

Retailers' Christmas Survey 2015

Wrapping up the festive season

November 2015





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Retailers are broadly optimistic as we enter the Christmas trading period. Lower interest rates and a strong housing sector have seen a relatively positive 2015 trading to date. Hopes are high that this will continue through till Christmas.



Wrapping up the festive season



Wrapping up the festive season

Introduction

Background to survey

Welcome to the Deloitte Retailers' Christmas Survey 2015.

During September and October 2015 we surveyed a cross-section of executives and senior management from Australian retailers about their expectations for the 2015 Christmas period and beyond. This is the fourth year we have conducted the survey and this report analyses retailers' sentiment for the Christmas period, key trends and their expectations and priorities for 2016.

The glass is half full

Notwithstanding a number of challenges in the retail market, retailers remain optimistic this Christmas. Some 80% of respondents expect an increase in sales this Christmas compared to 75% last year – the highest percentage

80% of respondents expect an increase in sales this Christmas compared to 75% last year

we've seen over the four year period in which we've conducted this survey. The impact on margins is less clear. Whilst 43% of respondents expect a small increase in profit margins this Christmas, this will very much depend on how consumer demand holds up. When to discount products and by how much remains a key dilemma for many retailers with 20% of respondents as yet undecided. Those retailers already planning to discount appear to be going early this year – with 27% planning to start discounting in early December, up from 19% in 2014.

Back to basics

We posed a new question to Australian retailers this year: *What is the single most important focus area of your business to increase sales this Christmas?* Whilst a third of respondents cited **new product ranges**, it's telling that a quarter of retailers said **customer service** was their priority this Christmas.

In recent years many retailers have responded to cost pressures by cutting back on store assistants, with the inevitable impact on customer service. Our survey results suggest retailers are realising that to remain relevant, customer service isn't optional – it's fundamental to being successful.



Wrapping up the festive season

Introduction

Foreign invaders persist

The influx of global retailers into the Australian market is nothing new. However, it remains a huge area of focus and concern for Australian retailers. Nearly **two thirds** of respondents cite foreign-owned retailers as their greatest competition in the future.

In many ways the impact of global retailers entering Australia has been very positive. The increased competition has driven Australian retailers to lift their performance in order to compete. Importantly this hasn't just been on price – store experience, customer service, online offerings and new product ranges have all seen greater focus as retailers fight for market share.

With strong economic conditions in Australia relative to other developed countries across the globe, we can expect global retailers to continue their expansion into Australia in 2016.

The grass is becoming greener overseas

Many Australian retailers have been stubbornly reluctant to take their operations overseas. But with **nearly half of all respondents** seeing opportunities to expand their operations overseas in the next 12 months, we could finally be seeing a surge in Australian retailers taking the leap into foreign markets. We have some hugely successful Australian retailers showing the world what we can do – let's hope 2016 sees this trend continuing.

On the domestic front, our survey respondents continue to plan new store roll outs as a means of growing their businesses. Bricks and mortar stores will remain fundamental to the success of Australian retailers, but the ability to merge the physical with the digital will be the decisive factor of who comes out on top.



Wrapping up the festive season

Introduction

Outlook

As we look ahead to 2016, optimism continues amongst retailers, with 41% anticipating a 5% or more growth in earnings. Whilst it's encouraging to see such confidence, there remains a need for some caution as we enter the New Year. Consumer confidence has undoubtedly been boosted by the wealth effect – consumers feeling wealthier as house prices have increased. There remains a level of uncertainty as to what will happen with property prices in 2016. Likewise, the devaluation of the Australian dollar has slowly been increasing many retailers' cost base, with competition making it challenging to pass on price increases.

Nevertheless, these are not new issues for experienced retailers. Those retailers who have invested in their customer, products and shopping experience, both in store and online, look set to enjoy a strong 2016.

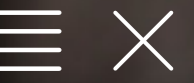


David White
National Leader
Retail, Wholesale & Distribution Group

Those retailers who have invested in their customer, products and shopping experience – both in store and online – look set to enjoy a strong 2016



Looking on the bright side



Looking on the bright side

Highlights from the survey

Despite mixed economic indicators, retailers are looking on the bright side with expectations of sales growth this Christmas, and increased earnings in 2016

Sales growth, but pressure on margins

Retailers have got into the Christmas spirit early this year. 80% are expecting a growth in Christmas sales in 2015, but away from the top line, retailers are less optimistic about their profit margins over the Christmas period. 43% of respondents anticipate increased margins over Christmas, but these increases are expected to be modest at best. Just 6% of

retailers are envisaging margins to grow by greater than 2% compared to last Christmas.

A key concern is the impact of the falling Australian dollar. Whilst currency hedges have helped shelter the impact of higher import prices to some extent earlier in the year, there is concern that higher product costs will no longer be able to be avoided come Christmas.

As competition continues to intensify, businesses face having to absorb some or all of these cost increases for fear of losing customers.

With 20% of respondents undecided as to if and when they will discount this Christmas, we can expect to see many retailers nervously monitoring early Christmas trading patterns.

Growth and expansion

Store growth continues to underpin the majority of retailers' strategies. Two thirds of respondents anticipate increasing their number of stores over the next 12 months with 31% seeing store growth as the most significant driver of growth in 2016.

However, we continue to see growth in online sales in Australia. Four years ago, our survey showed most retailers expected to take just 2% or less of their total Christmas sales from online. In 2015, just under half of respondents are expecting their online sales to make up 6% or more of total sales this Christmas. Whilst these numbers are still low compared to other major international retail markets, we are slowly seeing online sales trend upwards.



Looking on the bright side

Highlights from the survey

Australian retailers continue to be concerned about international retailers and the impact on their ability to grow. Nearly two thirds of respondents see international retailers as the greatest source of increasing competition. These international retailers are here to stay and will make retailers drive performance improvements in order to compete.

Economic expectations

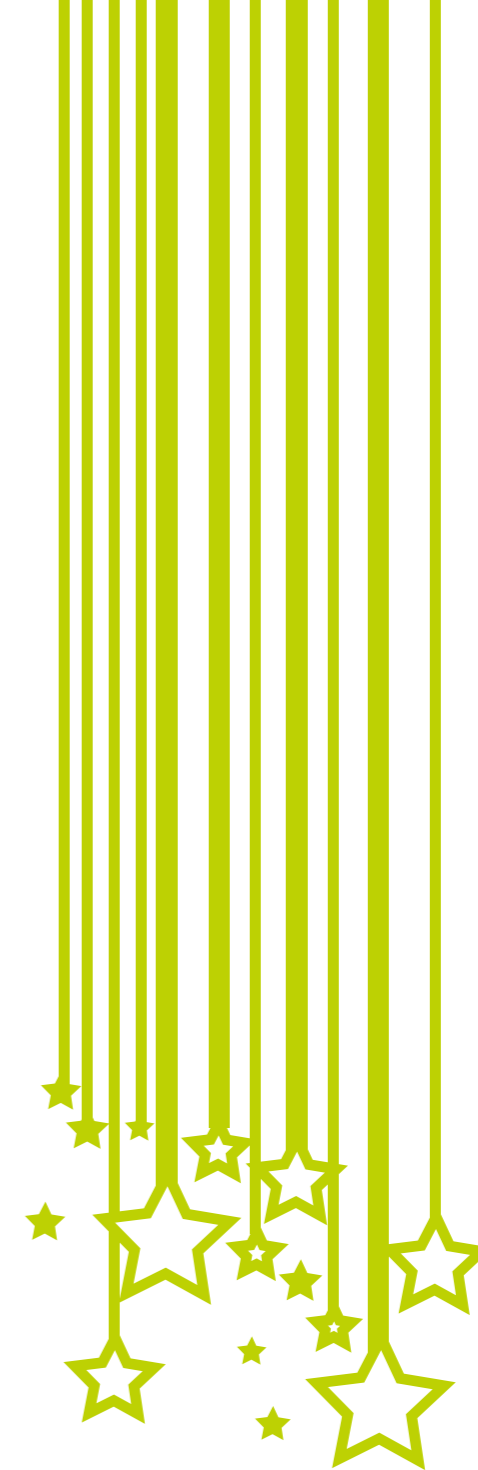
The Australian retail market has fared reasonably well in 2015. Low interest rates and a strengthening housing market have seen consumer sentiment hold up, and spending increase.

The outlook for 2016 is somewhat uncertain, with low interest rates and a housing market bubble unable to support retail spending forever.

Retailers are predicting the overall economic outlook as well as consumer confidence to remain broadly unchanged. Nevertheless, retailers are bullish about their prospects with 82% expecting their earnings to rise in 2016.

Three quarters of respondents expect interest rates to remain between 2% to 2.5% in 2016 which should continue to bring stability to the market. However, with higher input costs and a potential softening in the housing market, there remains a degree of uncertainty.

What we can say is, if price rises can't be passed on to the consumer, the ability to drive efficiencies and differentiate from the competition will be critical for retailers to make 2016 a successful year.



Christmas expectations



Christmas expectations

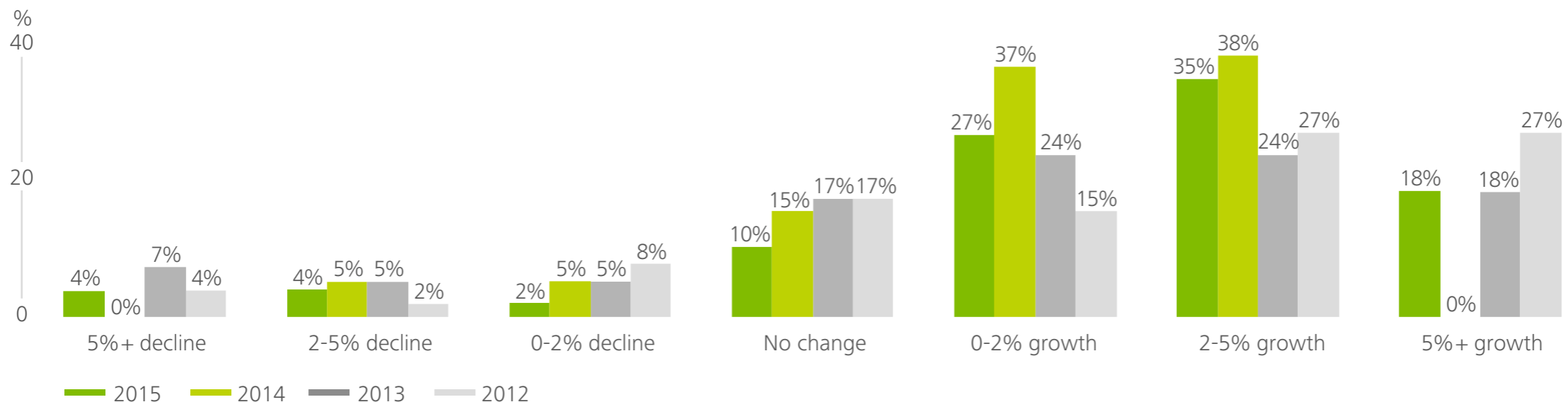
Will retailers get their presents this year?

As retailers approach the all-important Christmas trading period, there appears to be a high level of confidence that Christmas sales in 2015 will be higher than last year. Some 80% of retailers surveyed are expecting higher sales year-on-year with nearly 20% anticipating an increase in excess of 5%. This is the highest result we've seen over the four years we have been conducting the survey.

