product value chain cannot be done alone, and retailers are working alongside suppliers to achieve mutual goals. **Walmart's** Project **Gigaton** is an example of a simple way to achieve net zero goals as a collective, with Walmart aiming to reduce one billion metric tons of greenhouse gas from their global network by engaging with partners. Since the initiative launched in 2017, **Walmart** has engaged over 4,500 suppliers through collaboration initiatives, reporting and financing programs and passed the halfway mark to their goal.[11]

To gain access to full visibility, technology will be key. Advanced planning solutions and control towers can track the impact of your operations on sustainability metrics, allowing your business to optimise routes, packaging requirements and ESG considerations beyond service and costs to meet targets.

Sustainability in retail

The role of RaaS

H&M are on the front foot to tackle waste in the fashion industry with the launch of **H&M** Pre-Loved, an online resale offering leveraging thrifting company thredUP's resale as a service (RaaS) platform.[12] **H&M** says it's a step to take responsibility for fashion's considerable environmental impact.[12] Local brands are following in their footsteps, with The Iconic partnering with another RaaS in AirRobe to streamline the reselling, renting, or recycling of clothing it sells online.[13]

It's clear a broader shift is occurring as companies begin to build sustainability into their business models. Consumers also continue to seek out circularity with a rising appetite for 're-commerce' – will we see a rise in 're-gifting' this Christmas?

Citizen Wolf: Turning the dial to net negative[14]

Citizen Wolf's ethos boils down to one powerful statement: "Re-engineering fashion to save our planet". After recognising that the fashion industry and the planet were in dire need of a healthier relationship, the organisation's founders built their brand to be zero waste, operating in a made-to-order model that eliminates the need for production forecasting, all certified by B Corp and Ethical Clothing Australia. **Citizen Wolf** is proving it's possible for clothing brands to generate a nature-positive impact, starting by auditing its CO2 consumption from farm to hanger. From there, they put measures into place that cut emissions by 48% and now offset to the point that they measure up as net negative. The brand has also embedded circularity by committing to zero-waste packaging, offering free lifetime repairs, and launching a take-back scheme.

Building trust and performance through reporting

The corporate landscape is rapidly changing. Mandatory climate disclosures are looming for Australian companies, but what does it mean for retailers?

On 26 June 2023, the International Sustainability Standards Board (ISSB), a branch of the International Financial Reporting Standards Foundation (IFRS), issued the final release of its much-awaited sustainability (IFRS S1) and climate (IFRS S2) disclosure standards.[9] It aims to set a global baseline for sustainability and climate related financial reporting and standardise the way organisations report ESG information.

In July, Australian Commonwealth Treasury released a second consultation paper to seek feedback on its plans to mandate climate-related financial disclosures for around 23,500 Australian entities by 2027-28, with some commencing mandatory ISSB-aligned climate reporting from 1 July 2024 [15]

What's changing under the ISSB Standards?[9]

ISSB-aligned disclosures will require a significant step-up in reporting
These standards are built on the same four pillars of the Taskforce for Climate-related Financial Disclosure (TCFD) framework, but they expand the detail and quantitative nature of the requirements. In particular, IFRS S2 requires entities to use quantitative climate scenario analysis – including a Paris-aligned climate change scenario – and disclose climate-related transition plans and targets.

Connecting ESG and financial information
The standards also introduce the critical concept of connected information: organisations must integrate climate and sustainability considerations into financial decision-making and disclose this as part of general-purpose financial reporting. This includes disclosing how related climate and sustainability risks and opportunities are expected to impact financial performance over the short, medium and long term, and how they plan to address them.

Sustainability and climate disclosures: Where should retailers start?

Data uplift and engaging with suppliers
What gets measured gets managed. We've heard this phrase hundreds of times in our careers in different contexts, and it's equally true for sustainability and climate disclosure.

One of the most significant changes is the ESG data requirement and the disclosure of greenhouse gas emissions. These include Scope 1 (direct emissions), Scope 2 (indirect via electricity consumption), and Scope 3 (upstream or downstream in the value chain).

Scope 3 emissions are by far the biggest contributor to the average retailer's footprint. The challenge in reducing these emissions is two-fold:

- Getting reliable data to understand the baseline and measure progress
- Effectively influencing suppliers and supply chain partners to reduce emissions.

Driving change outside immediate operations can be a lengthy and complex process, therefore, the sooner you start, the better. This will put your business in a stronger and more confident position when it's time to disclose and seek assurance on this information.

There are other disclosures many retailers will need to uplift:

- The number and percentage of assets or business activities vulnerable to transition risks, physical risks, and climate-related opportunities
- The price for each metric tonne of greenhouse gas emissions the entity uses to assess emissions costs
- Capital expenditure on climate-related risks and opportunities.

Climate-related data (and other sustainability data material to your organisation) will need to be systematically collected, managed, and verified to be shared externally with the same degree of confidence as you share your financials.

The need for assurance over climate disclosure will increase over time, with limited assurance followed by reasonable assurance. Therefore, it's fundamental to start thinking about this: data systems, processes, and controls will need to be improved or – in many cases – be implemented for the first time.

Do what you say and say what you do

Over the past few years, we've seen a significant step up in retailers publishing voluntary sustainability reports and making environmental and social claims linked to their products and services. This follows strong calls from key stakeholders such as investors, customers who want to purchase environmentally or socially conscious goods and services, and retailers that want to do the right thing by helping tackle ESG challenges.

However, regulators are intensifying the spotlight on greenwashing – that is, sustainability-related statements, declarations, actions, or communications that don't clearly and fairly reflect the underlying profile of an entity, product, or service and may mislead consumers, investors, and other market participants.

A recent online sweep of domestic companies by the Australian Competitor and Consumer Commission (ACCC)[16] found 57% of them were making "concerning claims", particularly in the beauty, textiles and footwear, and food and beverages sectors. Some of the key issues included vague and unqualified claims, exaggerating benefits or omitting relevant information, and a general lack of substantiating information.

The release of the ISSB standards should help make disclosures more transparent by asking reporting entities to ensure material information is as accurate and reliable as their financial information. It's therefore critical that retailers ensure they can substantiate environmental claims or face regulatory and consumer backlash.

On the other hand, we warn retailers not to stray to the other end of the spectrum – or green-hushing – where one omits material information out of fear. This can be just as detrimental as inaccurate disclosures.

Green-hushing refers to when companies choose to minimise their declarations about their sustainability targets as much as possible, due to fear of backlash, litigation or regulatory risk or being caught out for loopholes in their targets.

How to prepare

Retailers must think about climate and sustainability in an integrated, whole of company and supply chain way. Solving the sustainability and climate challenge cannot be done in silo by one function, rather partnership and collaboration will be key. The conversation has moved on from competitive advantage to building resilience, aligning with customer and investors demand, and setting your business up for success and growth in the years to come.

We encourage retailers to:

1. Identify material sustainability and climate topics and integrate them into business strategy
2. Undertake Deloitte's ISSB Readiness assessment to understand your current state of sustainability reporting and disclosures relative to IFRS S1 and S2 standards
3. Create a roadmap by prioritising the actions needed to close those gaps
4. Deliver on this readiness roadmap and start reporting

European parent companies or subsidiaries[18]

Australia isn't the only country shifting towards established mandatory sustainability disclosure: Europe is quickly moving in the same direction with its Corporate Sustainability Reporting Directive (CSRD). The legislation establishes ESG reporting requirements for organisations, calling for sustainability information to feature in the front end of annual reports and to be treated with the same rigour as financial information.

Based on the CSRD's reporting requirements, some Australian entities will also be affected and will need to report under this directive:

- Large companies that have significant activity in the EU and fulfil at least two of the following criteria, including those with an Australian parent:
  - Over 250 employees
  - €40 million net revenue
  - ≥ €20 million on the balance sheet
- Global non-EU companies with a net turnover of €150 million and at least one significant subsidiary or branch in the EU.

Subsidiaries of global non-EU firms are only exempt from reporting when their non-financial information is included in the parent company's consolidated management report. In this instance, the non-financial information must be disclosed separately in the consolidated report.

In total, around 50,000 organisations are expected to be affected by the CSRD – some as early as the 2024 financial year.

