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Retailers' Christmas Survey 2021

Santa's open for business

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WELCOME

Introduction

Welcome to the tenth annual edition of the Deloitte Retailers' Christmas Survey.

'Tis the season to indeed be jolly. This Christmas, retailers are enthusiastically looking to welcome customers back to stores charged with digital enablement and exciting product range offerings. There is cautious optimism as managing supply chain disruptions & stock challenges will determine who has the biggest piece of the Christmas pudding this Christmas.

In the lead up to this all-important Christmas trading period we surveyed a cross-section of executives and senior management from retailers operating in Australia about their expectations for Christmas 2021 and beyond.

This report contains the detailed analysis from the survey and analyses retailers' sentiment for the Christmas period, key trends, expectations and priorities of Australian retailers for 2021.

Executive summary

As we head into the all-important Christmas trading period, the key attribute of successful retailers over the past 12 months has been that of agility. Rolling lockdowns, huge supply chain pressures, changing consumer buying patterns and a seismic shift to digital sales channels has meant many retailers have remained resilient and resourceful in rising to the challenge. And retailers seem optimistic that their investments will pay off this Christmas period and through to 2022.

Christmas Optimism

Retailers are definitely looking forward to a strong Christmas period, with the key theme being “getting on with business”. Some 80% of retailers expect sales to increase this holiday period, compared to 60% in 2021. The key impediment that may hold growth back seems to be concerns around the availability of inventory. With global supply chains pushed to breaking point during the COVID pandemic, more than half of retailers surveyed are concerned around stock availability, with only 52% of retailers expecting to receive all of their stock orders in time for the Christmas sales peak. Given these shortages, we should again expect to see

consumers shopping earlier, and so it will be more critical than ever for retailers to get off to a strong start in the run up to Christmas.

Margins

As supply chain costs continue to increase, retailers are less confident when it comes to sales margins. The general consensus amongst our respondents is that margins will remain relatively stable. However, with increased freight and delivery costs, prices will need to increase to compensate. Similarly, the cost of operating retail stores in a COVID-safe environment is putting another significant layer of costs onto the retailer, with supermarkets particularly hard-hit.

Winning strategies

As retailers fight for wallet share this Christmas, the critical area to get ahead of the competition continues to be digital strategies. 97% of retailers surveyed expect all of their stores to open for Christmas, and this channel is still expected to drive the majority of sales. However, digital remains key, with “digital and omnichannel” strategies scoring highest amongst our respondents as a critical focus area for Christmas. The shift to digital is set continue, with some 55% of

retailers expecting to generate more than 10% of its sales through digital next year, compared to just 10% of retailers when we first started our survey in 2012.

The year ahead

As retailers look beyond this Christmas trading period, many are hopeful of a strong performance next year. Some 26% of retailers surveyed expect sales growth of over 10% in 2022. However, underlying concerns remain over future potential lockdowns slowing down or disrupting growth. The future of the CBD store is also unclear at this stage, with nearly half of our respondents expecting it to take up to 2 years to return to pre-COVID trading levels. And 26% believe pre-COVID sales levels will never be achieved again. Further collaboration between retailers and landlords will be critical to ensure physical retail bounces back as the economy opens up again. Certainly from a retailer’s perspective they have factored this in, with 35% of respondents expecting their rents to reduce in the future.

A major hurdle for retailers to tackle as they look to grow is securing sufficient talent. With border closures and COVID outbreaks,

maintaining an appropriate workforce has been a massive challenge. Our respondents told us that they are most concerned with securing staff in the specialised technical roles such as digital and supply chains, with border closures being a major restriction on securing talent. Our respondents were very clear on how they want government to help...open the borders, both domestic and international.

Having undergone one of the most challenging periods in the history of retail, this Christmas looks set to give retailers the opportunity to bounce back. And with borders finally starting to open up, the message from Australian retailers is very clear – we are open for business.



David White

National Leader
Retail, Wholesale and Distribution



CHRISTMAS
EXPECTATIONS

Christmas expectations

Sleighting-it this Christmas

Retail has been on a rollercoaster ride since the onset of COVID-19, with supercharged demand in some market segments and others heavily impacted by lockdowns and changes in consumer habits. Retailers are entering this Christmas with a sense of tremendous optimism as the vaccine-led reopening and recovery takes hold.

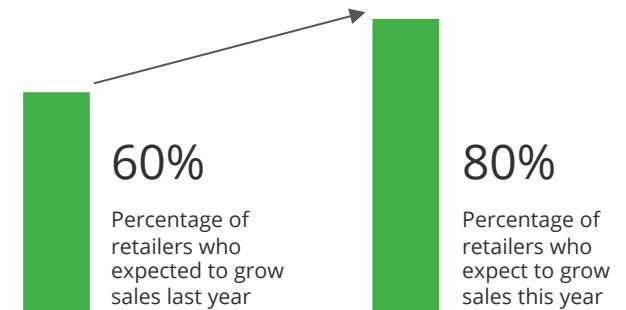
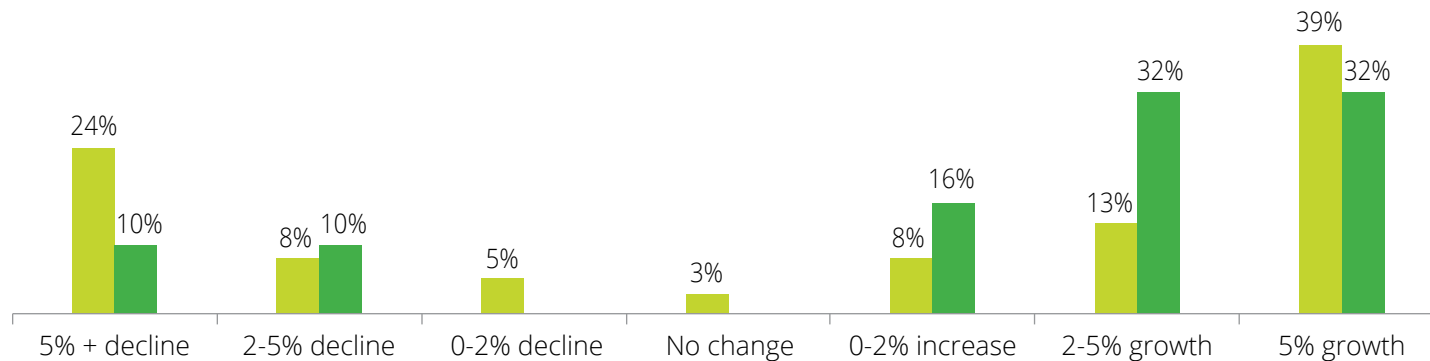
Respondents are confident this year that demand will rebound as states exit lockdown and enter the new phase of 'living with COVID'. Whilst there are fewer retailers expecting more than 5% sales growth this Christmas, there are far fewer retailers predicting revenue declines compared to last year. Overall, 80% of retailers are expecting sales growth this holiday period, which is up 20% on last year's survey. We are seeing similar trends globally. In the US, 73% of retail executives surveyed by Deloitte US¹ expect customers to spend more this holiday season as the recovery gathers pace.