This sales increase is, however, partly due to the impact of the fall in value of the Australian dollar. Nearly 60% of retailers are expecting to pass on costs to consumers in the form of higher prices this Christmas. Whilst the Australian dollar has been steadily declining in value over the course of the year, many retailers have been somewhat protected through forward exchange contracts taken out to

hedge against currency fluctuations. However, most retailers typically do not hedge beyond a six to nine month period, and therefore we are likely to see the effects of higher costs of imported goods really starting to take effect in the final quarter of the year. The ability to pass on these costs increases to consumers will be critical.

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



Christmas expectations

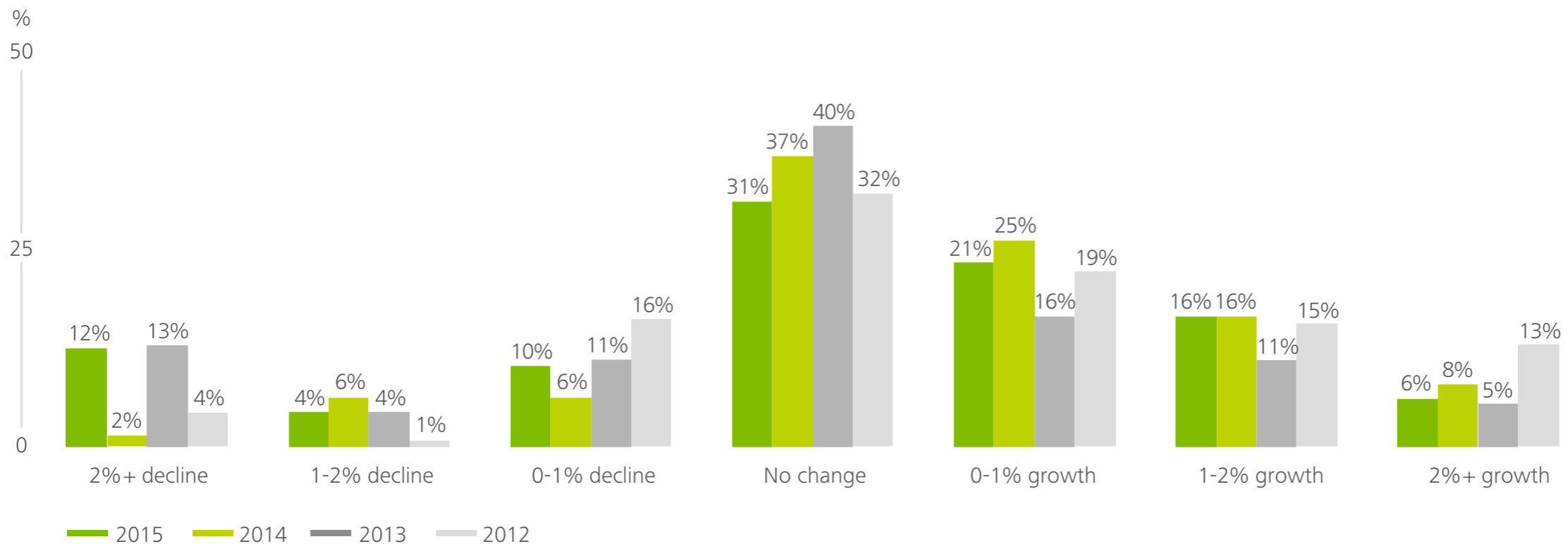
Will retailers get their presents this year?

Perhaps more important than sales are margins over the Christmas trading period. Our survey found over a quarter of retailers are anticipating margins to decline this Christmas,

12% more than last year. There still remains a lot of positive sentiment amongst retailers, with some 43% predicting margins to increase over Christmas compared to 2014.

However, these increases are not expected to be significant – reflective of the highly competitive market they now face.

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



Christmas expectations

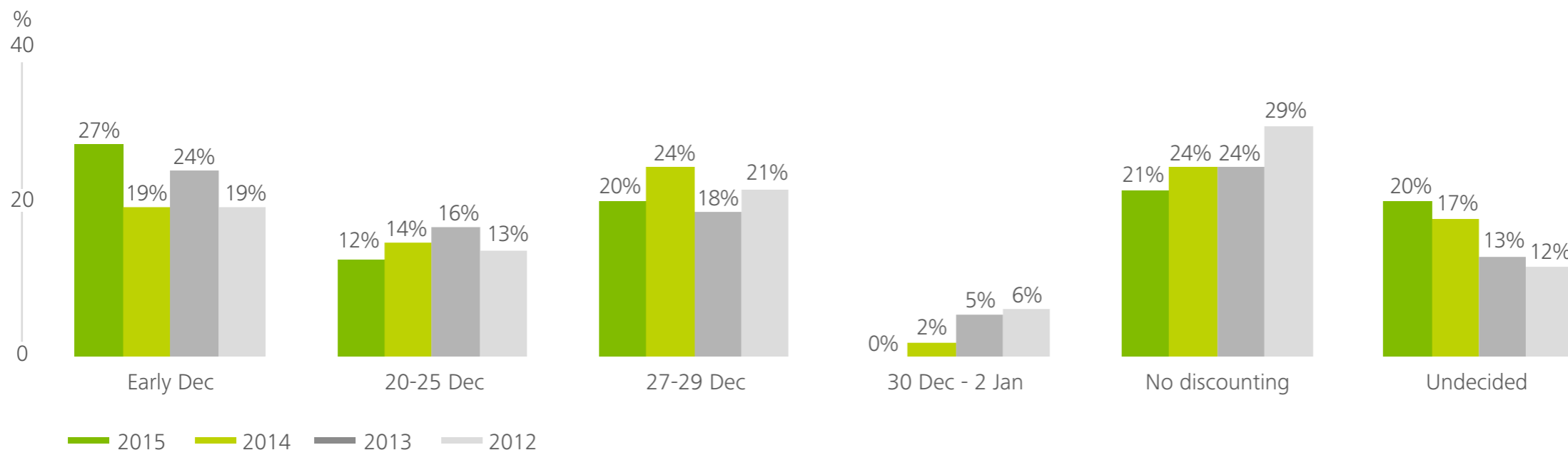
Will retailers get their presents this year?

When we look at expectations of when retailers will begin discounting it's clear they are preparing to battle hard to win over the wallets of shoppers this Christmas. Some 59% of retailers anticipate discounting their products. And we can expect these discounts to come early, with 27% planning to begin discounting in early December – the highest

percentage we've seen in four years. That said, there remains a large number of retailers (20%) who are as yet undecided on when and by how much they plan to discount. This may be indicative of both uncertainty around the strength of consumer sentiment, but also the greater levels of sophistication of retailers. The ability to change prices

at short notice across specific products in specific locations at specific times of the day means that increasingly decisions on pricing can be taken in 'real time'. However, based on our survey data, most retailers will discount their products at some point over the Christmas period – the question is when and by how much.

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

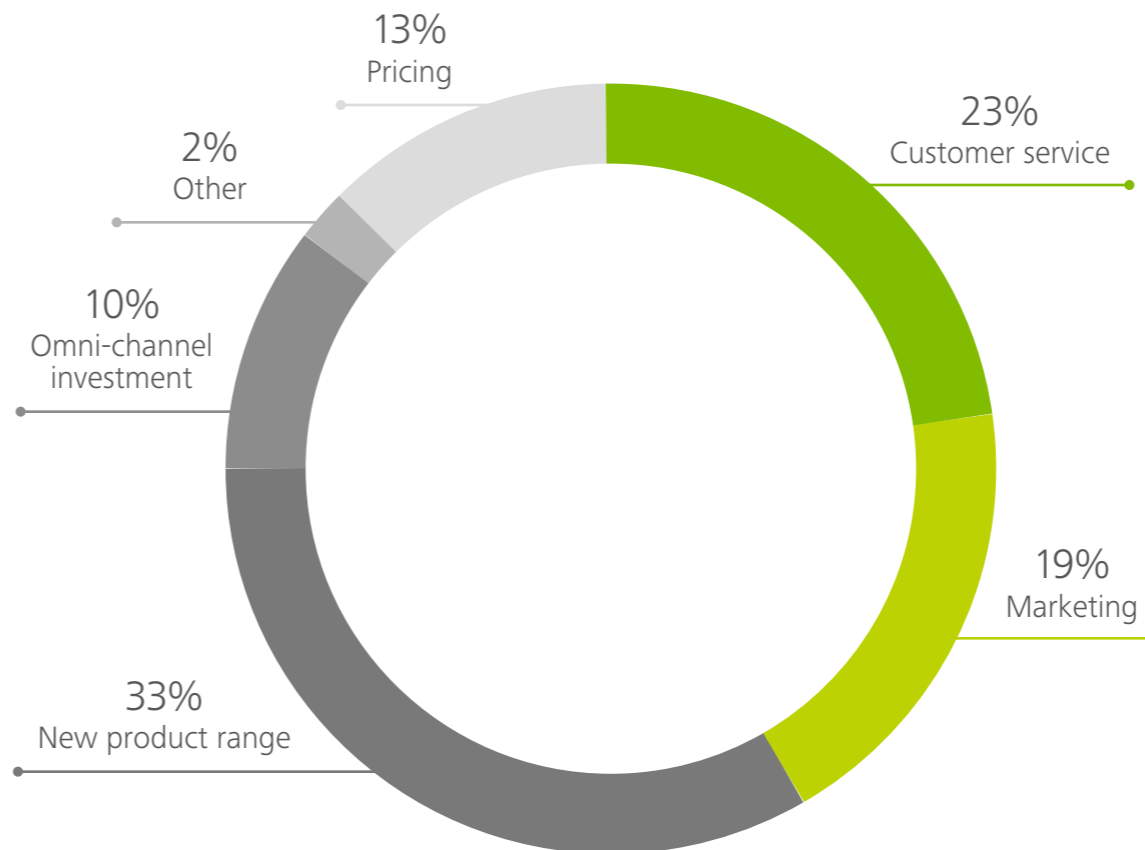


Christmas expectations

Will retailers get their presents this year?

So what is the key focus area to increase sales this Christmas? A third of retailers are pinning their hopes on new products to boost sales. As always, getting the product range and mix right is front of mind for retailers. What is particularly interesting is 23% of retailers see customer service as the most important focus area this Christmas. Cut backs in the number of store staff has been common place in recent years as a direct response to the challenging retail environment. But any short-term gain has been more than wiped out by the longer term effects of customer dissatisfaction. The fact that more and more retailers are recognising this can only be positive for retailers and consumers alike.

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



Australian retail macroeconomic outlook

The broader economy is showing enough signs of resilience to suggest **retailers may enjoy a decent trading period this Christmas**. But retailers would also be justified in being nervous about the retail trading environment the further we move into 2016, with increasing risks around income growth and a no less competitive retail environment.

Australia's real disposable income per capita has now fallen for five consecutive quarters

In 2015, the Australian economy has continued through a difficult transition. Mining investment and commodity prices have been winding back sharply, limiting jobs growth and income growth, respectively. Other parts of the Australian economy are picking up some of the slack, though not that convincingly.

This struggle is seen through some of the broadest indicators of the economy's progress. Real GDP growth in the June quarter of 2015 was only 0.2%, or 2.0% over the past year. The overall macroeconomic picture is perhaps summed up most powerfully in the fact that **Australia's real disposable income per capita has now fallen for five consecutive quarters**. The fall in commodity

prices has taken a toll on the profits of Australia's resource sector companies, while the overall wage growth of Australian workers is barely keeping pace with inflation. Given the pressures on Australia's economy at present, a slowing in economic growth is not surprising.