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On the horizon

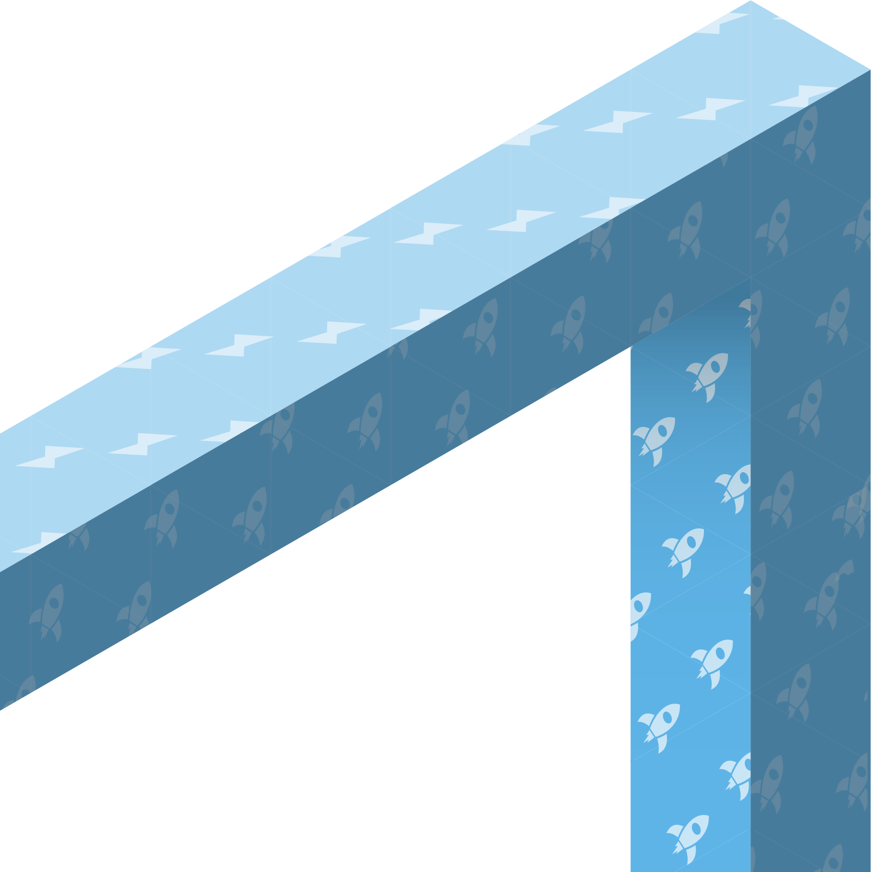
Sustainability reporting is here to stay.

Earlier this year, the ISSB sought feedback via public consultation on its key priorities for the next two years .[17] They identified four projects based on investors' needs and will start executing on these in early 2024 based on the feedback received on:

- *Biodiversity, ecosystems, and ecosystems services (BEES)*: changes in biodiversity and ecosystems will affect entities' sustainability-related risks and opportunities.
- *Human capital (including wellbeing, diversity, equity, and inclusion):* human capital is difficult to measure and its management can affect how risk and opportunities manifest; there's a lack of oversight on the impact of alternative workforce such as automation and AI.
- *Human rights:* human rights mismanagement and lack of broader oversight in the supply chain is a high reputational risk for companies; entities are increasingly challenged to manage these risks as international economies become more interconnected and supply chains more complex.
- *Researching integration in reporting:* research is needed to explore how to integrate information in financial reporting beyond the connected information requirements in IFRS S1 and S2.
- Australian companies listed in EU markets.

Generative AI: A future full of potential

Since the much hyped public release of Generative AI, retailers may be wondering if it's a flash in the pan or the real deal.



Few times in history have two letters promised so much in transforming the way we live, work, and shop. AI has been behind the scenes in many industries for years, driving innovation in pricing, supply chain, and data analytics. In 2022, the launch of several consumer-facing applications like **ChatGPT**, **DALL-E** and **Midjourney** brought generative AI to the collective consciousness of the world. For the first time, regular consumers were able to see and touch a generative AI system.

DALL-E, **Midjourney**, and **Stable Diffusion** are also creating new possibilities for organisations to experiment, iterate, and communicate to their stakeholders.

Queensland University of Technology researchers have highlighted how AI and big data can be used to design store layouts to increase basket sizes, conversion rates, and customer satisfaction.[19] Just as pricing and discounts have moved to algorithmic and analytical methodologies, big data, facial recognition, customer tracking, and decision analytics could help retailers determine the most productive and optimised store layouts and locations.

According to **Databricks**, the number of companies using large language model APIs have **increased by 1310% since the release of ChatGPT**, with natural language processing (NLP) the most popular application.[20] Brand and marketing specialists are cooking up a wide range of use cases, with images of virtual storefronts able to show the impact of different colours, accents, materials, and styles without requiring hours in front of the computer.

Generative AI won't be a substitute for human ingenuity, but the distance between inspiration and output will continue to shrink. New technologies can be solutions in search of problems, and retailers may be fatigued from much-vaunted tech innovations like blockchain and the metaverse. But for AI, the possibilities make it more likely to be the real deal.

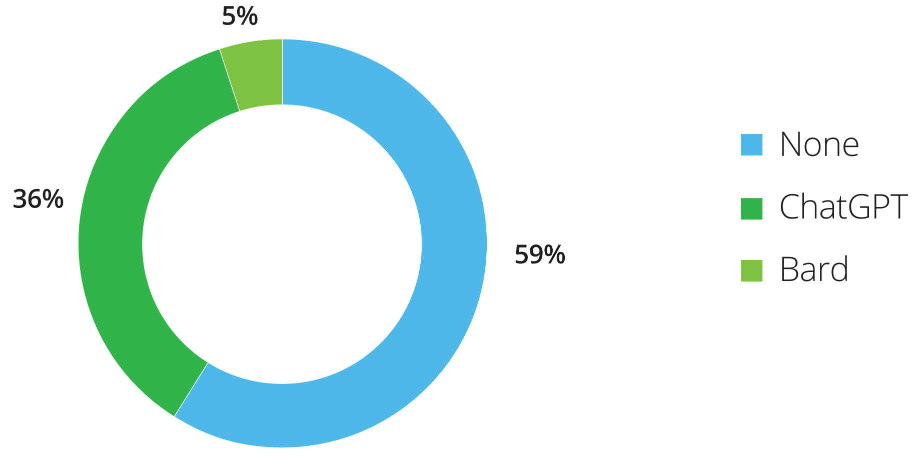
Like the rest of society, retailers are dabbling in Generative AI.

As the industry continues to deal with reduced consumer confidence from external spending pressures, should retailers extend their repertoire to include generative AI?

Our survey has identified that 41% of respondents have already adopted generative AI in some capacity, but views differ on its impact and whether it pays off. It seems the technology is yet to deeply penetrate the retail operation cycle: with 59% of respondents not yet using any generative AI tools.

How retailers expect generative AI to impact their business varies. A third see value in chatbots and servicing customer communications, whilst a quarter see it in search engine optimisation. Just 5% agree its impact will eventually extend all the way through to product design. Most respondents (71%) believe the new tech hasn't changed their sales – or at least it being too early to tell.

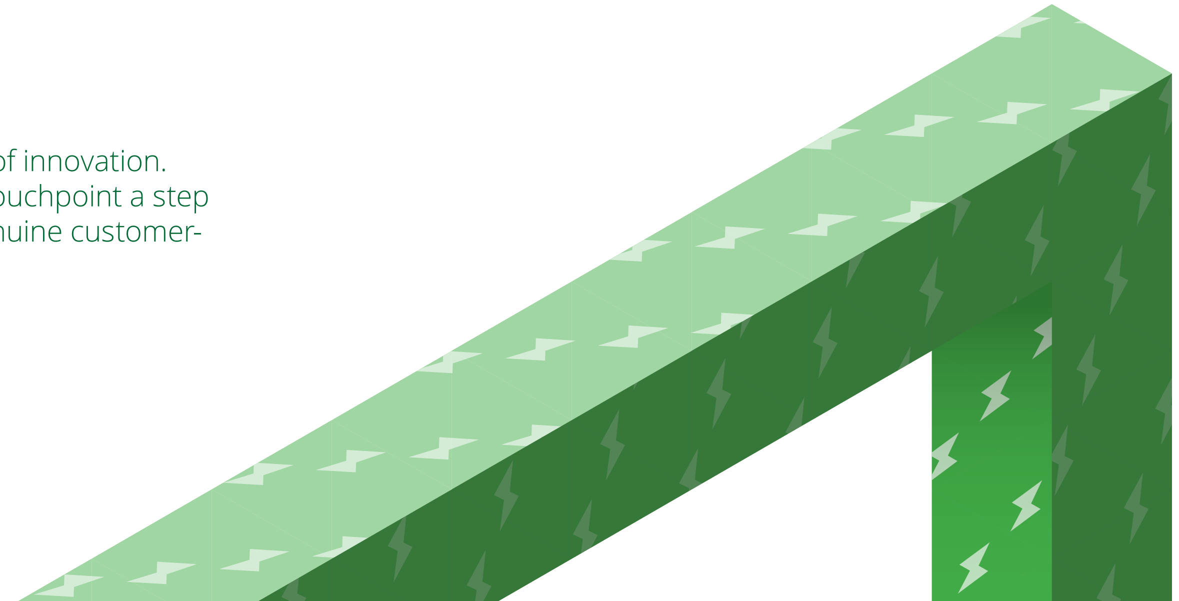
Which generative AI tools are retailers tapping?



What Generative AI platforms have you employed within your business?

Technology is not just a tool, but the stepping stones of innovation. Across the retail landscape, we can help make every touchpoint a step of convenience and every interaction a pathway to genuine customer-centricity.

Mandy Ross
Chief Information and Digital Officer, Super Retail Group



How are retailers embracing automation and AI?