Businesses that deliver a compelling offer with frictionless experience across all channels will grow market share considerably. Purchasing behaviours have changed and being relevant to the customer is imperative.

Survey respondent

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

■ 2020 ■ 2021



¹ 2021 Deloitte holiday retail survey, Deloitte US

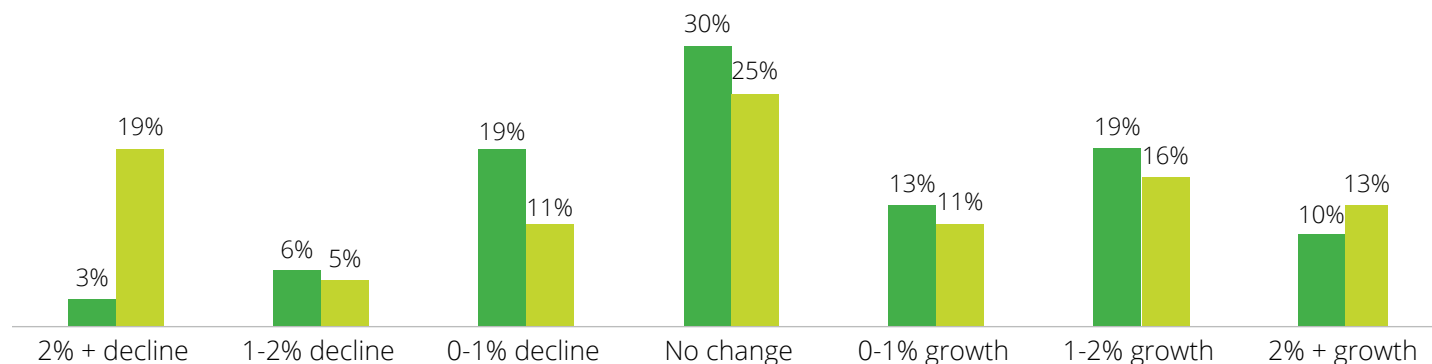
In the equation of supply and demand, a lack of stock availability should potentially mean higher margins for retailers in their stockings this holiday season. The reality is more complex though, with 3 months of store closures meaning many retailers have excess older stock to clear and, with shipping bottlenecks, new stock is harder to come by.

Retailers are expecting margins to remain steady this year, with the number of respondents forecasting large declines decreasing from 19% to 3%. More respondents are expecting small declines or consistent margins compared to last year despite the challenges in stock availability, with around half of retailers expecting that orders will not be filled to meet demand this Christmas.

Delays in shipping and increasing freight costs are becoming a major area of concern. Over 70% of respondents highlight that shipping costs are having a considerable or significant impact on input costs which will likely flow through to the bottom line. There is a clear battle to have enough stock on the shelf this Christmas. Added to this, the costs of ensuring COVID-safe retail environments is a significant additional cost to retailers, particularly the supermarkets.

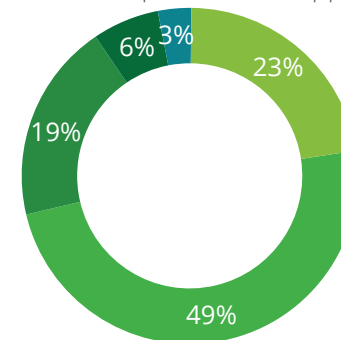
Do you expect margins for the Christmas period to exceed the previous year?

■ 2020 ■ 2021



How much of an impact are shipping costs making on your input costs?

■ Significant impact ■ Considerable impact
 ■ Little impact ■ No impact ■ Not applicable



On the brighter side, retailers are absolutely confident that demand will return as NSW and Victoria open up from lockdown and the other states begin to open their borders. Over half of respondents expect that retail sales will bounce back rapidly, with nearly a third expecting to exceed the pre-lockdown demand as consumers make those purchases delayed during the time at home.

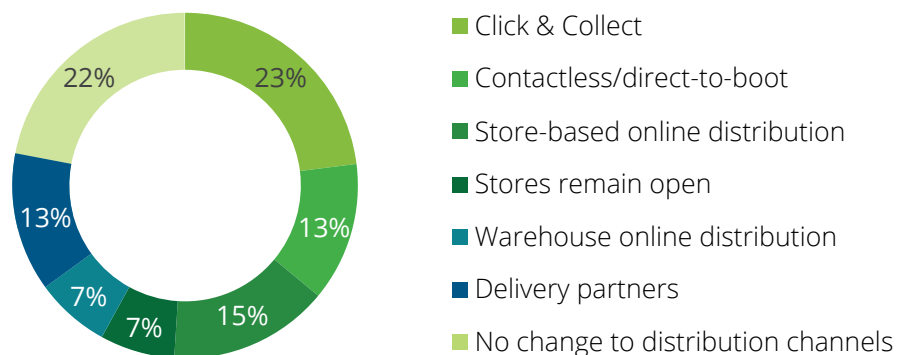
As we enter the Australian summer and Christmas period, there is no better time to get out and shop. Retailers are anticipating a boom in consumer spending over the next few months.

During the lockdowns the pivot to click & collect, store-based distribution and contactless sales have sustained sales activities while they wait for vaccine rates to permit the reopening. The message is now clear from retailers – it's time.