By contrast, **Australia's retail sector has experienced a somewhat better performance over 2015**.

Retail sales were up by 4.5% over the year to August, led by household goods and clothing retailers. Against this picture of strength, food retailing has been going through a slower period of growth.



Australian retail macroeconomic outlook

Latest consumer confidence indicators have also seen a lift, partly receiving a boost from the change to a new Prime Minister, providing a greater tone of optimism about the nation's future. That said, pessimists still outrank optimists for now.

The recent strength of retail sales owes a lot to **low interest rates**, a gradual reduction in the household savings rate and an upturn in the housing market. That has allowed the growth in retail spending to run ahead of underlying income growth.

Interest rate cuts, a shortage of housing supply, and increasing foreign investment from China directed at property have turned

out to be just the right fuel to again fire up the housing market. The biggest impact has been seen in Sydney and Melbourne where house prices have jumped to new highs in 2015, with valuations relative to income looking very stretched.

Unfortunately, **low interest rates and the housing market won't be able to support retail spending forever.**

The Treasury Secretary called a bubble in Sydney and some parts of Melbourne at the start of June. Property prices have lifted since then, although with auction clearance rates falling we may have seen the peak in demand in Sydney at least. **As those housing risks take hold, retail spending may suffer some collateral damage.** This is likely to

show up in a downward shift in retail sales growth during 2016.

That may compound the fact Australia's share market has already slipped over recent months, and is now only marginally higher than it was two years ago, reducing the ability to drive spending from wealth going forward.

It's not all bad news. Australia's labour market can be expected to strengthen – there has already been some better news in jobs growth, and lower interest rates and falls in the Australian dollar assist here – but that transition to a stronger rate of income growth will take time to reach completion.



Australian retail macroeconomic outlook

Retailers in New South Wales saw the strongest sales outcomes over the past year, followed by Victoria. It is not a coincidence the Sydney and Melbourne housing markets have also been the strongest, with those housing wealth gains feeding into an increased rate of consumer spending. Housing momentum should see retail growth in both states continue to perform well going into 2016, though less reliance should be placed on wealth gains and rising housing activity to drive retail spending thereafter.

The mining jurisdictions of Western Australia, Queensland and the Northern Territory remain at the bottom of the state leaderboard. The next two years are expected to see a further sharp fall in mining sector investment which, along with cost cutting in mining operations, will continue to keep retail spending growth subdued. Beyond that however, the more normal order should be restored as greater linkages to faster growth in Asia should drive higher rates of retail sales growth in these jurisdictions.

Overall, Christmas trading in 2015 should provide retailers with some reasonable growth on last year, with the potential fallout if the housing market falters one of the key risks to watch going into 2016.



David Rumbens
Partner
Deloitte Access Economics



Online trends



Online trends

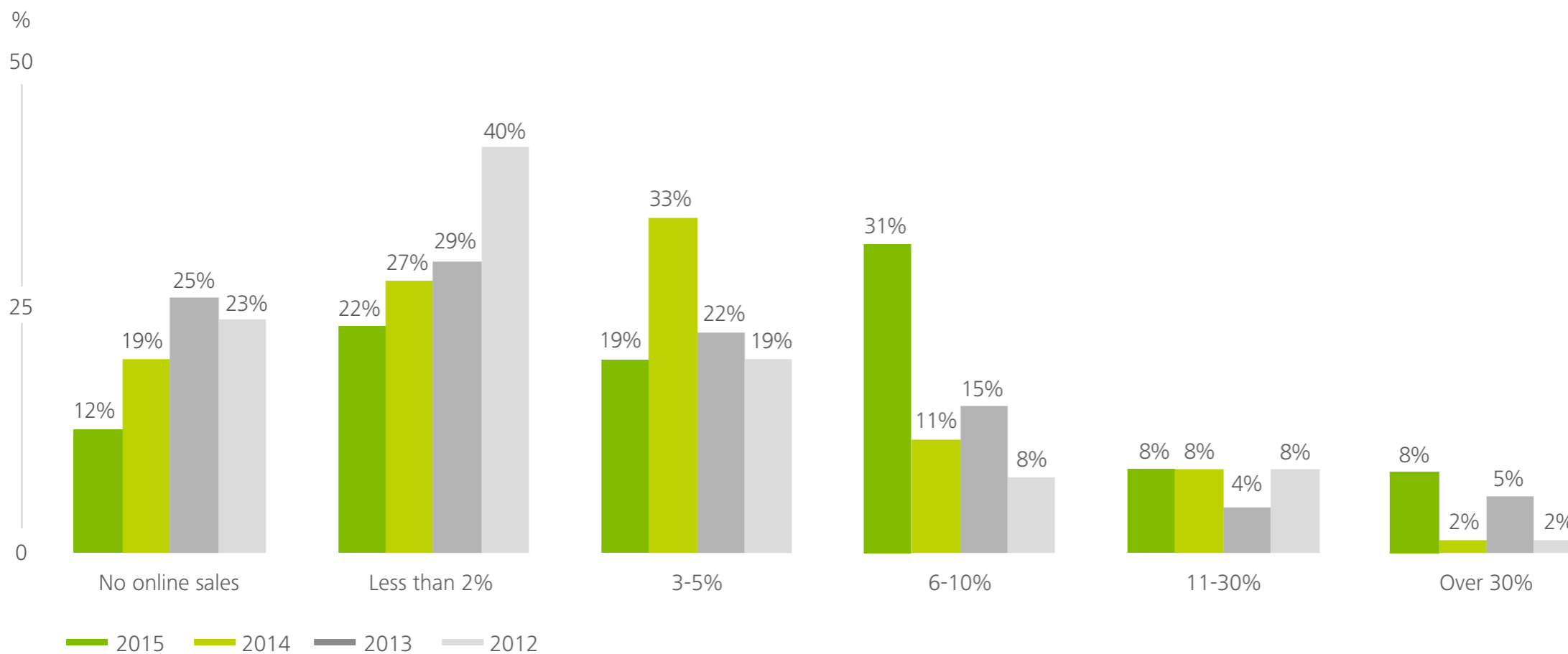
Santa shops online this Christmas

Four years ago, almost two thirds of retailers were expecting their online sales over Christmas to be 2% or less of their total Christmas sales. A staggeringly low percentage.

We have seen this percentage slowly increase over time – with nearly half of retailers in 2015 expecting their online sales to make up 6% or more of total sales this Christmas.

Whilst this is still low compared to the UK and US, Australian retailers are starting to invest more heavily in online in response to an ever more demanding consumer.

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



Online trends

Santa shops online this Christmas

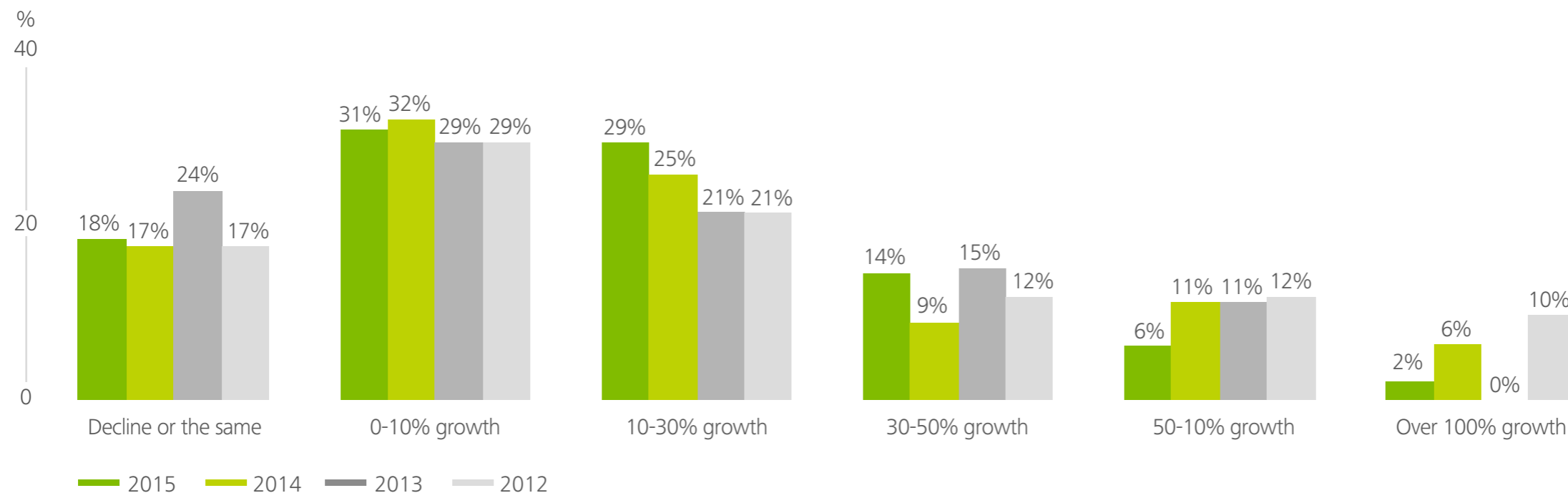
Over half of retailers are expecting online sales to be 10% or higher this Christmas compared to last year. The key for retailers is to understand how consumers are using digital devices, such as laptops, tablets and handheld devices, to make decisions and shop. A recent piece of Deloitte research revealed that far from being digital

dinosaurs, Australian consumers are actually highly connected when it comes to the use of digital.¹ The research showed 40% of in-store visits in Australia are influenced by digital – higher than the UK, Netherlands and Germany, with 65% of customers using a digital device before shopping and 31% while shopping.

Australian retailers are potentially underestimating the appetite of consumers for digital engagement through the end-to-end shopping journey.

Consistent with the maturity of online and digital strategies, having an effective digital strategy has

Q: By what % do you expect online sales for the Christmas period to exceed last Christmas?



¹ Navigating the New Digital Divide – Digital Influence in Australian retail 2015

Online trends

Santa shops online this Christmas

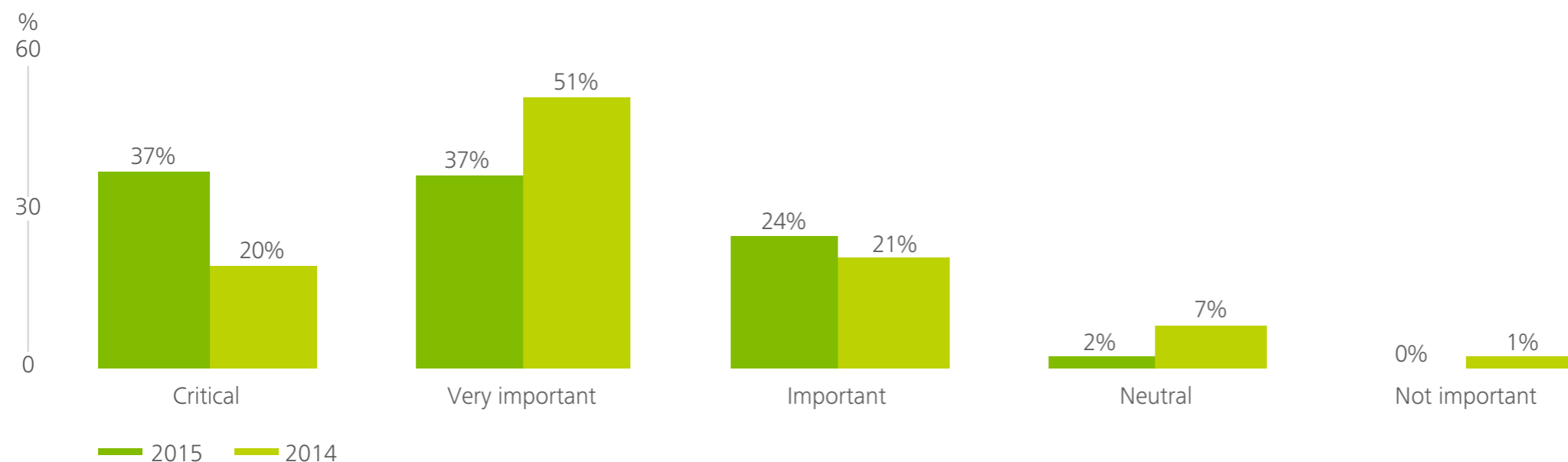
become even more important this year. 74% of respondents rate this as critical or very important.