- **Walmart** is using large NLP technologies to improve the shopper experience across digital channels.[22] Today, chatbots help shoppers add items to their cart through text and speech translation; in future, they will play a problem-solver role, allowing shoppers to express what they need in natural language. Chatbots will be able to anticipate what customers are looking for based on behaviours, triggers, and upcoming events.

Reshaping Retail with Generative AI

In the 2000s, the internet had retailers racing to set up their e-commerce stores. In the 2010s, smartphones exploded on the scene with customers carrying every store in their pocket. As for the 2020s? With the pandemic behind us, AI is emerging as the big shift that will shape the future of retail.

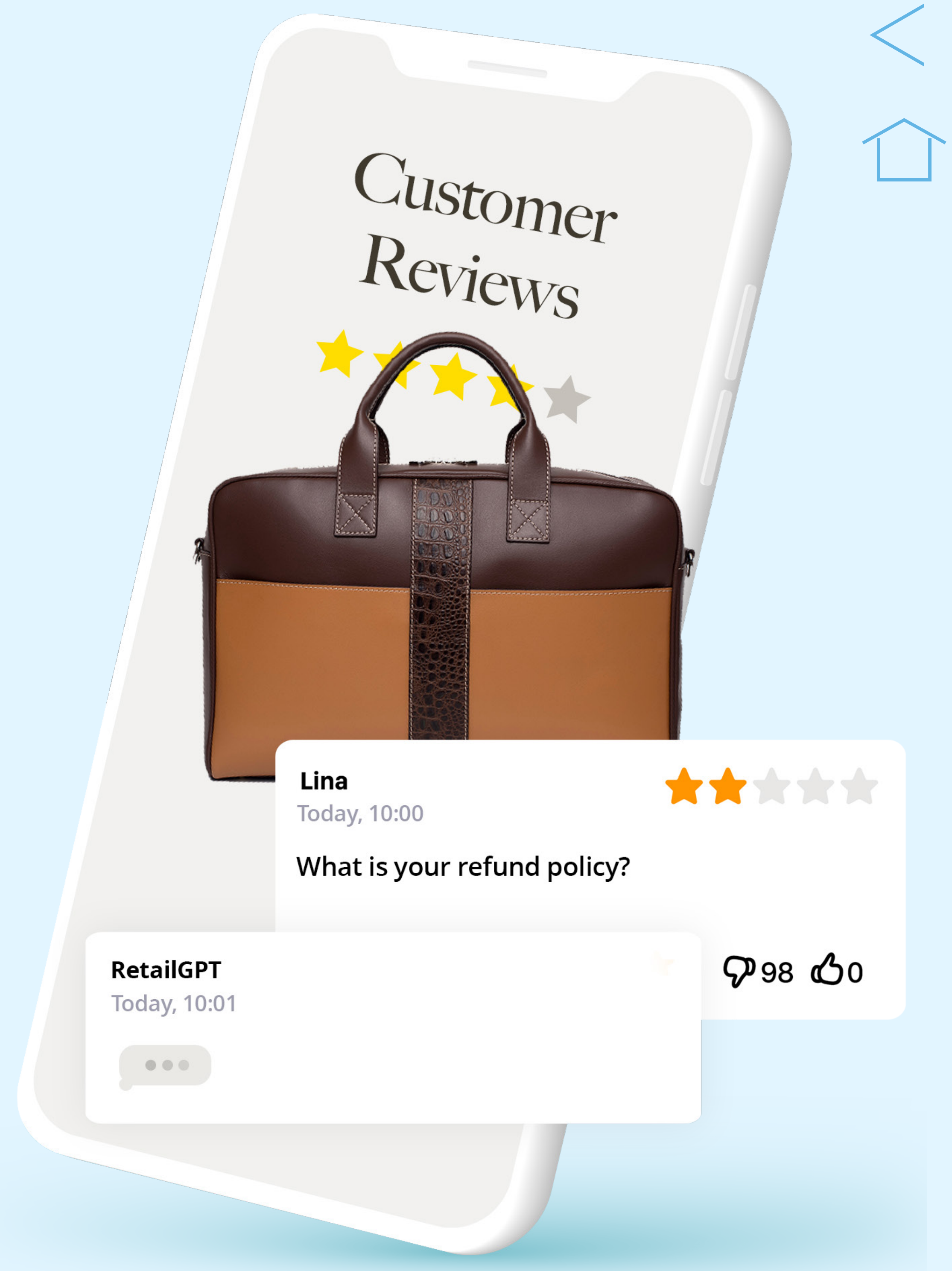
In the months since it was publicly launched, generative AI has captured our imagination with its human-like responses to questions and tasks. Trained on a huge portion of all text on the internet, it can create eloquent prose almost instantly. It seems to have knowledge on a huge range of topics – sometimes correct, other times hallucinated – but impressive nonetheless. Traditional AI was already becoming part of our everyday lives, but this was the spark that triggered the rapid expansion of generative AI.

Generative AI	Traditional AI
• Trained on massive amounts of data, such as most text or images from the internet • Uses foundational models that contain understanding of different concepts and their relationships within the models • Can be used without training data.	• Trained on specific data sets • Can only perform a specific function, such as forecasting sales or personalising offers • Requires lots of good data for training.

Leading retailers are already on the front foot

Most marketers have already started using generative AI, with a **Salesforce** survey finding it can save them five hours per week.[23] We're seeing employees add it to their toolbelt, moving much faster than the businesses they work for. The technology is perfect for generating content that's quick to verify but time-consuming to produce, such as brainstorms, product descriptions, marketing copy, and even pictures.

Tech companies are also moving quickly. **Amazon** has been testing generative AI to summarise reviews, saving customers time spent trawling through long responses.[24] **Google** has released virtual try-on for select brands, replacing costly photoshoots with AI-generated images to allow shoppers to see clothing on models with different body shapes and skin tones.[25]



Where Australian retailers should start

Many applications of generative AI have low barriers to entry as they're based on existing models trained by other companies. You could use it to upgrade your chatbots, for example, to improve conversations and retain more customers. This can also be a great internal tool, helping staff find the answers they need based on your organisational data.

But if you want to upskill your organisation in generative AI, you need to start now. Retailers that innovate first will set a new benchmark for customers, who will begin to expect it everywhere they shop. And over the next 12 months, these businesses will be best placed to adapt as generative AI accelerates with new features and capabilities.

We recommend that retailers:

- Establish policies to help employees use generative AI at work
- Focus on building AI fluency through communication and education
- Encourage employees to get hands on with generative AI, such as by running a hackathon.

By upskilling in generative AI today, your organisation can evolve more quickly in a changing landscape and adopt new features faster. If you wait, you risk falling behind competitors who are better positioned to take advantage of the technology.

Don't forget traditional AI

Australian retailers still lag behind the world in traditional AI applications such as personalisation, recommendation engines, cross sell, upsell, pricing, and promotion optimisation. These technologies are now mature, and retailers of all sizes should be using some of these tools to grow basket sizes and maximise profits.

Because traditional AI models rely on your organisation providing good training data, ensure you have a strategy in place to:

- Retain historical sales data
- Maintain data hygiene, such as keeping metadata about products and promotions
- Build a single view of your customers across all their interactions with your stores.

Tomorrow's retail today

By 2030, generative AI will have had a bigger impact on retailers than the internet or smartphones. The question is: which businesses will lead the shift and thrive as a result, and which will flounder as they play catch-up?

Managing the risks with generative AI

1. Focus on generative AI fluency
2. Don't use proprietary data and intellectual property in publicly hosted large language models
3. Host your own foundation models – like Walmart's internal genAI playground – and encourage staff to use them
4. Reassure employees that generative AI will not replace them, but act as a co-pilot to help them work more effectively.

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How retailers are embracing technology to ride the wave of innovation

Against economic headwinds, it's more important than ever to achieve a return on technology investment.

Process improvement is the name of the game, and technology is the ticket to play. What retailers can really unlock from this is time; time they can spend focusing on what's most important to build their brand and relationships.

Today, it's less important to fill distribution centres to the brim with staff. Automation can be rolled out, meaning workers can be redeployed in more meaningful roles.

Coles opened its first Automated Distribution Centre in Queensland this year, leveraging technology from Witron to help build greater efficiency in its supply chain. The technology automates the pallet packing process in the distribution centre, effectively grouping products of different heights and characteristics so the pallets are tailored for specific stores. For example, products shelved in the same aisle in a specific store can be grouped together. Once the pallets are packed and delivered, they require less sorting for in store team members due to the way products are grouped. This makes the stocking process quicker and easier for store team members and improves the availability of products on shelf for **Coles** customers. When operating at full capacity, the site can process up to four million cases per week, the equivalent of 32 million units sold in stores.

Although we'd expect the threat of job losses during technology rollouts to be a major concern, respondents to a study by the Australian National University found two-thirds of workers were not concerned about automation or online shopping having a negative impact to their role, however 35% were concerned about being replaced by cheaper labour. Retailers will need to consult with their workforce to identify their contribution in more meaningful roles during times of change.