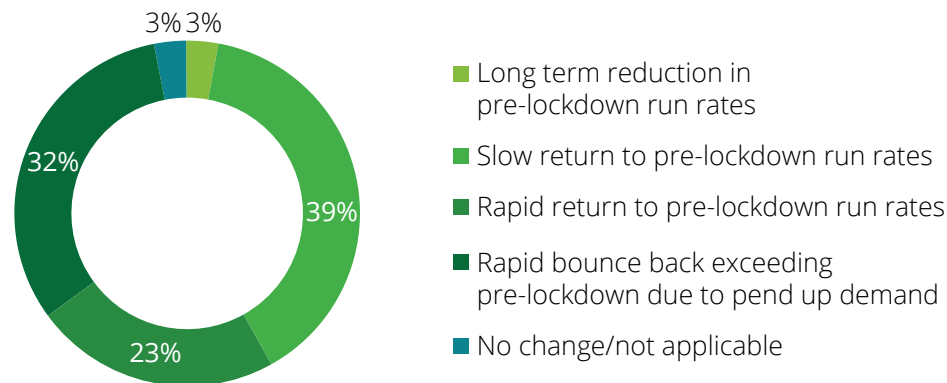
97% of our respondents expect stores to be open by Christmas and with the recent reopening of discretionary retail and State and Federal Governments flagging a reopening of borders before Christmas. There is a sense of positivity in the holiday air – provided there is stock to sell.

Should the worst occur, just under half of respondents would be somewhat or very concerned about their capacity to meet demand, but at this stage the signs are good that stores will be open for the key trading weeks.

What are the most effective customer distribution channels that you have pivoted to during the latest round of lockdowns?



What do you expect the short-term impact to be when lockdowns are lifted?



Christmas expectations

Will the stockings be full?

Global supply chains have come under pressure as the world's consumers emerge from the pandemic, and Australia is not immune from the fallout.

In the US², nearly two thirds of retail executives are concerned about receiving inventory orders in time for the holiday rush. This is driving behaviour, with many consumers expecting to start their holiday shopping earlier due to the expected supply shortages, with consumer electronics being the most in-demand category.

The well-documented shortage of microprocessors which power everything from mobile phones and game consoles to cars has impacted manufacturing capacity, and the boom in demand has stretched international supply chains.

Closer to home, retailers share the concerns of their US counterparts. More than half of retailers are concerned about receiving sufficient stock for Christmas, with 26% very concerned about their ability to fill store shelves.

As we outlined earlier, shipping costs are likely to stifle margins this year. Higher shipping costs at least mean that stock arrives; the worst-case scenario for retailers and consumers would be significant stock outs at the worst possible time.

Only 52% of retailers expect that all of their stock orders will be received for the Christmas sales peak, an alarming insight that highlights just how difficult the situation may become.

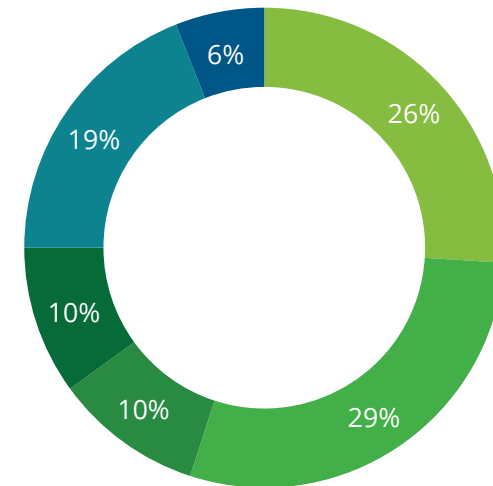
The message is clear – get in early to avoid disappointment on Christmas morning.

[The retail sector will] get harder as the supply chain is more problematic, costs are rising, warehouse costs are rising, and manpower is very hard to recruit.

Survey respondent

How confident are you about your supply chain and receiving sufficient stock for the Christmas sales period?

- Very concerned
- Somewhat concerned
- Neutral
- Very confident
- Somewhat confident
- Not applicable



² 2021 Deloitte holiday retail survey, Deloitte US

Collaborate to build organisational resilience

The last two years have created immense pressure on retailers as they were forced to shut down stores overnight in response to lockdowns and health directives, implement critical workforce health and safety changes, cater to radical shifts in consumer behaviour, launch new service delivery models, embrace remote working and respond to supply chain disruption.

However, this pain was not shared equally across retailers. Retailers who provide 'essential' goods and services such as supermarkets experienced significant growth in sales due to consumer hoarding and heightened demand for staple foods. On the other hand, discretionary retailers including clothing, footwear, fashion retailers and restaurants took a heavy hit, being shut down in accordance with government lockdowns for extended periods of 2021, particularly in COVID-impacted states such as Victoria and NSW.

Deloitte's Global fourth annual readiness report "Building The Resilient Organisation: 2021 Deloitte Global Resilience Report"^[1] explored how organisations coped with the tumultuous events of 2020 and identified the traits that characterise a resilient organisation.

The report found that businesses that enable and promote nimble strategies, adaptive cultures, strong collaboration, and effective use of advanced technologies can bounce back from unexpected challenges. In this case, retailers' ability to rapid scale up online delivery models and collaborate in a hybrid model to drive a better online customer experience, was a measure of their resilience.

The challenge many retailers now face is that they are still using remote or hybrid work models that were created at the height of the pandemic in response to an immediate need.

These work models were created to address a specific and urgent needs at a moment in time including rapid roll-out of safety measures across stores, launch of new products, restricted trading hours, online shopping, and click and collect. We are now seeing the challenges that these models present and how they can help or hinder the organisation's ability to be deeply collaborative.

There is a sense of missing out on the 'sparks' that come from in-office collaboration moments such as serendipitously bumping into colleagues, the collective energy of creatively brainstorming,



and an intimate knowledge of the team by simply walking the floors. In these scenarios, a pre pandemic notion of collaboration has been applied to a Zoom enabled remote and hybrid work model. This has resulted in fatigue, isolation and compromised mental health and wellbeing.

Whilst we have experienced gains in productivity from working from home, there is also nostalgia for the connections we create in person, and the long-term wellbeing that come from physical human interactions. Many retailers are struggling to unpick the activities that are better performed in person and those that work better in a virtual environment. Black and white statements fall short of capturing the nuance and careful design required to create an inclusive, productive, healthy and collaborative hybrid work experience.

Why resilient organisations collaborate?

Collaboration is critical for optimal decision making, aligned implementation of business strategy and business efficiencies.