Now more than ever the ability of a customer to research a product, and check its price and availability before walking into a store is critical for a retailer to remain relevant, and innovations such as click and collect are becoming far more widespread.

The benefits of an effective digital strategy can easily be undermined by a breach in cyber security. Our survey respondents were asked how significant they felt cyber security was as a risk to their business. 24% rated this as high, 53% consider it a medium risk. The increasing number of high profile victims of hacking and breaches of customer information

is a cause for concern. As the collection and use of data by retailers becomes more widespread, so the chances of falling victim to a cyber-attack are increasing. With the huge impact such an attack can have on a company's brand, reputation, and even their ability to continue trading, cyber security needs to be front and centre of any retailers' strategy.

Q: How important is having an effective digital strategy in improving the performance of your business?



Maximising the bang for your data buck

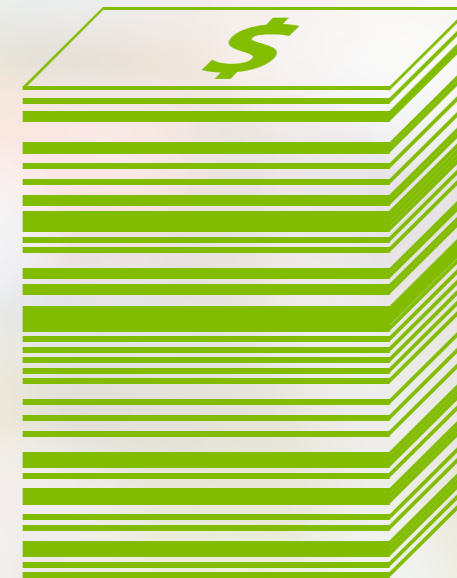
Data has long been a major priority for large retailers to help enhance their decision-making processes. With advances in technology and new players to the market, advanced data analytics has been opened up to the rest of the market. With boards and shareholders ever increasing demands for efficiencies and analysis with which to make decisions, the use of data is too important to ignore.

The opportunities that can be unlocked through the use of data are only as good as the quality of the underlying information available. Retailers need to be able to capture the data in a format which can be used by the business. The ability to capture financial and non-financial

data at the store level is critical to implementing an effective data strategy. Typically, data has been used to analyse spending patterns by consumers to make better buying, merchandising and marketing decisions. However, there are a multitude of other uses for data analytics. These are focused not only on the front-of-house, but improving the efficiency of the supply chain and better identify cost saving opportunities.

Such tools are becoming ubiquitous in the industry and no longer the domain of only the largest players. Small to medium-sized companies also now have the ability to take advantage of the data driven insights

to make key business decisions. These tools reduce the reliance on hunches and intuition, providing quantitative analysis to support business decisions and predictive modelling to identify issues before they result in lost profits.



Maximising the bang for your data buck

As the market becomes ever more digital-savvy, retailers must continue to drive innovation in their use of the huge amounts of data available to them

The technology is proven; researchers at Massachusetts Institute of Technology found data modelling software identified predictive patterns in data sets better than human based teams 68% of the time, and in a much faster timeframe. Likewise, the US department store Stage Stores piloted the use of predictive modelling to analyse pricing decisions and found the predictive models outperformed the merchandisers

in 90% of cases. Retailers are increasingly using predictive modelling and data analytics to analyse stock sell through rates. This can help identify stock at risk of impairment or margin erosion long before corrective action becomes too late. By analysing operational data across store networks, retailers can better understand the drivers of poor profitability which can lead to margin erosion and stock losses. When this data is overlaid with competitive or demographic profiling, store performance can be assessed by management to pinpoint issues in location, personnel, competition or demographics.

As the market becomes ever more digital-savvy, retailers must continue

to drive innovation in their use of the huge amounts of data available to them. With data driven insights no longer restricted to the top end of town, it's critical small and medium-sized retailers recognise the important of data analytics to their business. Without an effective data strategy, a retailer runs the risk of simply no longer being competitive in the future.



Damien Cork
Director
Assurance & Advisory



Competitive landscape

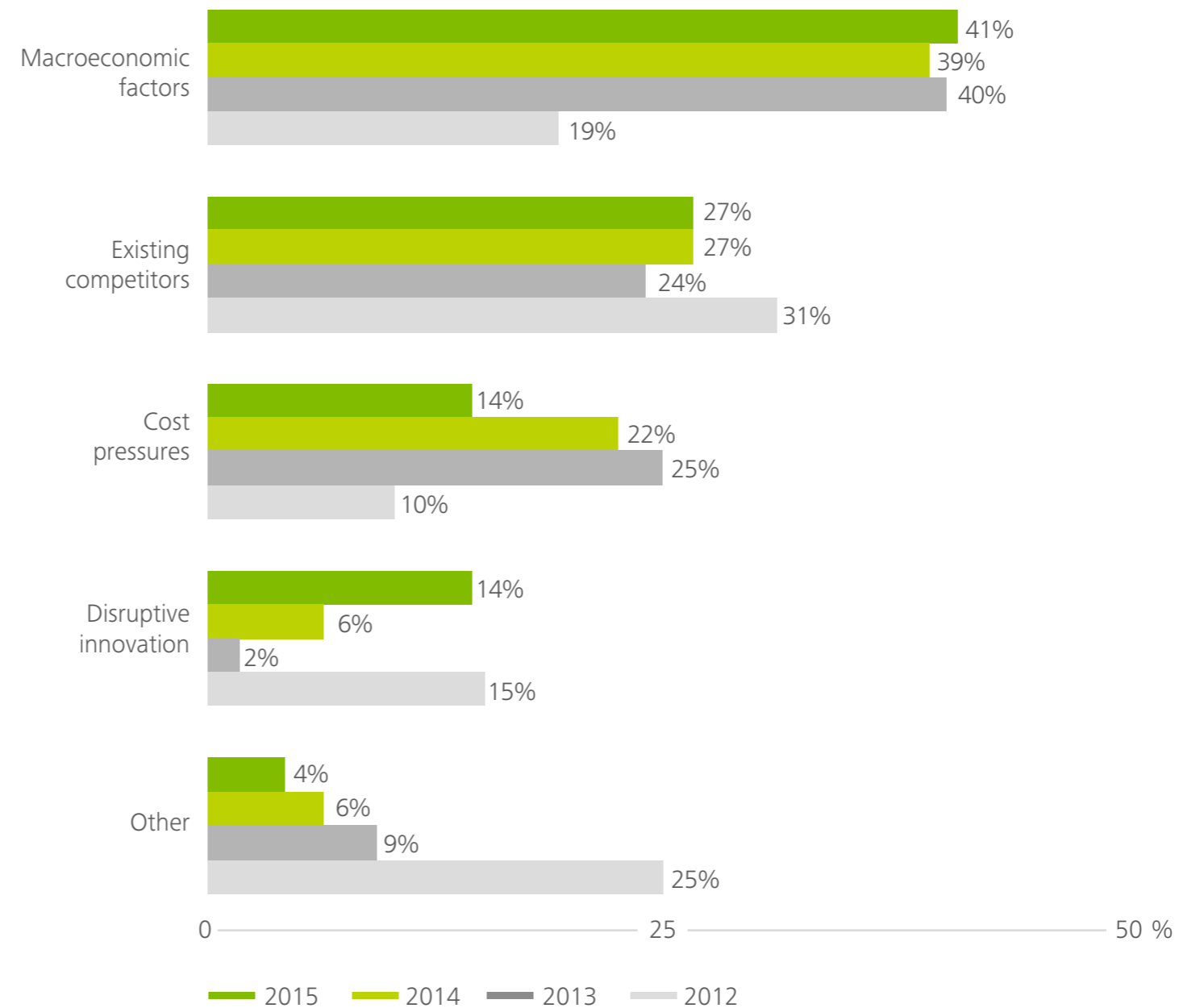


Competitive landscape

The view from the shop floor

Retailers continue to be concerned with macroeconomic conditions, with some 41% citing this as the greatest risk to their business. Whilst 2015 has largely been positive for many retailers, there remains a residual concern. Certain sectors have done particularly well in 2015 such as the furniture and homewares markets which have benefited from a strong property market in New South Wales and Victoria. However, the potential for a slow-down in house prices, coupled with uncertainty over employment numbers and interest rates means there are sound reasons for caution.

Q: What do you consider to be the greatest risk in your business?



Competitive landscape

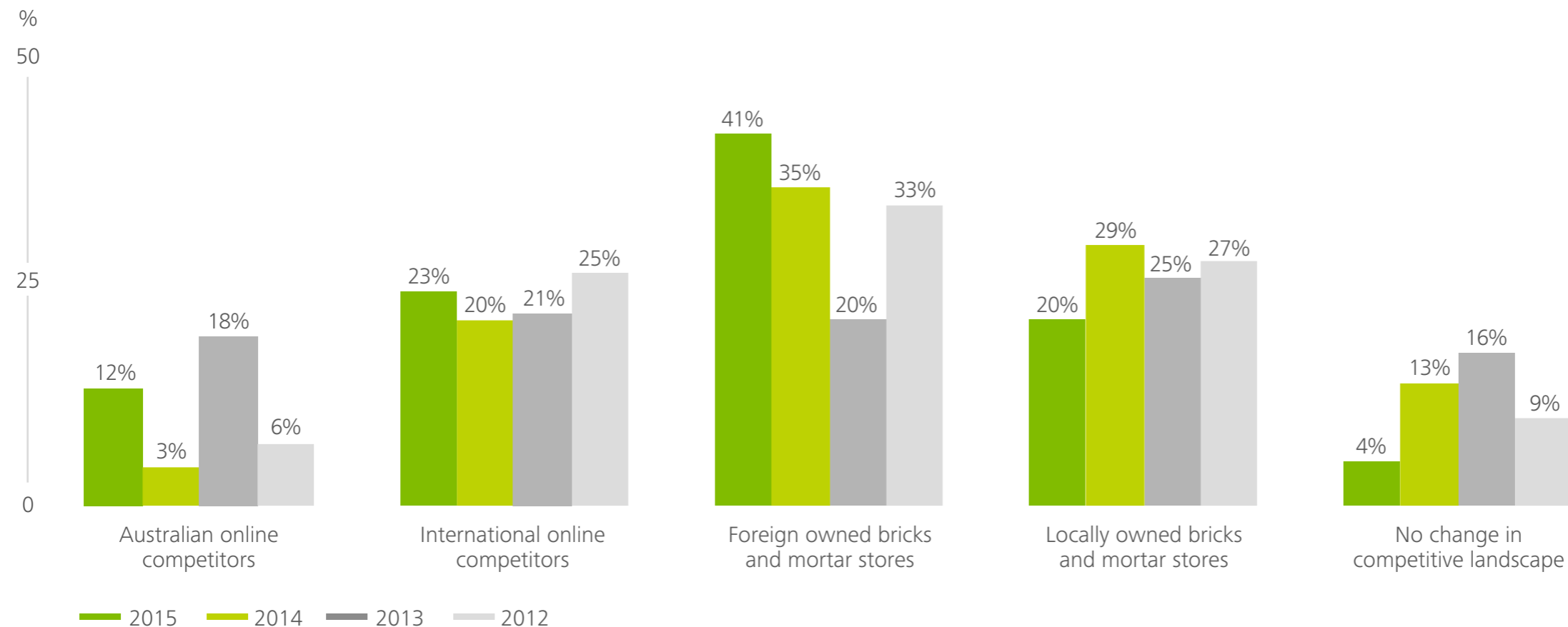
The view from the shop floor

When it comes to competition, the message from our survey is loud and clear. Nearly two thirds of respondents are primarily concerned with international retailers, whether it be bricks and mortar or online. With

the decline in value of the Australian dollar, the competitive advantage enjoyed by international online retailers has lessened. Likewise, we have seen an increase in investment in online offerings from domestic

retailers. This also appears to be having a greater impact with 12% of respondents believing the most increased competition will come from Australian online retailers, up from just 3% in 2014.