In terms of consumer facing technology, gone are the days of being awed as Cher matches her outfit in the 90s movie Clueless. Augmented and virtual reality has come to fruition in the current age – but it's still not a common fixture for retailers.

H&M has seen value in augmented reality, collaborating with Snap to allow consumers to virtually try on clothing before they buy.[28] **MAC** has partnered with **YouCam** to simulate trying on cosmetic products.[29] **Apple** has gone a step further with the release of its latest consumer product, the **Vision Pro.**[30]

Tactics to captivate customers this festive season

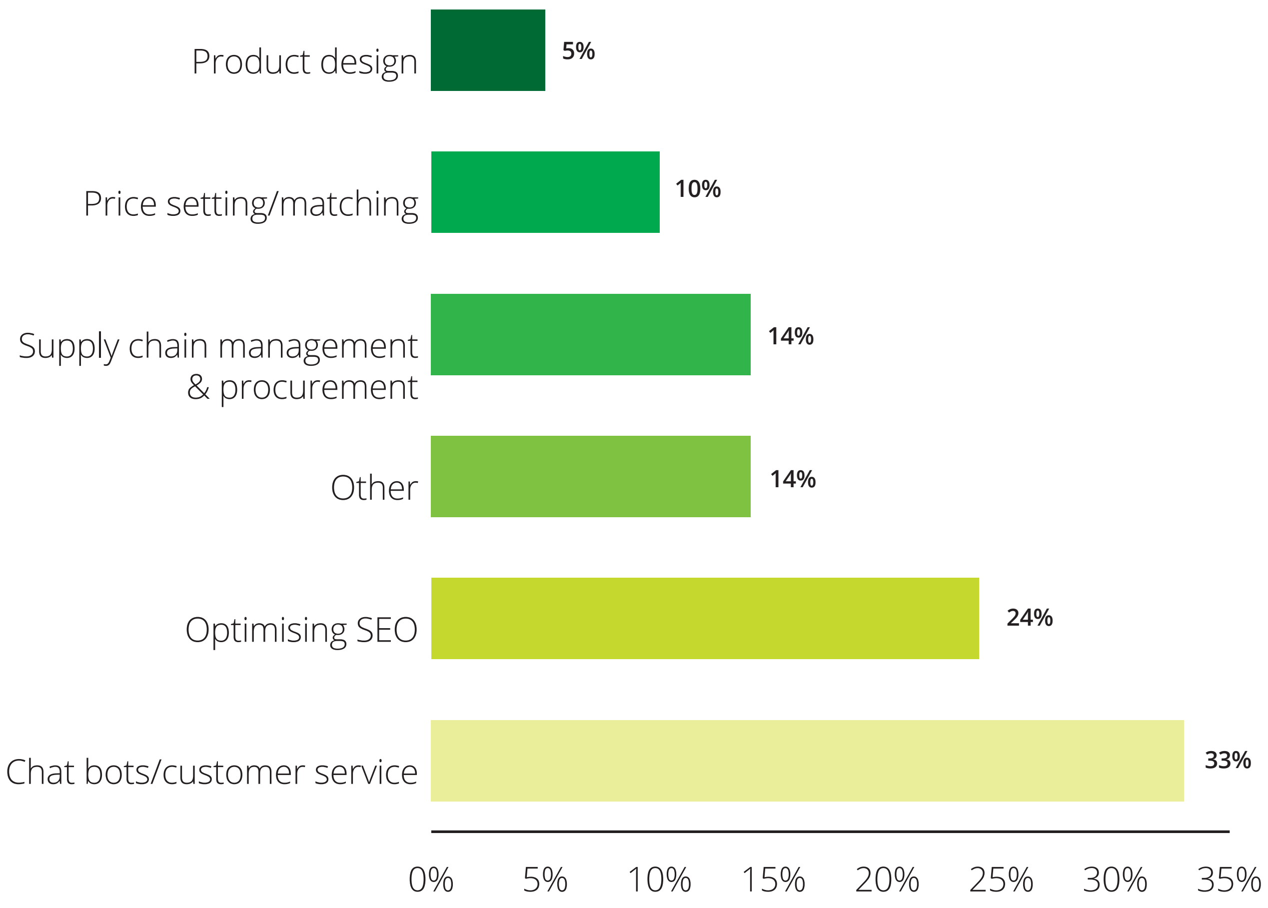
- **Personalised recommendations** using advanced algorithms to suggest tailored products and content based on customers' digital profiles.
- **Interactive social media** encouraging customers to enter contests, share user-generated content, and engage with branded hashtags.
- **Gamification, Loyalty and Membership Programs** allowing customers to earn points, badges, and rewards for actions like product reviews, purchases, referrals, and even engagement.
- **Augmented reality (AR) experiences** enabling consumers to virtually try out furniture, makeup products or paint colours before buying.
- **Limited edition VIP membership experience innovation and exclusivity** to cut through the clutter and drive engagement.
- **Social impact campaigns** highlighting commitment to environmental or social causes.

Even if retailers don't see the value in their products or service offerings, technology such as generative AI, augmented and virtual reality aren't going away. The gap between these brands and consumer expectations will continue to grow, even if there's no identifiable benefit today.

We want to be humanising digital – making the experience online feel as human as it does in the store, and we are leveraging AI to do that.

Sam Bain
Chief Digital Officer, MECCA Brands

Across their operational areas, retailers are expecting Generative AI to have the biggest impact on the way they manage customer service



How do you believe Generative AI could make the biggest impact on your business in the medium term?

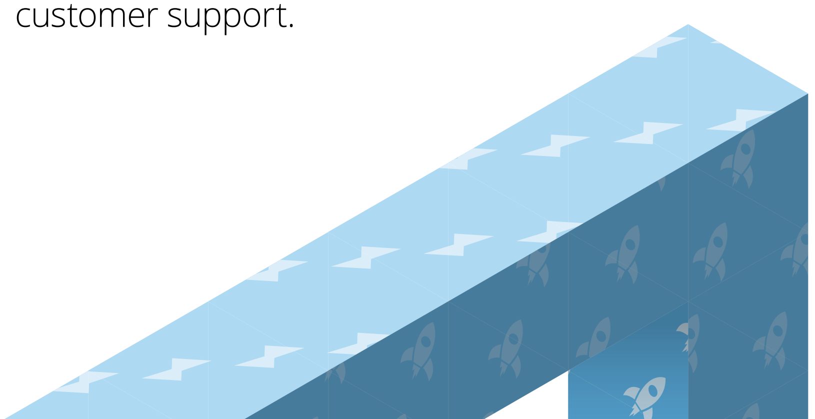
To Web 2.0 and beyond!

- The **retail arm of Bank of America** has launched a metaverse training simulation for frontline staff. [30] This takes employees through various immersive environments and trains them on different scenarios, such as how to manage aggressive customers or what to do in the event of an attempted robbery.
- **Nike** continues to lead the charge for retail experimentation in the metaverse with Web3 sales totalling over US$185 million by the end of 2022[31] Examples of experimentation include their sneaker NFTs, their .Swoosh virtual meeting place, and activation of **Nikeland** in gaming platform **Roblox**.[32]

Full disclosure: This page was written by Generative AI

Generative AI can be a powerful tool for retailers to enhance various aspects of their operations, drive sales growth, and effectively reach customers. Here are some ways in which generative AI can be utilised:

- **Product Recommendation and Personalisation:** Generative AI can analyse customer preferences, browsing history, and purchase patterns to generate personalised product recommendations. This enhances the shopping experience and increases the likelihood of customers finding products they are interested in.
- **Content Generation:** Retailers can use generative AI to create high-quality content, such as product descriptions, blog posts, and social media captions. This not only saves time but also ensures a consistent and engaging brand voice.
- **Virtual Shopping Assistants:** Generative AI-powered virtual assistants can guide customers through the shopping process, answering questions, providing product information, and assisting with purchases. These virtual assistants can be available 24/7, enhancing customer support.



- **Visual Search and Recognition:** Generative AI can enable visual search functionality, allowing customers to find products by uploading images. This is especially useful for fashion and home decor retailers, where customers often want to find similar items that they've seen elsewhere.
- **Inventory Management and Demand Forecasting:** By analysing historical sales data and external factors like weather and trends, generative AI can help retailers optimise inventory levels and accurately forecast demand. This reduces overstocking or understocking issues.
- **Store Layout Optimisation:** Generative AI can assist retailers in designing and optimising store layouts for better customer flow and engagement. It can simulate different arrangements and suggest layouts that maximise product visibility and accessibility.
- **Price Optimisation:** AI can analyse competitor pricing, market trends, and customer behaviour to suggest optimal pricing strategies. This helps retailers find the balance between maximising profits and remaining competitive.
- **Chatbots for Customer Support:** Generative AI-powered chatbots can handle routine customer inquiries, providing instant responses and freeing up human agents to focus on more complex issues.
- **Creative Marketing Campaigns:** AI can assist in generating creative marketing campaigns, slogans, and visuals. It can analyse customer preferences and industry trends to come up with innovative ideas that resonate with the target audience.
- **Virtual Try-On and Customisation:** For fashion and cosmetic retailers, generative AI can enable virtual try-on experiences and product customisation. Customers can visualise how a product will look on them before making a purchase.
- **Localised Content Generation:** Generative AI can help retailers adapt their marketing materials to different languages, cultures, and regions, allowing them to connect more effectively with diverse audiences.
- **Fraud Detection and Prevention:** AI can analyse transaction data and patterns to detect fraudulent activities and prevent unauthorised transactions, enhancing security for both retailers and customers.