“Collaboration is important in decision-making and communication: When people work together, more perspectives can be surfaced in the decision-making process, and information can be disseminated more

quickly...(and) collaboration can help an organisation marshal resources from different areas to provide business continuity.” [iii]

Building a collaborative organisation

To understand how to build a collaborative organisation you need to understand why people don't collaborate.

The greatest barriers to collaboration are: lack of psychological safety, lack of skills, lack of trust, lack of vulnerability, leadership role modelling, concentration of power and poor/no technology solutions. [iii]

Several of these antecedents of collaboration (vulnerability, trust, psychological safety) are inherent in face to face moments and can be more easily built and sustained when we are physically together. It's not that innovations happen at the water cooler, but that psychological safety and vulnerability comes from those small moments when we have idle chat about our days, lives and work that build intimacy and trust. Elements that are essential for collaboration. All these elements can be created in a virtual or hybrid work experience, but they need to be designed. We cannot rely on serendipity as much as we have in the past – we need to design for it.

Leadership, technology and carefully curated collaboration moments are critical design elements for future work models that are resilient and adaptable.

And organisations with a dynamic and self-directed culture are 56% more likely to get their products to market first [iv]

Deloitte analysis has found that since the onset of COVID-19 lockdowns globally, over 75% of office workers have used at least two new types of technology to collaborate for work purposes. A case study example can be seen through the World Health Organisation, who have used a major social media platform to provide press briefings, share resources, and create an online collaborative platform for its staff located across the globe.[v]

Key takeaways:

- Collaboration is a critical enabler to build organisational resilience
- Pre-pandemic modes of collaboration cannot be easily applied to a remote or hybrid work construct and must be carefully designed
- Technology is a key enabler of collaboration but must be supported by an adaptive culture with well-defined and disciplined ways of working and rituals.

Great collaborators

Globally, organisations across the world have been embedding collaborative work practices into their work models. In Australia, a local example of this was **major franchisee network operator** who created a small cross-functional pod to design and roll out a home delivery service for their stores in Melbourne within an incredible two week period. They were able to accelerate speed to value through adaptable team structures: pulling capabilities from across their convenience store business and adding team members from a parallel alcohol delivery business (in which they had a majority stake) to rapidly innovate to deliver essential products to consumers.

So how do we design a collaborative hybrid work experience?

As lockdowns end across NSW and Victoria and employees have the opportunity to return onsite, the first is to recognise that hope and “wait and see” are

not strategies. Similarly, black and white “all physical” or “all digital” statements while enticingly simplistic don’t unlock the value and resilience that comes with integrated and future facing work models. Models that employees want, and that have enabled many ‘born digital’ organisations to thrive.

The first step is to look at design principles linked to the organisation’s strategy and purpose. How does each principle help drive business outcomes, talent attraction and reinforce the organisation’s strategy? If you play out each principle in the extreme as an incisive guide to make decisions, what are the benefits and risks of each option? How will the benefits be unlocked and how do we mitigate the risks with new rituals, ways of working and supporting technology?

The future of collaboration requires curated connections, supporting technology and a raft of new rituals. Resilience, adaptability and collaboration are underpinned by disciplined practices that are well designed. It’s time for organisations to carefully design, experiment and evolve these new disciplines to thrive now, and into the ever-changing future.

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[i] and [ii] “Building The Resilient Organisation: 2021 Deloitte Global Resilience Report”
https://www2.deloitte.com/content/dam/insights/articles/US114083_Global-resilience-and-disruption/2021-Resilience-Report.pdf?

[iii] “The collaborative economy” Deloitte Access Economics for Google (2014)
<https://www2.deloitte.com/au/en/pages/economics/articles/collaborative-economy-unlocking-power-of-workplace-crowd.html>

[iv] Williams, R., 1995, “Self-Directed Work Teams: A Competitive Advantage”

[v] Boyd, T. (2020, August 18). Coles in digital sweet spot. Australian Financial Review.
<https://www.afr.com/chanticleer/coles-in-digital-sweet-spot-20200818-p55mps>



RETAIL TRENDS

Retail trends

Get your click on

The key attribute of retailers over the last 18 months has been agility, with ad hoc lockdowns since last Christmas before a more widespread closure of retail stores since June and July 2021.

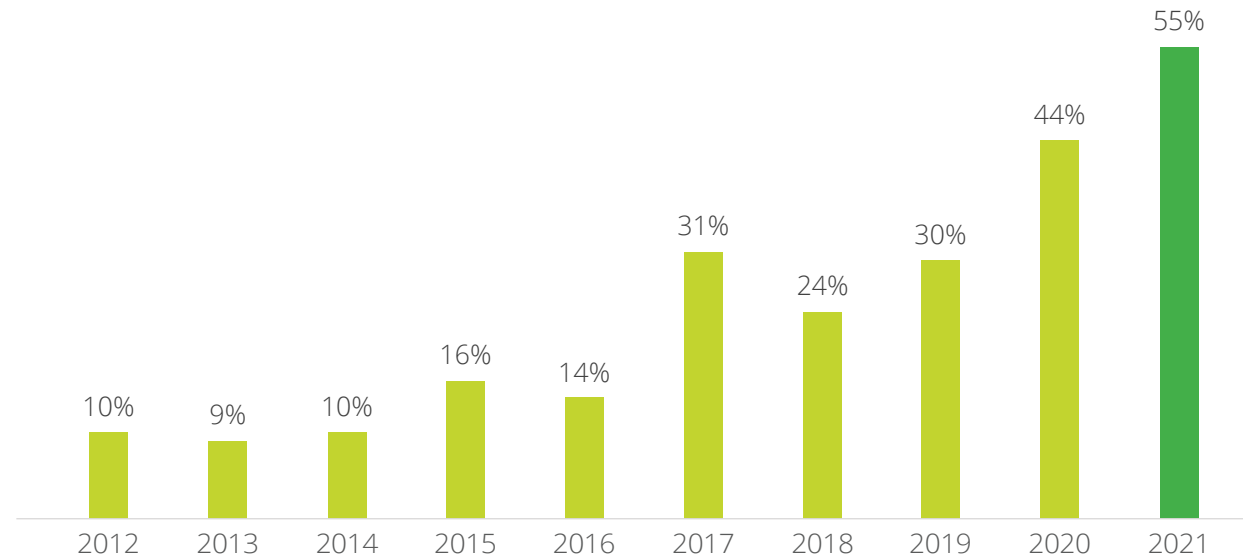
Throughout this period, retailers have responded by building out online distribution networks and investing in logistics, ecommerce, analytics and CRM. Coming out of the lockdowns, retailers expect that online will continue to increase as a distribution channel with over half of retailers expecting online to make up more than 10% of sales, and a fifth expecting online to exceed 30% of its turnover.