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



Competitive landscape

The view from the shop floor

“Unless major retailers are willing to accept that selling prices must increase to offset the fall in the AUD, there will be many retailers’ and wholesalers’ business models which will no longer be sustainable”

– Survey respondent

What is clear is retailers have accepted the market in which they operate does not stand still. Just 4% believe there will be no change to the competitive environment in 2016. Retail has been one of the earliest and hardest hit industries of digital disruption. Initially many retailers seemed unwilling to accept change.

Our survey suggests after a number of years of huge disruption, retailers are now acutely aware this type of disruption is here to stay.

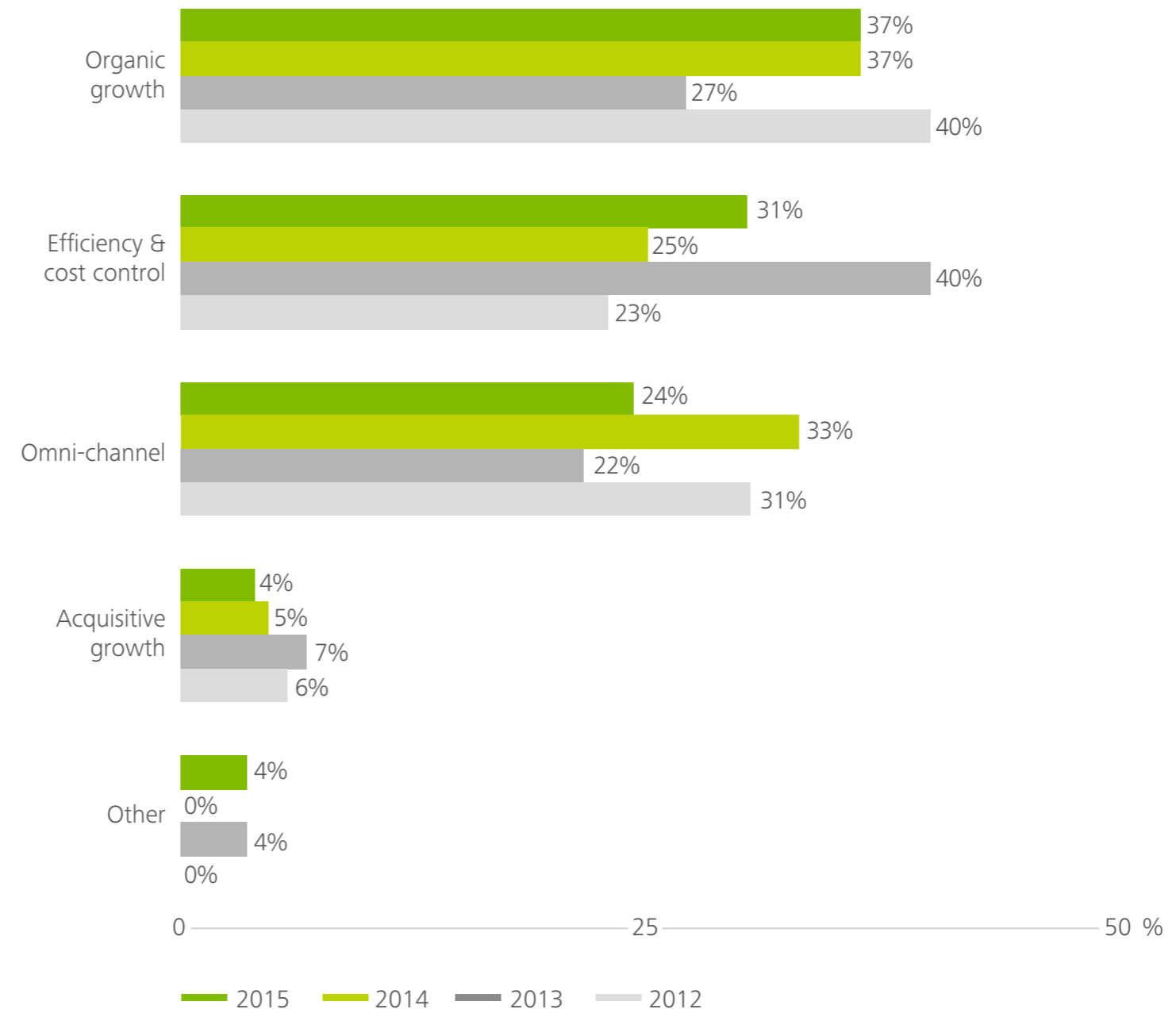


Competitive landscape

Strategic priorities

There isn't a retailer in the country who isn't concentrating on efficiencies and cost control. However, we anticipate this area of the business will see additional focus due to the higher import costs following the decline in the Australian dollar. This is borne out in our survey results, with 31% of retailers identifying cost reduction as their number one strategic priority, up 6% from 2014.

Q: What is the number one strategic focus of your business?



Competitive landscape

Strategic priorities

In last year's survey a third of respondents cited omni-channel as their key strategic priority. This number has fallen to 24% in 2015. This likely reflects the significant investment Australian retailers have started to make in their omni-channel strategy, with many retailers now having well established online businesses.

However, retailers shouldn't take their eye off the ball. What is critical is that experience of consumers online is seamless with that of the in-store experience. They are no longer separate offerings – they need to be seen as one consistent channel for consumers.

“Prices will start to increase due to the decline in Australian dollar resulting in retailers having to market their unique selling propositions much more aggressively”

– Survey respondent

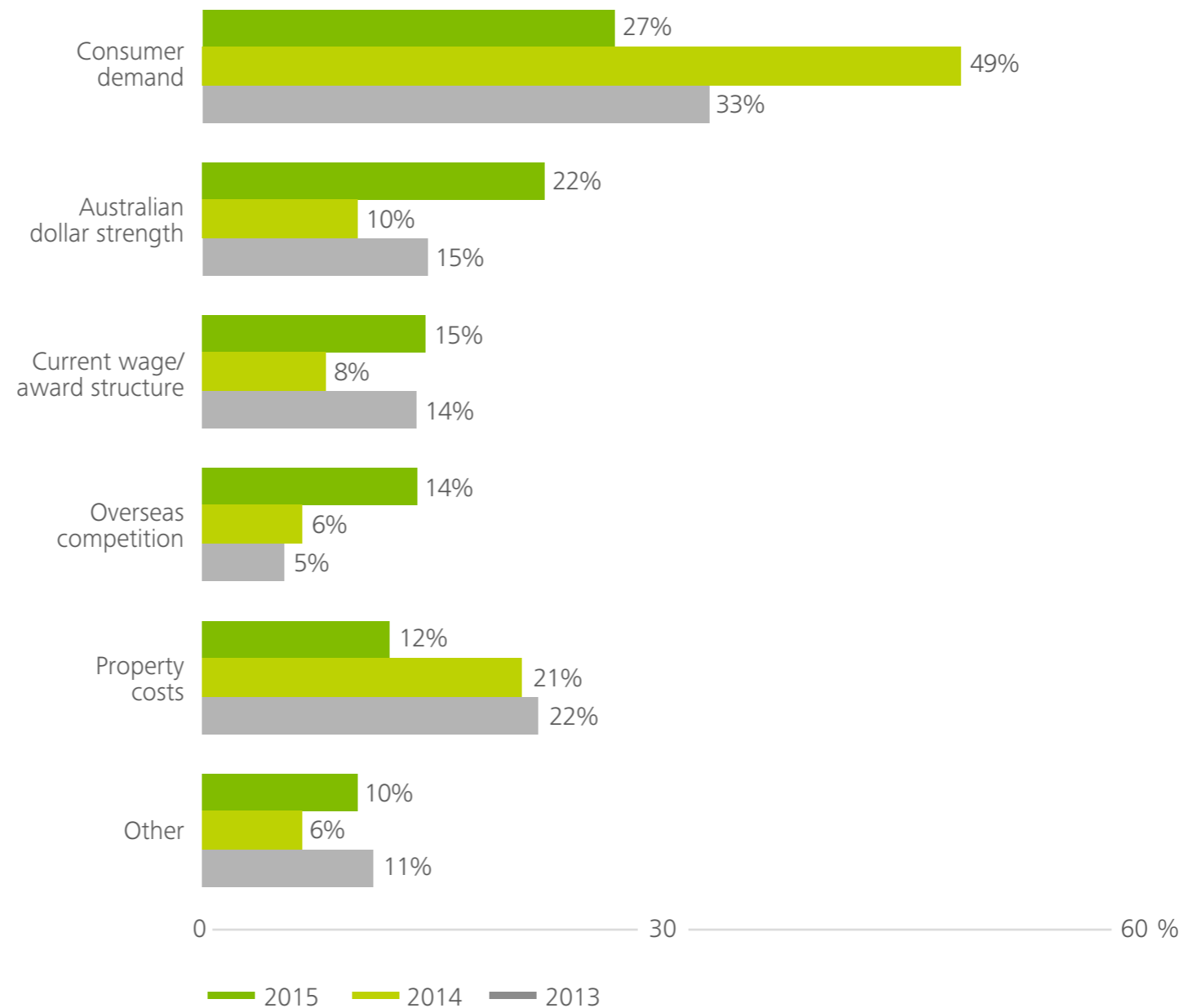


Competitive landscape

Impediments to growth

In all of our previous surveys, 'consumer demand' has been the stand out concern of retailers in terms of an impediment to achieving sustainable growth. Not so in 2015. Whilst it is still the largest concern, at 27% it is 22% lower than 2014. Running a close second is the strength of the Australian dollar (22%). As the protection against movements in exchange rates from currency hedges start to unwind, the fear of higher inventory costs is weighing heavily on retailers. With so much competition in the market, it will be difficult for retailers to pass on some if not any additional costs to the consumer by way of higher prices. This means trying to find savings elsewhere in the business – not an easy task given how lean some retailers are now running.

Q: What is the biggest impediment to you achieving sustainable growth?



Taxing times for multinationals

Taxation, in particular the debate over base erosion and profit shifting (BEPS), continues to be in the spotlight both internationally and locally with the Organisation for Economic Cooperation and Development (OECD) releasing its final reports outlining the consensus actions under the BEPS project in October 2015. The new rules, which are aimed at addressing the perceived tax avoidance of multinationals through the use of gaps in the tax laws of many countries, will impact more than just tax; they will also have a significant impact on the operations of multinational businesses.