Generative AI technologies can be harnessed across various stages of the retail cycle, from product creation to customer engagement. However, it's important for retailers to carefully implement and monitor these technologies to ensure they align with ethical considerations, customer privacy, and data security.

Unravelling Australia's textile waste crisis

Textile waste has become an urgent issue in Australia, where a staggering 780,000 tonnes were generated in 2018–19 alone.[33] Only three per cent of this waste is recycled: most goes to landfill, either domestically or overseas through well-intentioned donations. Proper collection, sorting, and recycling infrastructure is crucial to addressing this waste stream and its impact on the environment, but challenges remain.

The complexity of materials, for example, is a major hurdle in textile waste management. **Around 32% of this waste comes from discarded clothing**, which often comprises fibre blends and chemical treatments[33] that make materials difficult to separate and recycle. While recycling technologies and facilities are emerging, they are still in early stages.

Synthetic clothing, such as polyester, acrylic, and nylon, is a significant environmental concern when disposed of in landfill. Around 60% of clothing is made from these plastic-based materials, which take decades to decompose and release harmful chemicals in the process.[33] Even washing synthetic clothing releases microfibres into water streams, worsening pollution and endangering aquatic life. Of the 9.5 million tonnes of plastic entering our oceans each year, between 15–31% is estimated to come from the textile industry's extensive use of plastic microfibres.[34]

Seamless: A sustainable step forward in fashion

In response to this pressing issue, the **Australian Fashion Council** has created a national stewardship scheme called Seamless. Through this initiative, they aim to promote a truly circular fashion and clothing industry in Australia and slash the 200,000 tonnes of clothing that go to landfill each year. Foundation members including **Big W, David Jones, Lorna Jane, Rip Curl, R.M. Williams, and The Iconic** have each committed $100,000 to establish the scheme, with the New South Wales Environment Protection Authority also contributing $100,000 as a supportive partner.[36]

Seamless will be managed by an independent Product Stewardship Organisation (PSO) governed by an industry board with input from an advisory group. Seamless is designed as a voluntary scheme, however, there's growing interest in taking a co-regulatory approach in line with global trends. The PSO will have the flexibility to explore alternative stewardship pathways, and its performance will be continuously reviewed. Collaborating closely with the government during the scheme's implementation will help reach shared outcomes, address challenges, and explore future regulatory options.[37]

Beyond our shores: Progressive approaches to sustainability and circular economy

One charger to rule them all
USB-C will become mandatory for electronic devices sold in the **European Union (EU)** by autumn 2024, including phones, tablets, digital cameras, headphones, handheld video game consoles, and e-readers, along with laptops after 40 months.[38]

Calling time on fast fashion
The **EU** Strategy for Sustainable and Circular Textiles promotes longer-lasting products that are easier to reuse, repair, and recycle. It calls for circular, sustainable, and socially just production of clothing and footwear; an end to fast fashion; a ban on destroying unsold and returned textile goods; and specific targets for waste prevention, collection, reuse, and recycling in future legislation.[38]

Building future-fit economies
The **Association of Southeast Asian Nations (ASEAN)** has adopted a circular economy framework to foster a resilient economy, resource efficiency, and sustainable and inclusive growth. It focuses on five strategic priorities: standard harmonisation and mutual recognition of circular products and services, trade openness and facilitation in circular goods and services, the enhanced role of innovation and green technologies, competitive sustainable finance, and efficient use of energy and resources.[39]

Clean washing, cleaner planet
By 2025, **France** will require new washing machines to have a filter capable of catching plastic microfibres released during the washing process.[40]

What goes around, comes around
In January 2021, **Japan** published guidance to help its companies attract investment by showcasing their contribution to a circular economy. The guidance promotes effective dialogue between businesses and investors through transparent integrated reports and assessments.[41]

Wear, repair, repeat
From October, **France** will subsidise clothing and shoe repairs to reduce waste, with individuals able to claim €6–25 of the cost based on its complexity. This follows grants for repairing home electronic goods and phones.[42]

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The next 12 months

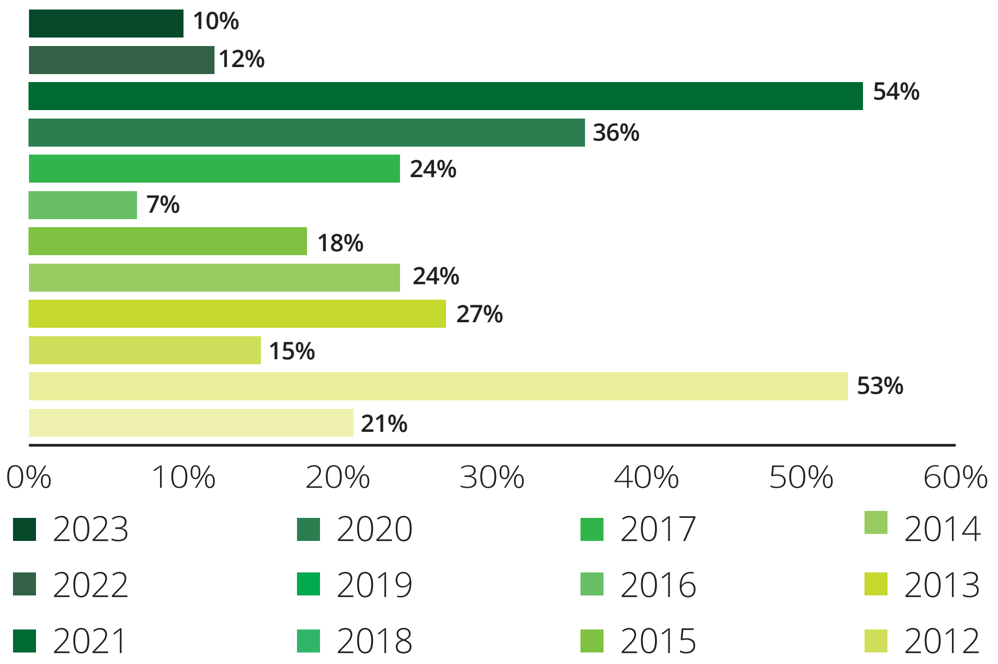
Looking Ahead: Predicting 2024's Path

In June, **Deloitte Access Economics' Retail Forecasts** noted the arrival of the retail recession, with the sector's turnover falling when inflation is taken into account.[44]

62% of respondents believe macroeconomic factors are the greatest risk to retailers. Coupled with the fact that all our respondents expect inflation and interest rates to have a higher impact on sales this year, retailers should expect some pullback on demand over the holiday period and start considering what strategies will be needed to engage customers.

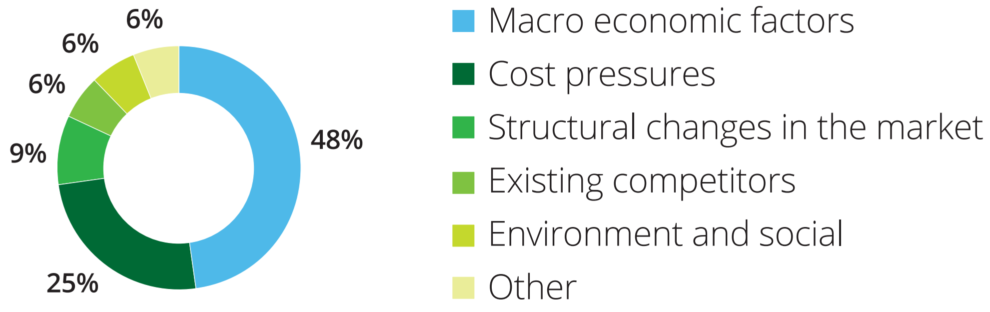
Just 10% of respondents expect consumer confidence to improve as interest rates continue to rise and consumer belts tighten. Despite this, strong employment and high immigration rates are supporting the overall economy, which may see sales hold up over the next 12 months. It's certainly going to be a challenging period as government and the RBA attempt to cool inflation without driving the economy into recession.

Consumer confidence continues to decline after COVID uptick

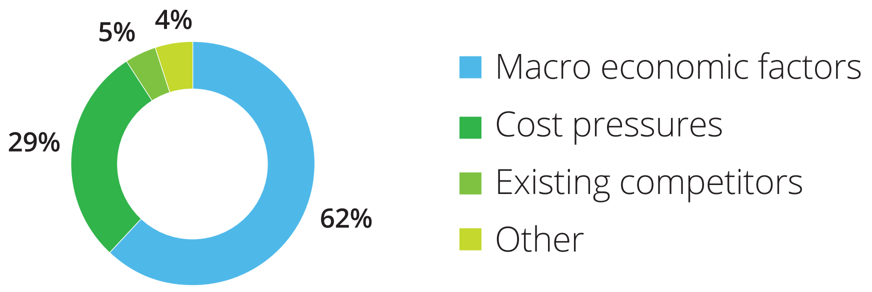


Percentage of respondents expecting improving consumer confidence

Greatest risks perceived in 2022



Greatest risks perceived in 2023



Fight or flight with inflation?