There is likely still room to grow online share further when we look at other markets. For example, in the US 62% of spending is expected to be online and 40% of executives in US retail are still expecting double digit online growth³.

I expect brick & mortar stores to decline with heavy increases in e-commerce and omnichannel sales. There is potential for store closures of unprofitable stores with expansion into new areas.

Survey respondent

Expectations of online sales above 10%: 2012 to 2021



³Deloitte Access Economics Retail Forecasts, September 2021

Continuing the trend of last year, online retail is expected to grow rapidly, albeit with some moderation from the paradigm-shifting growth of 2020.

As Australian society learns to live, work and shop with COVID and related health concerns, there will continue to be a trend towards online sales despite the reopening of stores. Our respondents expect the store network to continue to be the main source of revenue, supported by click & collect and digitally-enabled instore experiences.

As retailers put the finishing touches to their Christmas preparation, 42% of our survey respondents stated new product ranges and personalised marketing as the single most important focus areas to increase sales this Christmas. In October this meant clearing out stores of older stock to make way for new seasons.

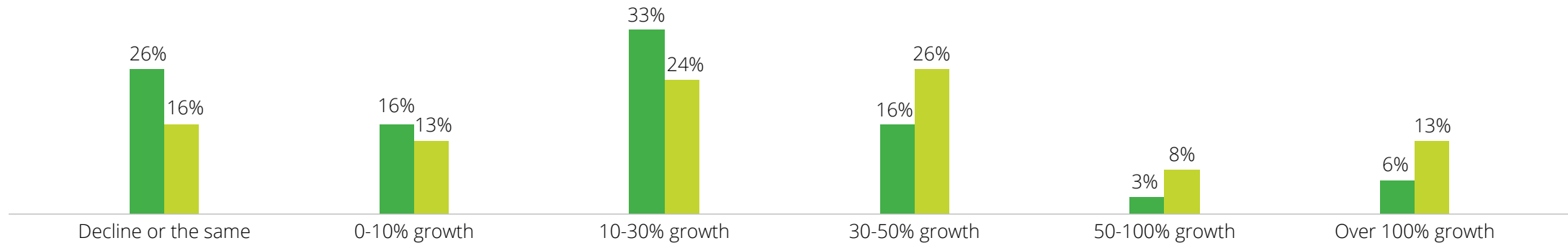
Further, as fatigued customers finally step out and are able to visit stores and shopping malls, retailers that offer something “new and different” will be the clear winners this holiday season.

I'm expecting increased online penetration and uptake of automation services to alleviate the skills shortage. Retailers catching up in areas of consumer behaviour which have significantly changed.

Survey respondent

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

■ 2020 ■ 2021



Retail trends

Transformed retail – the future state

Whilst in-store sales will continue to be the main driver of sales activity this Christmas and beyond, digitally enabled retail is core to connect with customers regardless of the channel.

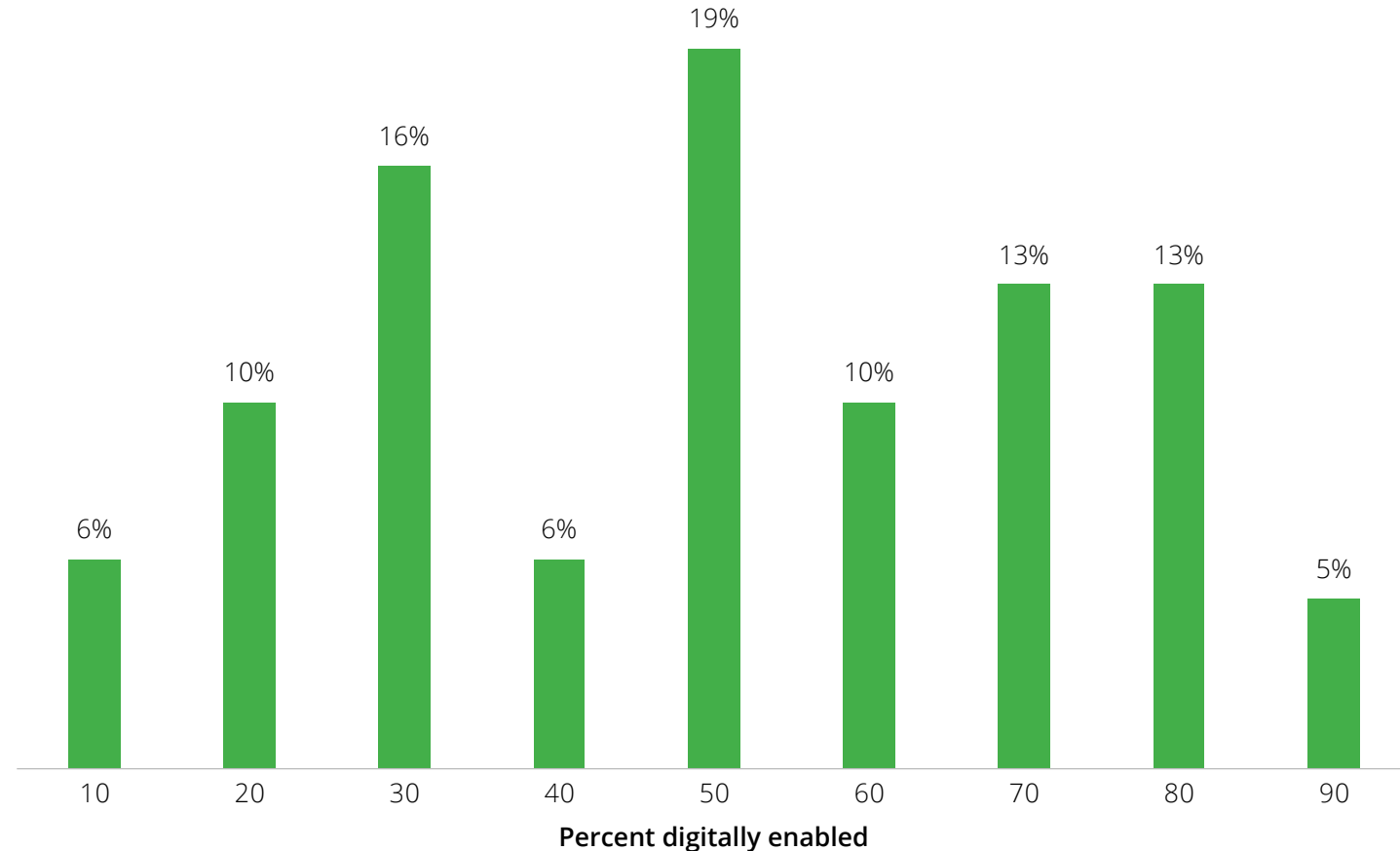
Reflecting the broad cross-section of the retail market, the new normal for digital enablement looks much different to the past but very specific to individual retail segments and offers. 60% of respondents say that more than half of sales will be digitally enabled.