Australia remains at the forefront of the implementation of the OECD's BEPS recommendations with the Federal Government already taking

action to ensure multinationals pay their fair share of tax whilst at the same time ensuring Australia remains an attractive and competitive place to do business.

One of the key OECD recommendations is the requirement that an entity has appropriate levels of commercial substance proportionate with the level of profits and nature of operations in the particular jurisdiction. This means the tax structures of a company in each jurisdiction it operates in will likely require further review and potential changes to ensure compliance. In the future transfer pricing analysis will need to focus more closely on the major economic and value creating activities of a business and the parties responsible for those activities.

For multinational retailers intangibles such as brand names and trademarks are often a critical profit driver. Under the new rules there will be an increased focus on understanding:

- The development, enhancement, maintenance, protection and exploitation of intangibles
- The risks related to intangibles and actions to control these risks
- The location of where these activities are happening
- The intangibles value chain to identify how and where the value is created
- Whether intra-group intangibles charges are appropriate.



Taxing times for multinationals

The new country-by-country reporting requirements (Action 13) will increase the compliance burden on organisations, but provide increased transparency enabling revenue authorities to identify non/low taxed income in jurisdictions where there is limited commercial substance.

The impact of these recommendations is directors will need to understand what, if any, changes are required to the organisation's business model, financing strategy and the associated costs of doing so. Mere legal ownership of an intangible asset will not be sufficient to generate

a significant return. The OECD's recommendations may require significant operational shifts in the organisation's business model, increasing their commercial substance in certain jurisdictions and in turn rethink the entity's supply chain as current structures may not reflect the new requirements.

The OECD's recommendations (Action 7) also propose changes to the OECD model tax treaty to lower the threshold used to determine whether a permanent establishment exists in order to prevent abuses of that threshold. Directors will also need to reassess whether

the organisation's activities in a jurisdiction amount to a permanent establishment under the new rules and may require a re-consideration of methods employed for selling goods and services cross-border.



Kamlee Coorey
Partner
Corporate Tax



The next 12 months

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13



The next 12 months

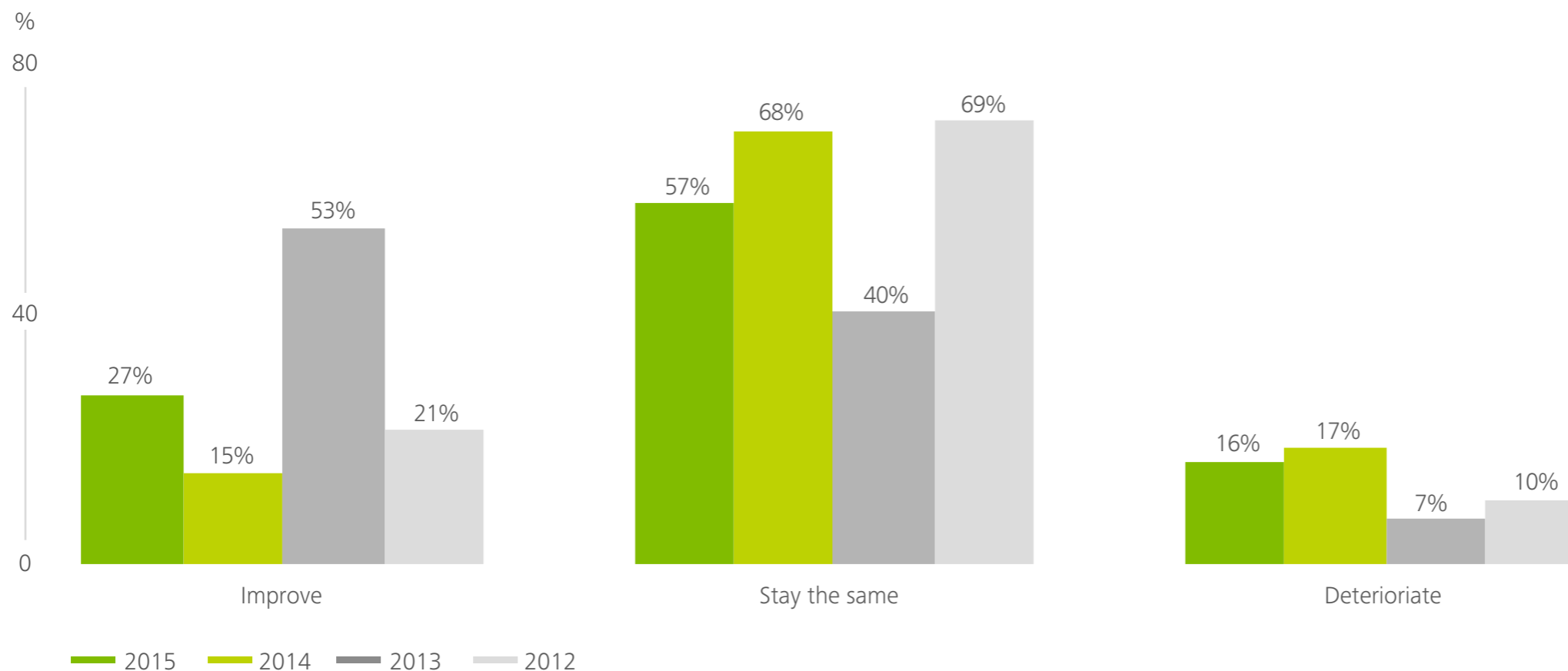
Not everyone can be winners

Ever the eternal optimists, retailers are predicting a strong 2016. But does this stack up? When we asked our respondents how the broader Australian economy would fair in 2016, 51% (the same as 2014)

predicted no change. Retailers do see consumer confidence creeping up in 2016 however, with 12% more respondents expecting higher consumer confidence compared to last year.

Yet, when asked about their specific business, 82% expect their overall earnings to grow next year, with 41% expecting earnings growth in excess of 5%. So how does this align with their view of a fairly stagnant economy?

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



The next 12 months

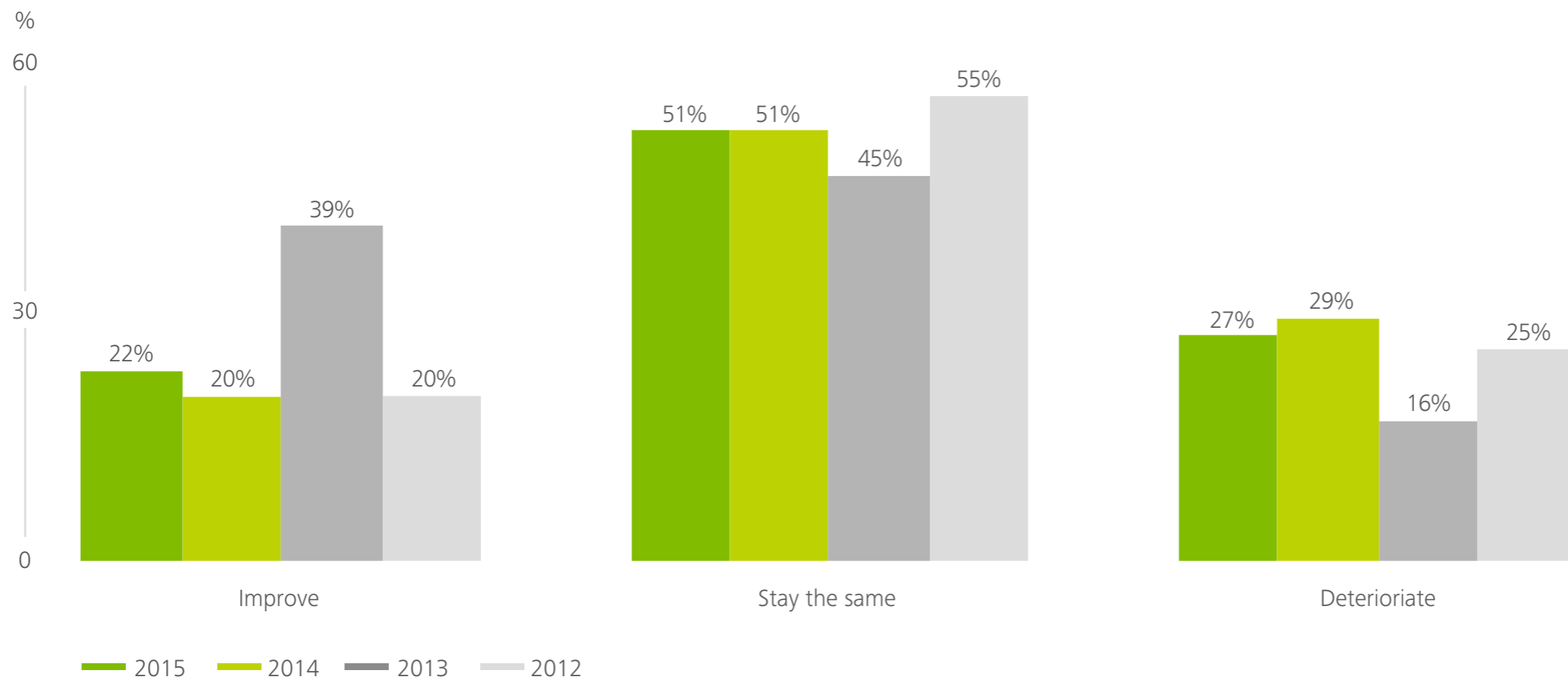
Not everyone can be winners

Perhaps the answer lies not in the Australian economy, but internationally. Historically, too few Australian companies have ventured

overseas, but we are starting to see this change. This is reflected in the results of the survey: some 45% of respondents believe there is an

opportunity to grow by expanding overseas in the next 12 months. This figure last year was 31%.

Q: How will the broader economy perform in the next 12 months?

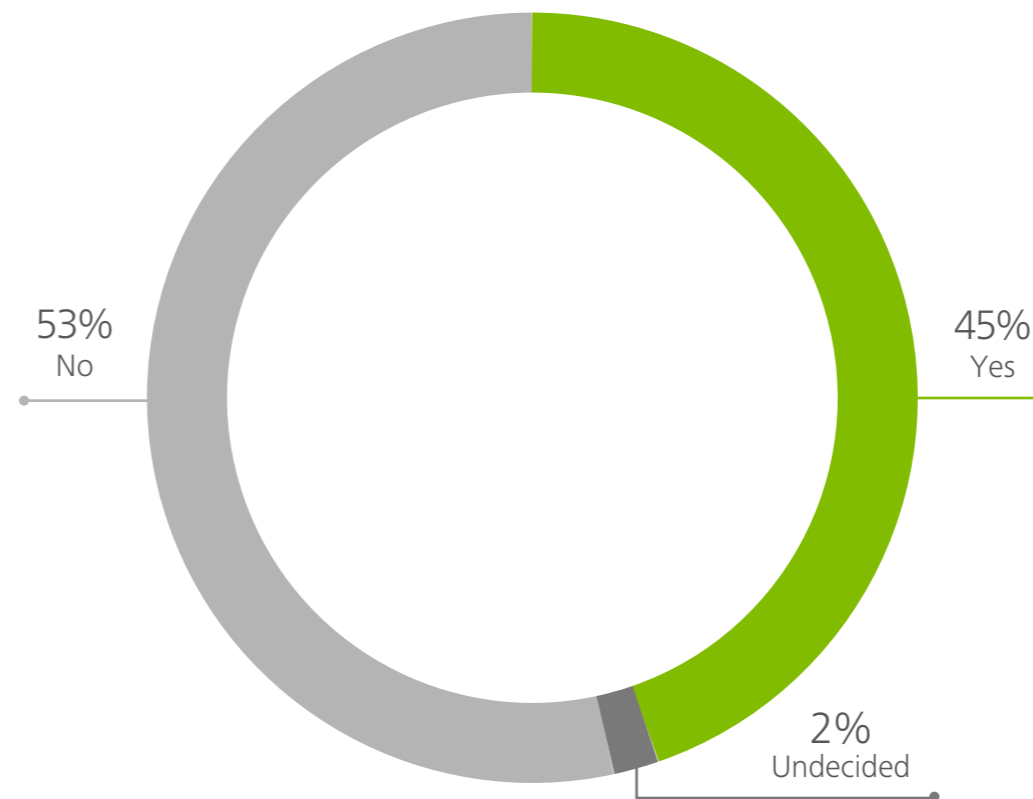


The next 12 months

Not everyone can be winners

Whilst the risks are higher, so are the rewards and with the continued growth in the Asian markets in particular, the opportunities remain significant. But a broken business model in Australia is a broken business model overseas too. So a key message for retailers to understand is if you can't be successful on your home turf, then the chances of being successful overseas are even slimmer.