What are retailers focusing on as they address customer behaviour in response to rising inflation?

Many brands are adapting to rising inflation by lowering prices, discounting, and focusing on affordable assortments. They're also optimising supply chains and using technology to meet customer demand efficiently.

Walmart, for instance, applies its Everyday Low Prices strategy, opting for smaller margins to increase overall profit margins and offer consistent value knowing that customers prefer everyday low prices and don't want to wait for sales.[44] To meet this value challenge, **Walmart** is using technology such as data analytics and automated ordering tools to optimise their supply chain and inventory management system; this strategy puts emphasis on meeting customer demand with minimal cost and avoiding stock shortages.[46] Of course, their global scale and leveraged buying power enables lower prices than their competitors, achieving economies of scale much like **Amazon** and **Temu**.

Brands like **Nike** and **Neiman Marcus** are taking different approaches. While **Nike** discount their prices by just 11% on average, **Neiman Marcus** focuses on high-value customers: the top 2% of customers who drive 40% of sales.[46]

Retailers are expecting inflation to persist throughout 2023 and into 2024

Last year our **Retailers' Holiday Survey** addressed the expected impact of inflation and interest rates on consumer confidence. As median house prices continue to increase in major cities, retailers continue to expect a decline in consumer confidence.

Over the 12 months to June 2023, the Consumer Price Index increased by 6%, with housing increasing 8.1% from last year.[47] At 2:30 p.m. on the first Tuesday of each month, mortgagors flinch as the RBA announce the cash rate.

Most respondents are broadly aligned in their sentiment towards the "challenging" periods ahead, and there's an understanding that consumers will be hunting for bargains in 2024.

Retailers may need to consider an appropriate strategy to tackle the decline in confidence by **engaging with customers to show the value of their product.**

The impact of inflation and interest is likely to be felt through increased retail discounts, however statistics have bucked this expectation, showing a slight uptick of 0.6% in inflation for clothing and footwear over the June 2023 quarter.[48]

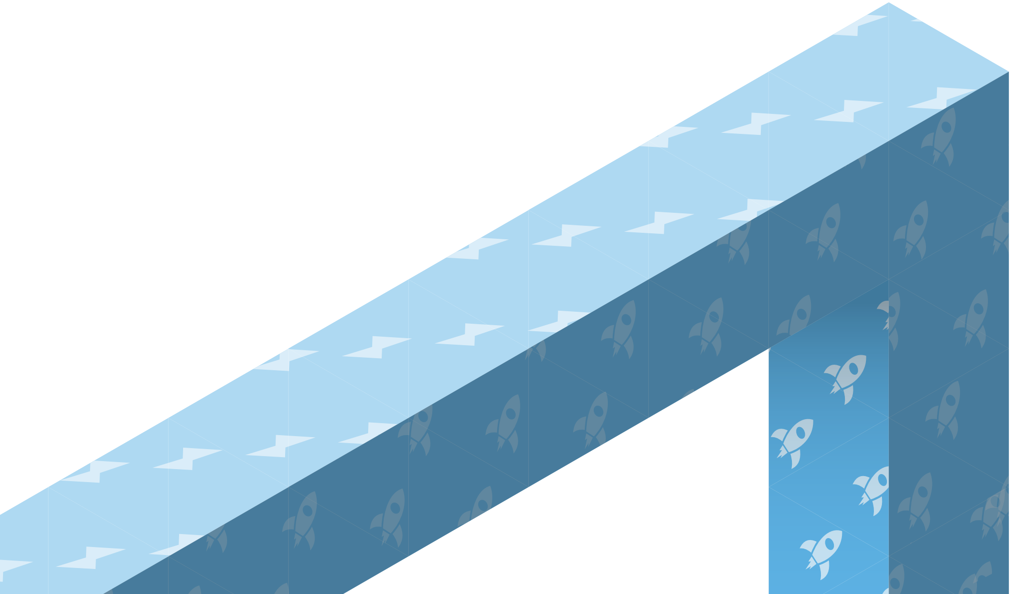
As retailers look to pass on the increased input costs, 52% of respondents have seen this lead to reduced purchase volumes whilst 34% have noted a deferral of purchasing to a sales period.

Despite interest rates adding pressure to retailers and consumers, renegotiating debt facilities remains the least popular strategy to mitigate the impacts of inflation, followed by investing in automation. 64% of respondents are relying on the 'tried and tested' methods of raising prices and incentivising retail staff.

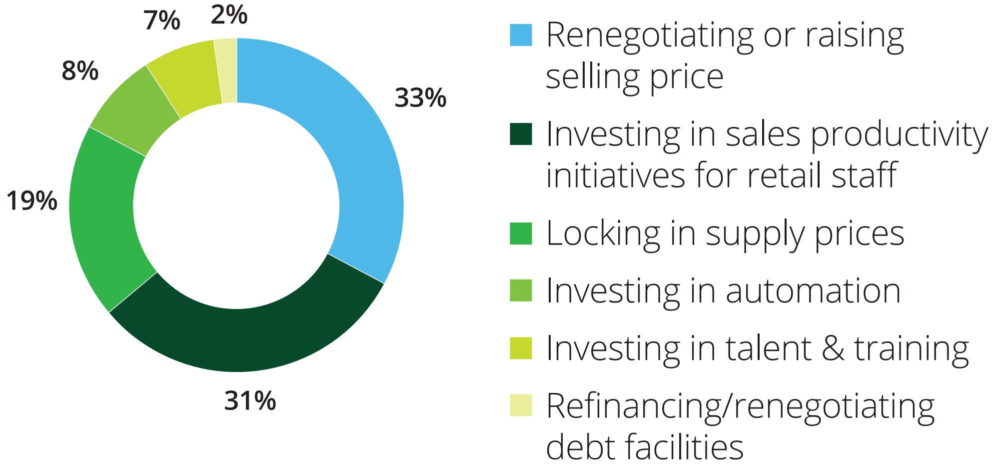
What are your expectations in relation to the retail sector for the next 12 months compared to the previous 12 months?

It's a challenging period for the current half year period commencing July 2023 with further interest rates anticipated. It is critical to consider consumer sentiment heading into the November to December period. We are expecting concerns to ease by July 2024, if not before.

Retail Executive Insight

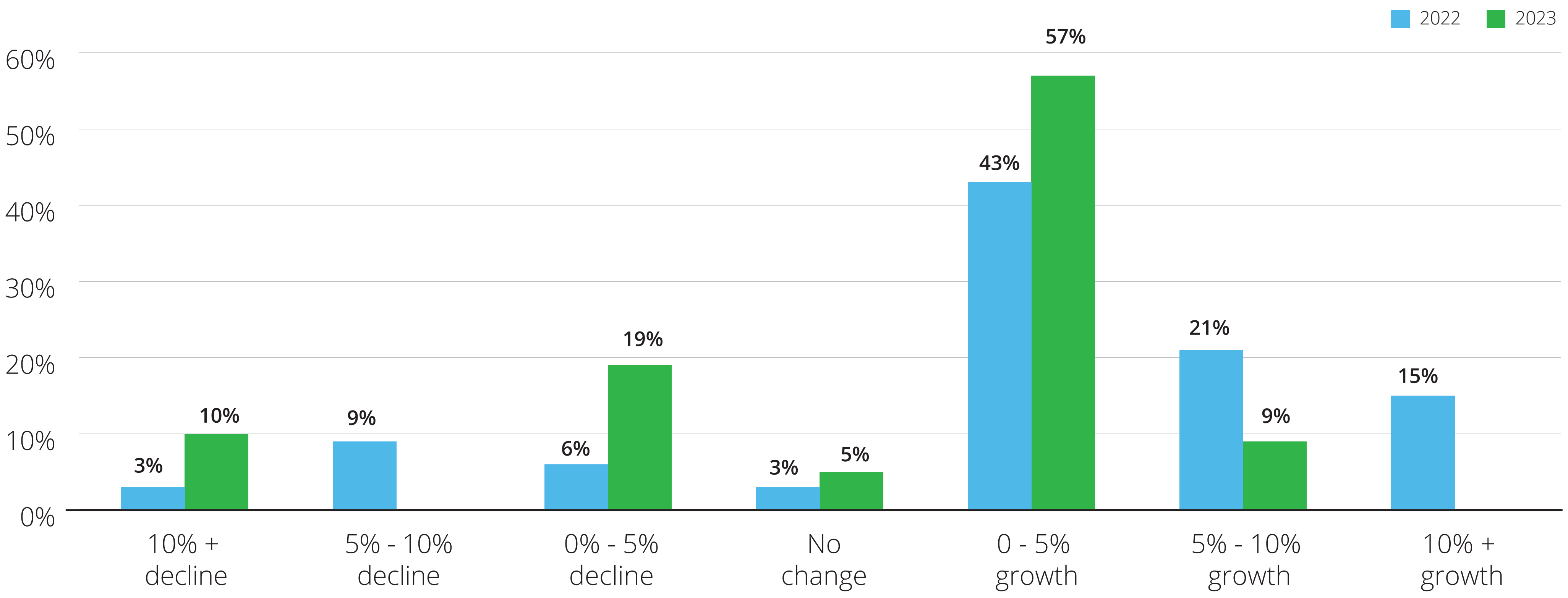


Retailers are focusing on pricing strategies and staff incentives to mitigate the impact of inflation this year



What are the top two strategies you have put in place to mitigate the impact of inflation?