Customer centricity means choice rather than channel with each touch point supporting the sale where and when the customer wants. Retailers understand this with 42% looking to personalisation of the retail experience as the most effective method to build and strengthen customer relationships.

Online and in store promotional execution (offers, availability, brand messaging) will entice customers back into our retail ecosystem coming out of lockdown.

Survey respondent

What is the new normal for in-store transactions vs digitally enabled* transactions?



*Digitally enabled includes online, click & collect and other sales initiated and transacted through digital platforms.

Retail trends

Open for business

When COVID lockdown first hit Australian shores 18 months ago, retailers and landlords entered a difficult period of negotiations for rental relief as stores were forced to close or operate under various restrictions.

With the latest round of store closures in NSW and Victoria retailers are again looking to landlords for rent support. Collaboration between stakeholders is critical to the long-term health of the retail industry.

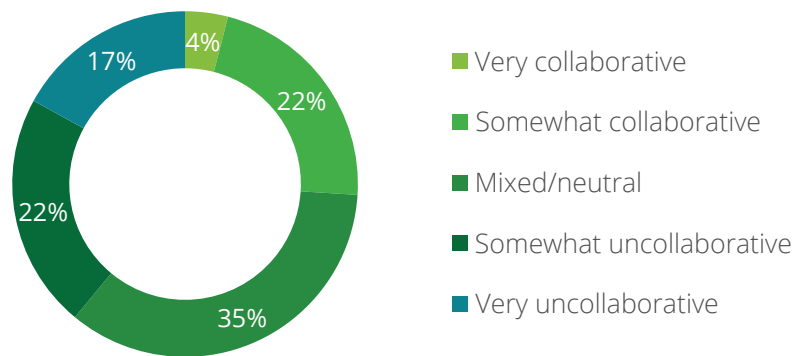
Retailers are hoping that Australia's high vaccination rates will avoid future lockdowns with 71% expecting that vaccinations will bring an end to the yo-yo of store closures and lockdowns.

The key to living with COVID is vaccination, and retailers are largely supportive of the vaccine mandates instituted by governments around the country. 81% believe that vaccination should be mandatory for customer-facing staff.

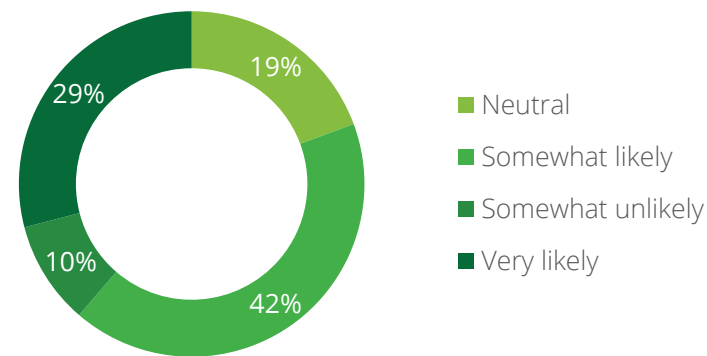
A COVID safe shopping experience will give customers the confidence to come into our stores to shop vs online, as we learn to live with the virus as a community.

Survey respondent

How collaborative have landlords been in abatement negotiations in the latest round of lockdowns?



In your view, how likely is it that vaccinations will make store closures/lockdowns a thing of the past?



Retail trends

Santa's workshop: Elves wanted

Across the world, the demand for labour has outstripped the supply as economies bounce back from COVID recessions. In Australia this has been exacerbated by the closure of domestic and international borders, cutting off the supply of migrants that power the Australian consumer economy. Retail is no exception, from university students with part-time jobs to IT and data analytics specialists to implement next-gen capabilities.

The skills shortage is on the minds of our respondents, with all three role categories highlighted as areas of concern. Specialised technical roles, being those that are most in demand across the economy are the biggest concern.

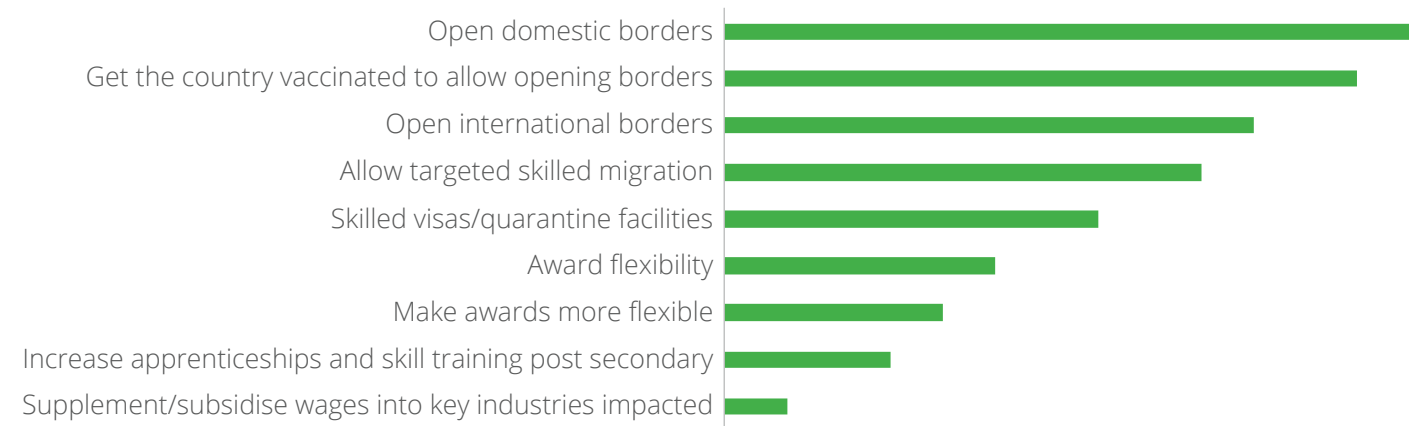
So, what should we do? Vaccinations and opening the borders are front of mind for retailers, and the recent moves in most states provide some encouraging signs. Most retailers aren't looking for handouts – they just want to get on with business.