Q: Do you see expanding your operations overseas as an opportunity to grow your business in the next 12 months?



The next 12 months

Sources of growth

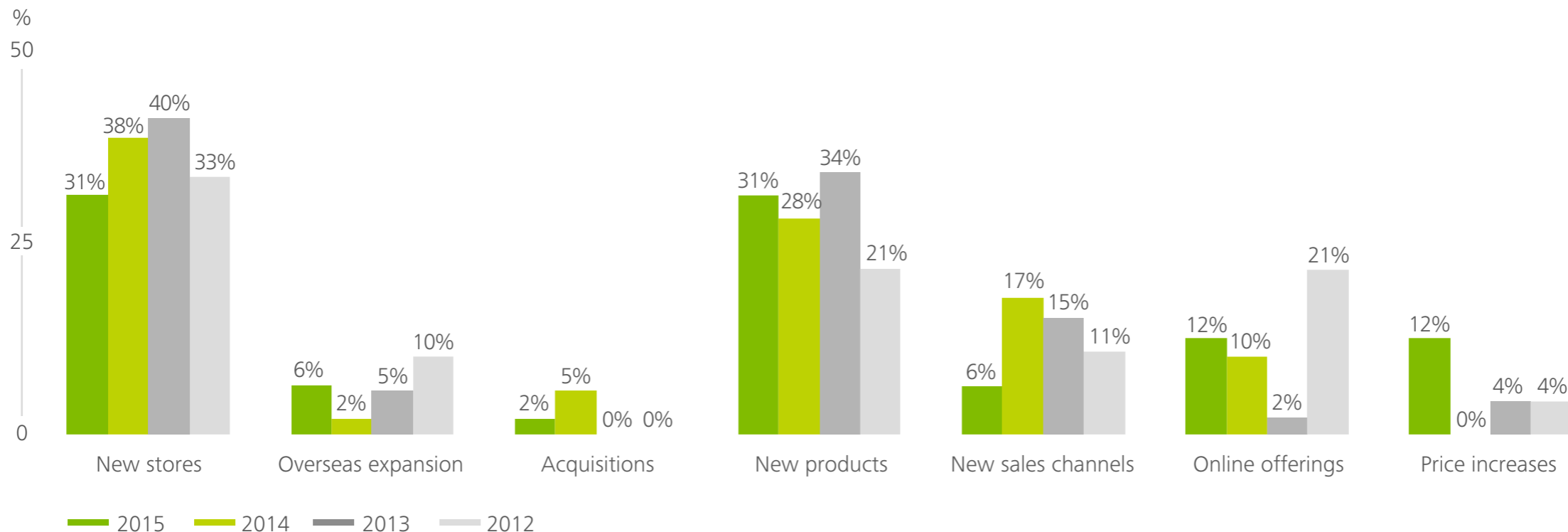
The roll out of new stores and the introduction of new products continues to be the key sources of sales growth for retailers in 2016. Despite 45% of respondents considering expanding overseas next year, just 6% see this as the most significant driver of sales.

This suggests whilst Australian retailers are looking more and more to venture overseas, any overseas expansion at this stage is likely to be on a relatively small scale to begin with.

Whilst we have seen elsewhere in this year's survey that retailers are fearful

of the falling Australian dollar, 12% of respondents are expecting their main growth driver in sales to come from price rises. In a highly competitive market, the key question is just how much prices can be increased without losing market share.

Q: What do you expect will be the most significant driver of sales growth in your business in the next 12 months?

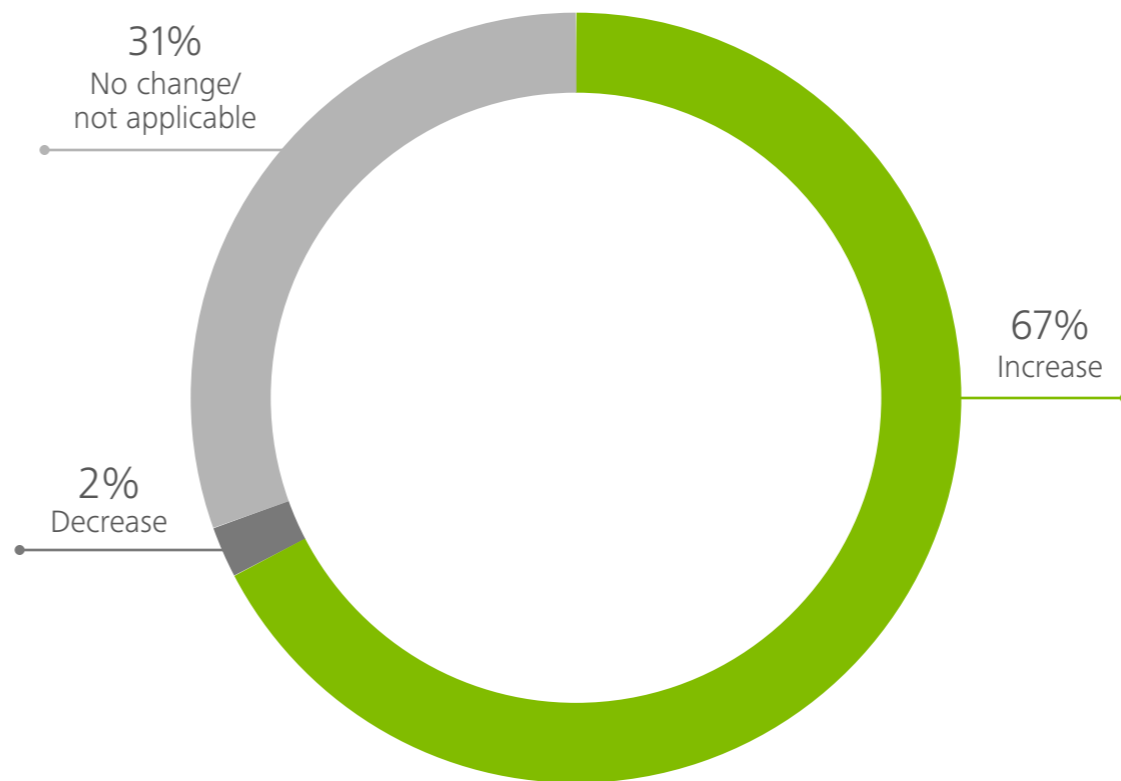


The next 12 months

Sources of growth

The roll out of new stores looks set to continue in 2016. Some two thirds of respondents are expecting to increase the net number of stores over the coming 12 months. This is largely consistent with the results from our previous years' surveys and reflective of the fact that bricks and mortar stores still play a vital role in the market place. However, the most successful retailers will be those which manage to bring the physical and digital experiences for consumers together so they are seen as one.

Q: Do you expect to increase net stores/outlets in the next 12 months?

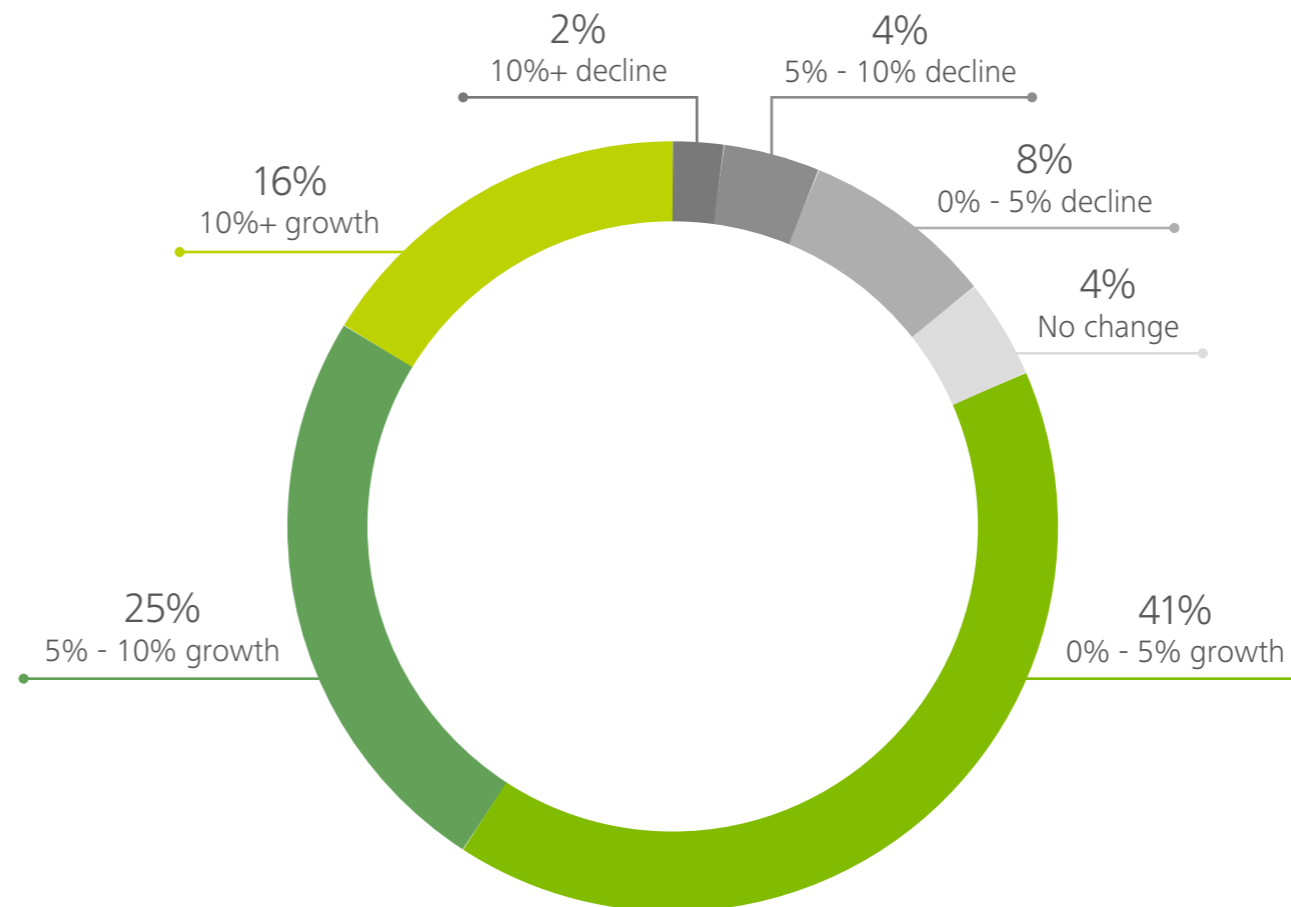


The next 12 months

Sources of growth

Retailers are bullish about growth prospects in 2016. Our survey shows 82% are expecting their earnings to grow, with 41% anticipating earnings growth of 5% or more. With margin growth hard to come by during the Christmas period, the focus on reducing the costs of doing business will be an important factor in growing earnings in 2016.