34% of retailers are expecting a stabilisation or reduction in sales over the next 12 months, and none are expecting double digit growth.



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

Shoppers are still coming into store and improvements to range means many of our brands are getting a bigger share of wallet. What we do know as we head into the next period is value will be more crucial than ever before to customers.

Nicole Sheffield
Managing Director, Wesfarmers OneDigital

Navigating the changing financial landscape

Retailers are navigating some of the toughest economic conditions in over a decade – but there's an upside. With a more promising calendar year ahead, retailers should start preparing for the recovery phase of the business cycle.

It's been a challenging 2023

Australian consumers and businesses are feeling the pressure from a slowing economy. Record high inflation in 2022 has seen the Reserve Bank of Australia (RBA) lift rates 12 times in 15 months as of August 2023 – one of the steepest cycles of monetary policy tightening in Australian history.[4]

Though annual inflation has moderated to 6%, it remains a dominant challenge and will take some time to return to the RBA's target band (a 'healthy' 2 – 3%).[4]

This economic slowdown has put businesses on edge. The latest edition of **CFO Sentiment** shows CFOs have become more pessimistic about their business prospects as the weaker economic environment impacts performance. Cost control is now their biggest FY24 priority by a significant margin as they bunker down for financial discipline relative to growth initiatives.

Retailers are no exception

The retail landscape has shifted significantly in 2023 with an evident downturn in consumer spending. Cost of living pressures have led us into a retail recession, with now three consecutive quarters of real retail turnover contraction. This is a huge change in pace for retailers: it's the first time Australia has seen three consecutive falls in real retail growth since 2008.

Consumers are shifting away from discretionary spending in favour of essential purchases, leaving some retail categories – such as household goods and apparel – in a much more difficult situation than others.

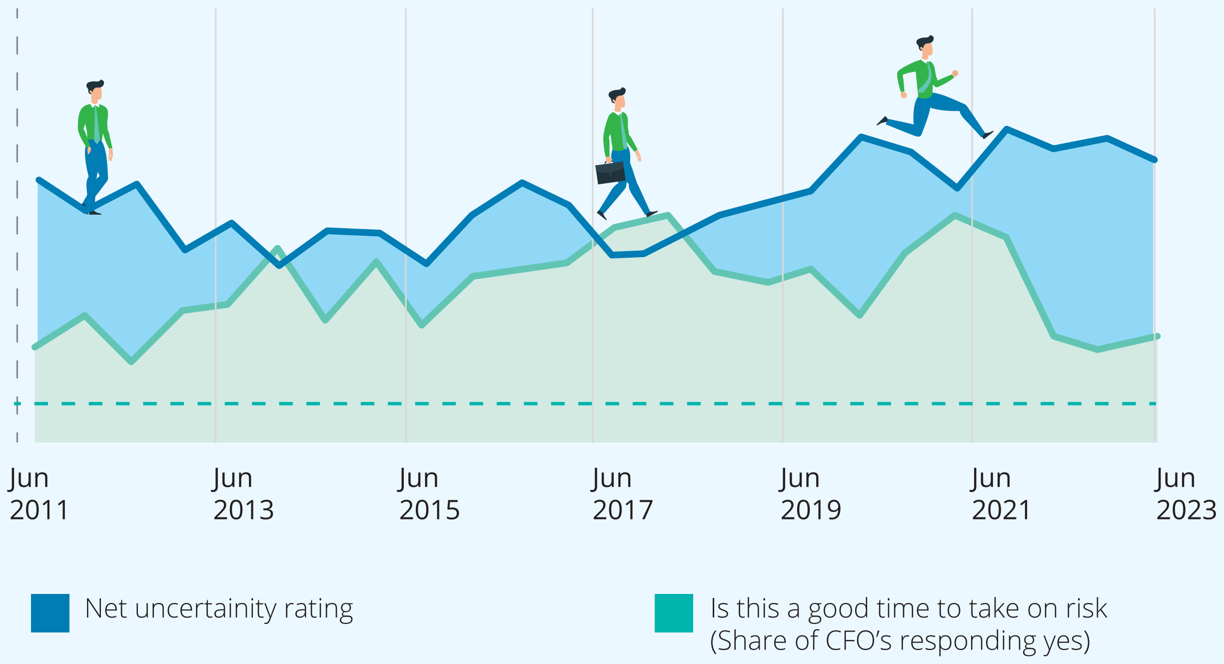
But the forecast is looking brighter

Importantly, today's challenges won't last forever. Strong population growth is supporting economic growth, while the rapid return of students and migrants is bringing more open wallets – something retailers sorely need as domestic spending remains cautious.

CFO Sentiment: Economic reality kicks in[49]

In our latest survey of Australian CFOs, business confidence has shifted significantly. While CFOs were already pessimistic about the economy six months ago, this is starting to bleed through to business expectations: only 50% of CFOs remain optimistic about their company's financial performance, down from 72% six months ago.

Unsurprisingly, CFOs rate uncertainty as high and their risk appetite low. But CFOs have seen and overcome high levels of uncertainty over the last three years.



Inflationary pressures are also expected to ease substantially next year (even if the exact path to the RBA's target rate remains uncertain), and Australia's labour market has been impressively resilient with unemployment remaining at impressive lows (3.7% in July). Combined, this means we'll likely see real wage growth go back to positive in 2024 – a welcome change for retailers.

Most importantly, retailers have already survived the worst of the retail recession. The biggest pullback in spending was seen at the end of 2022, and while weaker spending has carried through to 2023, the magnitude of the pullback is softening. By the end of 2023, we could be back to positive real retail growth.

So how do we navigate the next twelve months, when economic uncertainty remains high and consumer spending starts to return?

The first step is to start planning for a different, and more promising, 2024. Retailers should keep the following three points in mind while they gear up for the next calendar year.

It's time to plan for 2024 and beyond

1. **Retailers have been through this before**
   Three years ago, retailers were emerging from the first six months in a whole new world. The entire economy had locked down, and consumer demand for retail plummeted before bouncing back more sharply than expected.

   Adaptability was key in 2020, and it remains important today. Retailers need to be aware of shifting consumer preferences and spending habits (like the shift from discretionary to essential spending, or growing expectations around sustainability) and adapt their business strategies as needed.

2. **Not all consumers are slowing down**
   Retailers need to plan for and adapt to different consumers. Currently, cost of living pressures are strongest for renters and mortgage holders, with those who own their home outright (around 30% of Australians) holding much more spending power. Similarly, different age and income groups are facing unique financial pressures.

   The first step for retailers is to identify their consumer base. Then, it's about how to target them – whether through communications, product changes or other strategies.

3. **While cost control is important, so are growth strategies**
   Cost control is front of mind for most retailers right now. But this could put growth strategies on the backburner, which will leave retailers in a difficult position when sales likely pick up in 2024.

   It's important for retailers to continue implementing and planning for efficiency gains and make sure previous plans aren't abandoned. They have been pioneers in building automation, workforce planning and space productivity improvements into their everyday business, and this shouldn't stop now.

   Momentum on productivity growth is critical, even while conditions are tough, for retailers to make the most of the coming recovery phase. It may be closer than we think.

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About the survey

This survey was commissioned by Deloitte and conducted online and in-person between 19 June and 9 August 2023. Retail executives across a range of categories were polled to pull results from a cross-section of the market. These executives included CEOs, CMOs, CDOs, CHROs and CIOs from locally listed, multinational and independent retailers. All have a medium or high level of involvement in buying, supply chain, operations, distribution, technology, digital and workforce transformations and merchandising for the coming holiday season.

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About our team

Deloitte's retail specialists work with global retailers, wholesalers, and distributors across every segment of their industry. We help them meet their biggest challenges, from supply chain, customer loyalty, and franchising trends to changes in consumer taste.