We expect a sector that is open for business across the next 12 months with limited to no lockdowns. This will allow the industry to work towards recovery from a financial and people perspective.

Survey respondent



What are the key actions that government and industry can take now to alleviate skill shortages?*



*Multiple answers permitted.

The 12 days of retail industrial relations Christmas

Christmas is nearly here (again) so it's time to start thinking about Christmas casuals, employee leave, and all things industrial relations related.

Our 12 days of retail Christmas is a combination of tips, trends, and tidings to help you go into 2022 with confidence about your industrial relations settings.

1. Eggnog and vaccinations.. only one is being made mandatory

To vac or not to vac, that is the question. And a particularly important one considering the high number of customer-facing roles in retail.

So what's your organisation's position on vaccinations for customer facing roles?

State based public health orders about vaccinations are in flux. In Victoria, essential employees (on the 'authorised worker' list) need to be vaccinated to work on site. This includes construction, health and aged care, security, education and infrastructure. On site retail is not mandated but only time will tell.

The Fair Work Ombudsman's current position is employers cannot 'force' employees to get vaccinated but can potentially take disciplinary action if an employee's refusal to be vaccinated breaches a law or reasonable direction.

We suggest watching this space for more clarity.

2. Claus for concern – QR codes, masks, and social distancing

If your employees are customer-facing then there are plenty of COVID-inspired industrial relations questions for your business to have a position on.

Questions like:

- Is it existing retail employees' job to police QR check-ins, if customers are wearing masks and maintain physical distancing between shoppers?
- And if yes, does their classification change to allow for their new duties?
- The challenge is, guidance on these questions varies by state and is still contested territory.

Given this, we suggest regularly checking with relevant regulators (workplace health and safety, privacy, discrimination and Fair Work to name a few). What's clear is, with more people heading to shops over Christmas, having an aligned position on how your organisation will treat these industrial relations questions will be especially important.

3. Yule be sorry if you don't get this easy casual employee obligation right

Thinking about hiring some Christmas casuals? Read on! Employers now need to provide casuals a Casual Employee Information Statement. The statement outlines the definition of casual employee, casual conversion procedures (see tip 4 below) and what employees can do if they have a disagreement about their employer's assessment of converting them. This obligation applies irrespective of what award, enterprise agreement (EA) or contract covers them – every casual needs to be provided one. Yes, that even means those casuals who work a single shift on Christmas eve or Boxing Day.

You don't want to drop the (jingle) ball on this one, because failure to provide the statement is a breach of the Fair Work Act 2009 and can result in penalties.

4. But wait—there's myrrh to update for casuals

Another present for casuals...! From September this year, casual conversion rules apply to all casuals who have:

- been employed for 12 months
- worked a regular pattern of hours for at least the last 6 months on an ongoing basis, and
- the regular hours could continue as a permanent employee.

There are different rules and timeframes depending on when the employee started with the employer, and if the business employs less than 15 people.

5. Snow laughing matter that parts of Christmas trading could be overtime free!

From 1 July 2021, part-time employees under the GRIA can work over their agreed ordinary hours without being paid overtime.

If you're using this new flexibility:

- the employee needs to be working more than 9 hours per week
- the new hours need to be agreed and recorded in writing. Text message will suffice.
- the change to hours need to be made before the end of the employee's shift or before the variation takes effect.

Remember, this should only be used for temporary changes – update the employee's part time agreement if the change is an ongoing requirement.

6. A part-time roster change for Christmas?!

From 1 July 2021, part-time employees under the GRIA can request a change to their regular part-time agreement if they've been working more than their agreed regular hours over 12 months. Employers can only refuse the request on reasonable grounds.

7. Retail is the third naughtiest sector for non-compliance audits!

Each year, the FWO audits industries and businesses they believe are most at risk of not complying with their industrial minimums. Retail hasn't performed well in the FWO's proactive audits of non-compliance.

In 2020, retail made it onto the FWO's audit hit list (again) and was found to have the third lowest compliance rate at 28%.

8. Oh deer, no Christmas miracles for retail enterprise agreements

EAs are on the decline, and not just in retail.

At 30 June 2021, there are 151 retail EAs, covering 259,800 employees.

EAs are a great way to tailor the industrial relations settings, but they can add complexity if the conditions run closely to the award. The new year might be a perfect time to tidy up your industrial instruments and ask: are they fit for our future?

9. Underpayments in retail – the elf-ant in the room

In 2021, two firsts happened in industrial relations enforcement of underpayments, and both retail organisations.

For the first time, FWO initiated legal proceedings against companies that self-reported underpayments, and 'wage theft' became a criminal offence in Victoria on July 1. Two major retailers were caught up in these actions.

With more regulators and more aggressive enforcement actions for getting pay compliance right, it might be time to build in regular audits of your staff's pay (including those on salaries). As part of these regular audits also consider checking classification accuracy and process and controls for pay – these are key inputs to getting it right.

10. Check your calen-deer, are you ready to adjust your COVID short term award flexibilities?

On 8 April 2020, the FWC inserted a 'Schedule X' into 99 awards, including the GRIA.

The objective of Schedule X was to provide greater flexibility to employers and employees responding to COVID-19.

Schedule X in the GRIA allowed employees to:

- take up to two weeks unpaid pandemic leave if they were required to self-isolate
- access their annual leave at half pay.

The new schedule is due to finish on 31 December 2021 so make sure you're ready to close off these changes and communicate them to any employees impacted. Particularly because Christmas is a peak time for annual leave.