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



The next 12 months

Sources of growth

Interest rates remain at record lows, with three quarters of retailers expecting rates to remain between 2% and 2.5%. Low interest rates have had a positive impact on employment numbers in 2015, and retailers will be hoping this continues. As the economy continues to transition away from the mining sector, there remains a risk consumer spending may not hold up. Getting the strategy right to gain an unfair share of the market will be more important than ever.

“We have seen relative strength in consumer spending over the past 12 months supported by lower fuel costs and interest rates. The decrease in the Australian dollar should further stimulate domestic and foreign inbound tourism and therefore we have a continued positive outlook over the next 12 months”

– Survey respondent



How to survive and thrive this Christmas

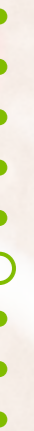
Customer service and product choice are the two critical factors private retailers are focusing on this year to drive sales and compete against the big global brands. The results of the survey show that this year 33% of retailers are concentrating on a new product range and 23% are working on customer service.

Businesses that will really succeed this Christmas are the ones that have clearly segmented the market to define who their customer is and what shopping experience this particular customer best responds to. Once you know that, you can capture additional market share both online and in-store.

The customer experience in-store is critical and the retailers that are succeeding focus on customer service. Customer service, however, isn't just the availability of staff in-store, but also ensuring staff, and particularly temporary holiday staff, have the appropriate product training as well as knowing how to stay engaged and provide a positive customer experience to the Christmas crowds. It's especially important to communicate to staff about the service levels customers expect, rather than to make assumptions about this.

For instance, have you directed staff to position trestle tables to encourage sales, but at the same time ensured customers with trolleys and prams can still easily navigate the floor space?

The results of the survey show that this year 33% of retailers are concentrating on a new product range and 23% are working on customer service



How to survive and thrive this Christmas

Of course, at Christmas it's not just customer-facing staff that need extra support. It's also important to train managers so they understand the organisation and customer expectations. Mentoring in the lead-up to Christmas is a great way to ensure top staff deliver an extra-strong performance and that they receive the training they need to perform their role to the best of their abilities mirroring the organisation's culture and values.

At this time of year, it can also be an idea to review manager and staff incentives to align them to customer experience. But above all, remember if employees are happy and engaged, this will translate to the customer experience. And don't forget Christmas can be a stressful time for everyone, especially retail staff

working long hours in the lead-up to 25 December. So watch out for signs of fatigue among staff members when putting together rosters.

It's also essential to ensure you have ample stock of advertised items on the shop floor. If not, and customers can't find what they have come to your store to buy, the risk is they will tell the online community and potentially damage your brand.

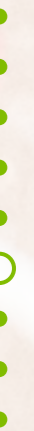
We're often asked about the secret formula for a successful retail business and this year's results speak for themselves. With more than half of our respondents naming product and customer service as their top two areas of focus for this Christmas, it's critical for all retailers to be asking what their different customer segments want and deliver services and products that

genuinely meet their expectations. You need to find out how and when they like to shop, and be bold and fresh in your approach.

Those that do this will really be able to stand out during the busiest retail season of the year, driving revenue and repeat business, as well as customer and staff satisfaction, which combined will translate to year-round success.



Rachel Smith
Partner
Deloitte Private



About the survey



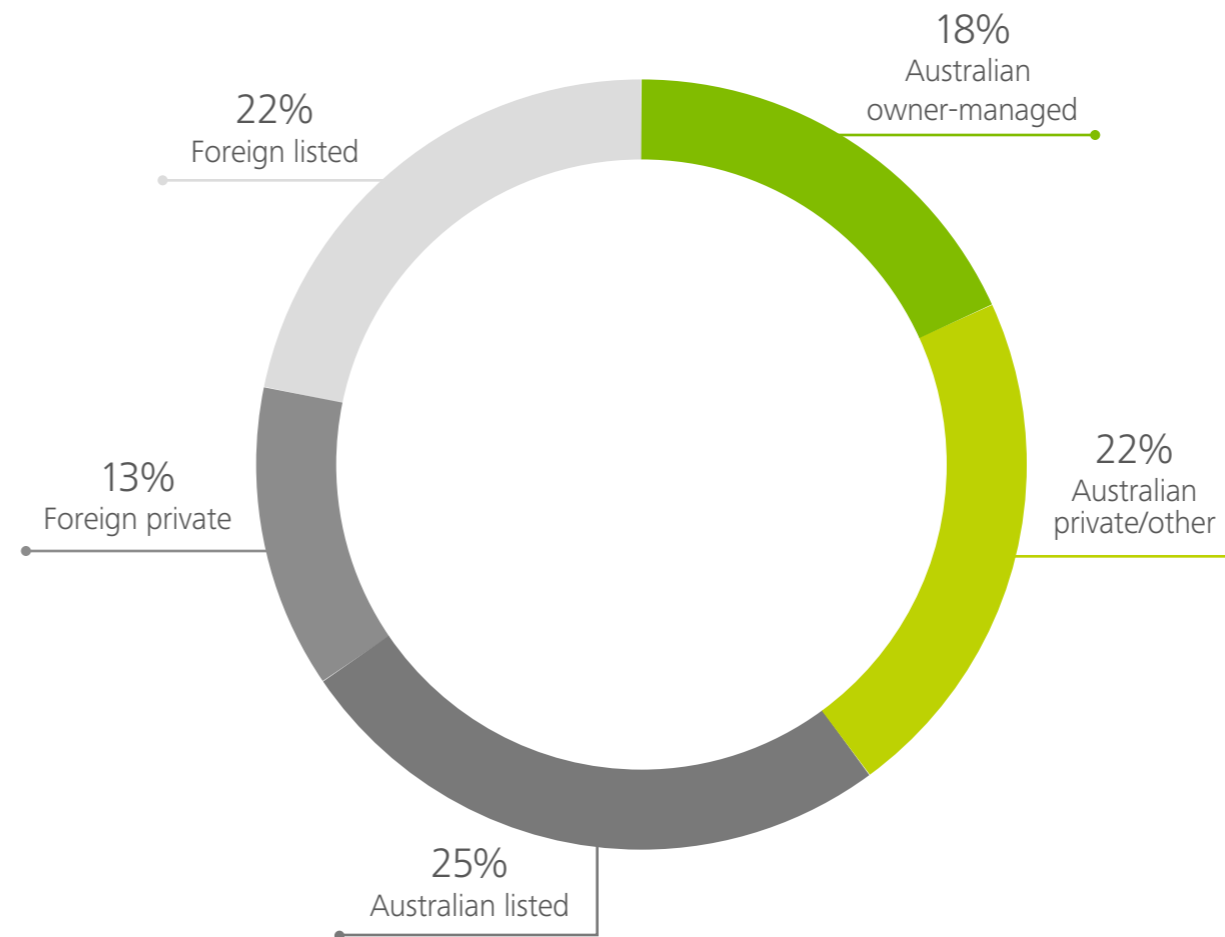
About the survey

Analysing the Australian retail landscape

The Deloitte Retailers' Christmas Survey is based on a survey of 55 senior executives of leading retailers in the Australian market.

The respondents are executive and senior management from a cross section of retailers inclusive of listed, private and foreign owned businesses.

Ownership structure of respondents



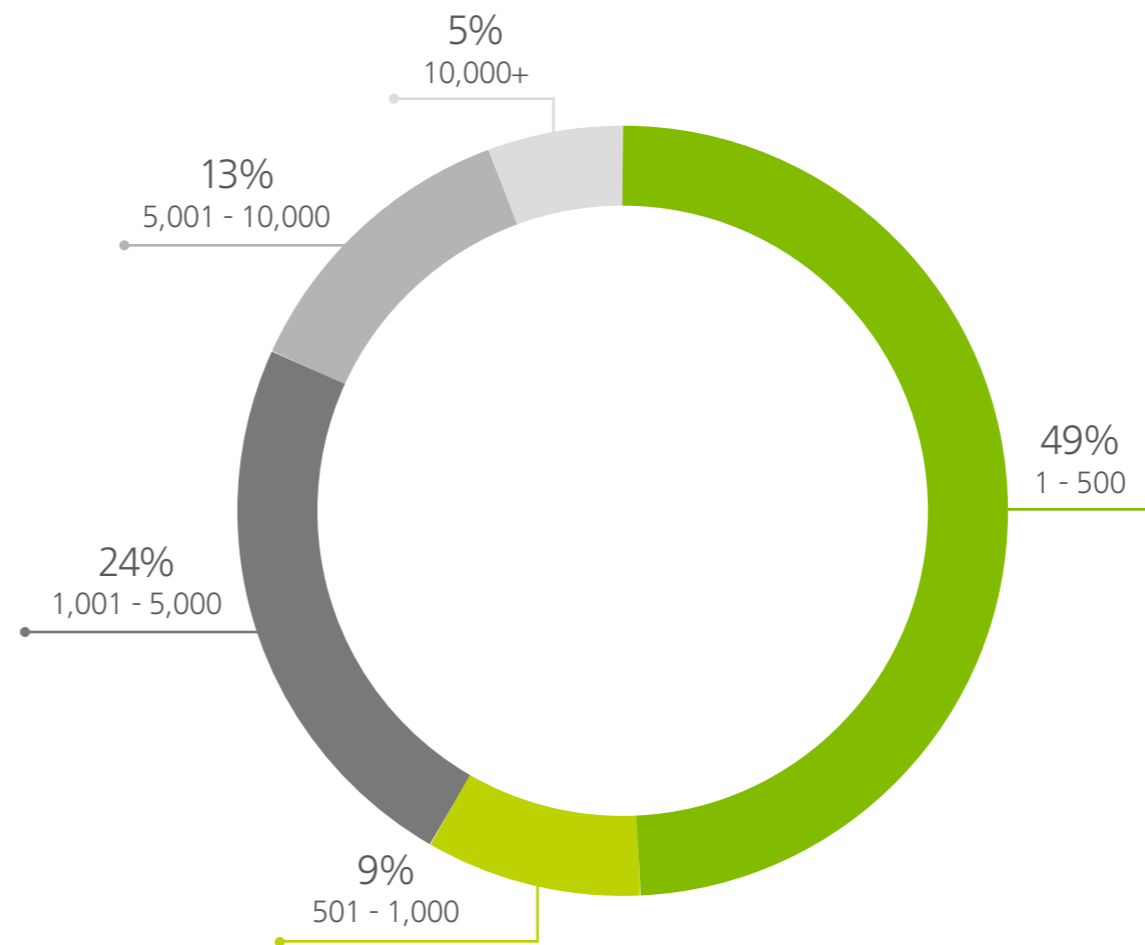
About the survey

Analysing the Australian retail landscape

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

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

Number of employees



Retail, Wholesale and Distribution group

Deloitte's retail specialists work across every segment of your industry, helping global retailers, wholesalers and distributors to meet their biggest challenges: from food supply, 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.

Our services for retailers, wholesalers and distributors include:

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



Deloitte specialists in the retail sector

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



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For more information please visit

www.deloitte.com/au/retailers-survey-2015

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