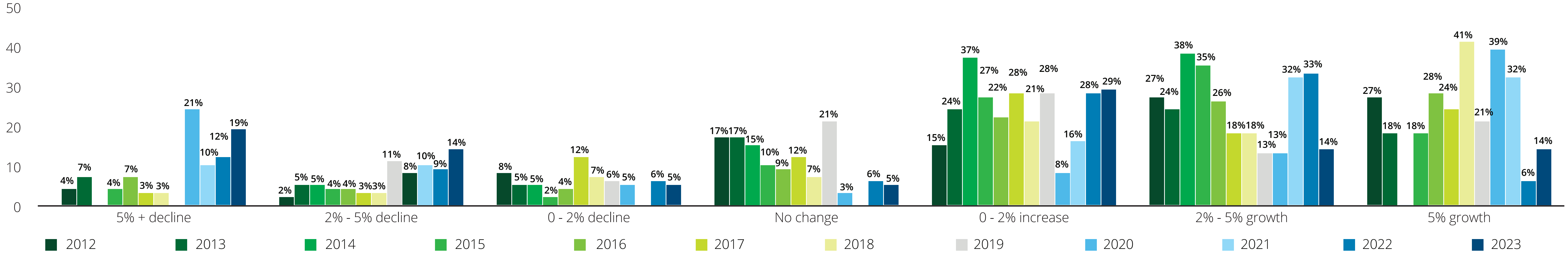
Operationally, we can help you better manage your supply chain, improve processes, and implement new technology – delivering practical solutions that rapidly build your efficiency and productivity.

Whether it's unearthing new solutions, improving what's already there, or delivering on what matters to you most – we exist to help you find new growth. So, if you're looking to grow revenues, improve your retail operating margins, and improve the agility of your business then please reach out. It's the blending of our analytical, business and technical acumen with creativity that enables us to deliver better outcomes for our clients and their customers.

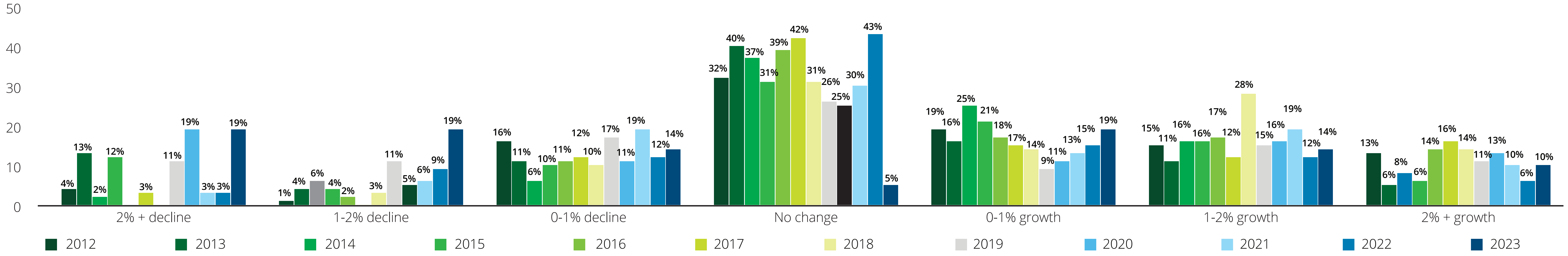
If you would like further information about any of the topics in this report, or our advisory capability in the retail industry, please contact us.

Detailed survey data

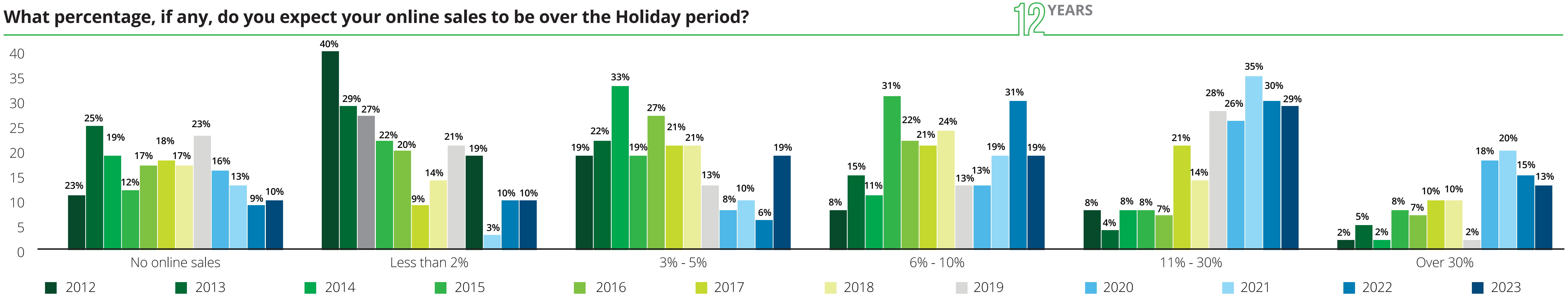
Do you expect Holiday sales to exceed the previous Holiday trading period?



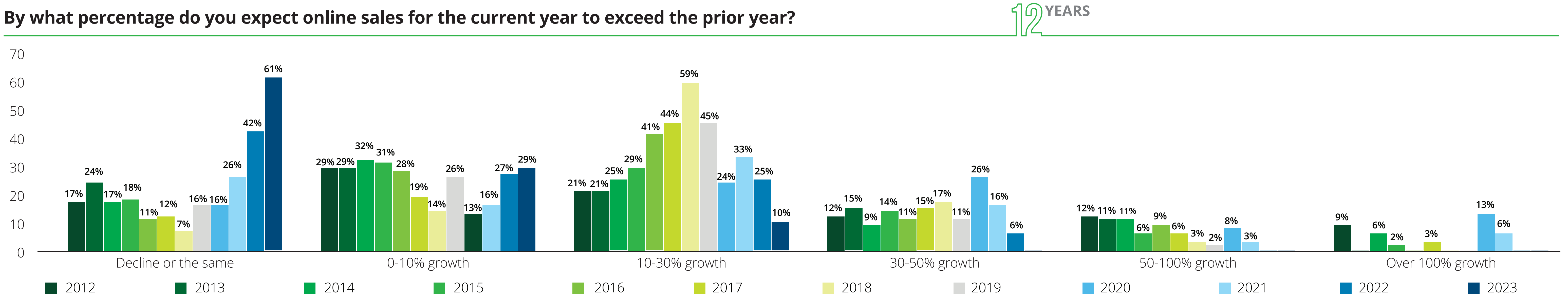
Do you expect margins for the Holiday period to exceed the previous year?



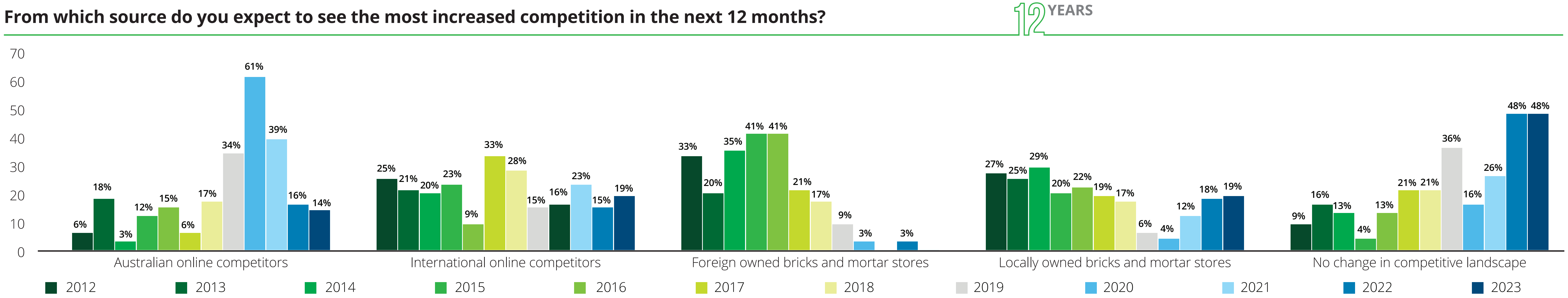
What percentage, if any, do you expect your online sales to be over the Holiday period?



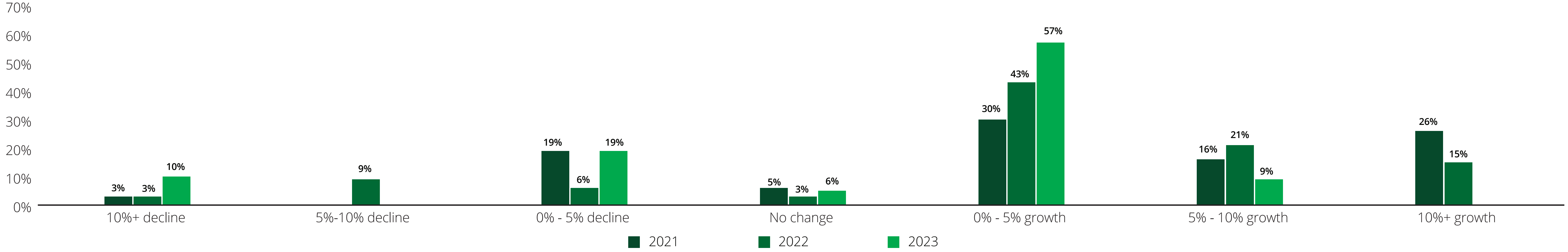
By what percentage do you expect online sales for the current year to exceed the prior year?



From which source do you expect to see the most increased competition in the next 12 months?



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



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