11. Coverage and classification – get it right, or Santa will be bringing you coal for Christmas

Getting the coverage and classification of employees right is critical. Everything for compliance hangs off having the right industrial instrument assigned, and then the right classification.

In our experience, the fast pace of retail sometimes means employers forget the importance of classifications.

A common example is when a 'Level 1' employee under the GRIA is opening shop, closing up shop or supervising others.

Under the GRIA, these duties are assigned to a Level 3. So when Level 1 employees are doing these duties they should be paid as a Level 3, even if it's because they're filling in for a Level 3 on leave.

Employers who get this wrong set themselves up for near-certain non-compliance. These kinds of mistakes can snowball into very large underpayment bills, with interest, and superannuation.

12. Wrapping up time recording

It's no secret that particularly over Christmas, retail employees will go that extra mile to get the job done. This is great for customers, but we also know retail employees are prone to not recording extra hours they might work – opening up the shop early, skipping meal breaks, staying back late or attending staff meetings or training out of hours.

It's common for retail employees to record their rostered hours as opposed to their actual hours.

This can also be the case for timesheet 'rounding'. If hours are rounded down, rather than up, employees miss out on being paid for time they have in fact worked. While these practices may seem minor, they are a

common root cause of big scale underpayments – 15 minutes unpaid (but worked) every day, for every employee, over 6 years (the minimum period) can quickly compound to a large liability.

Need a quick industrial relations blitz?

Australia's industrial relations machine has many moving parts that can make it particularly difficult to operate in the build up to Christmas trading.

We use data analytics, our deep experience in industrial relations and process and controls to provide advice on how to navigate these complexities.

If you'd like any more information on the above, get in contact.

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NEXT 12
MONTHS

The next 12 months

More to spend, but more to spend on

Getting on with business is the theme for the next 12 months. Our respondents are putting their faith in the consumer more than any other time in our survey's history. Whilst this may say something about the difficult last few months, retailers are stocking up for a strong 2022.

Deloitte Access Economics⁴ has looked to the UK for an indication of what a post-reopening Australia may look like. The ability to spend has increased, but so too have the potential avenues to spend. With more options to spend on activities and recreation, the initial indicators

suggest that the initial opening up period provides some challenges for retailers.

Clearly, the reopening of Australia both domestically and internationally is good for the economy and good for consumers. Retailers may face some headwinds in the spending in store over 2022 as consumers turn attention to travel, entertainment and activities.

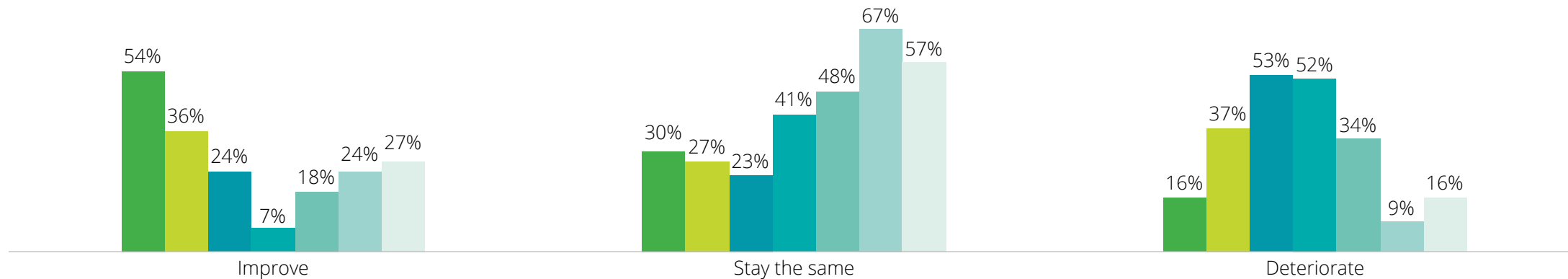
Despite this, retailers are looking to recoup some of the lost sales during the lockdowns in NSW and Victoria and set themselves up for growth in 2022.

My greatest concern for the future of my business is that when Australians can holiday internationally a massive amount of discretionary spending will go overseas and we will see a considerable hit on Australian retail.

Survey respondent

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

■ 2021 ■ 2020 ■ 2019 ■ 2018 ■ 2017 ■ 2016 ■ 2015



⁴Retail Forecasts September 2021, Deloitte Access Economics

The next 12 months

Holiday optimism amongst our survey respondents was evident with 72% expecting overall sales growth in the next 12 months.

It is not surprising that 26% expect a 10%+ sales growth as retailers will look to reconnect with their customers with compelling and tailored retail experiences across sales channels.

Respondents continue to have an eye on the economy with macroeconomic factors highlighted as the key risk to their businesses for the second year running, albeit down from 58% last year to 45% in 2021. Competition, whilst

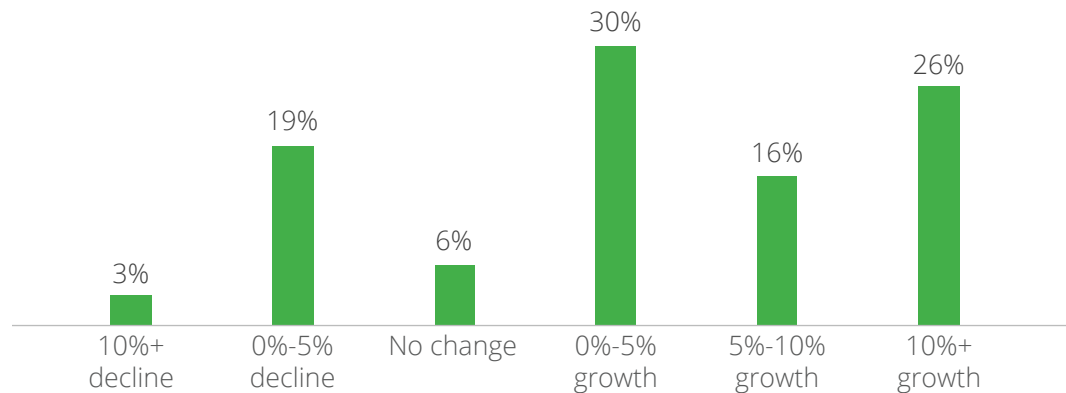
always fierce in the retail industry is expected to settle down with over a quarter not expecting changes to the competitive landscape.

Consumers are more focused than ever on the environmental and societal impacts of their spending. 55% have purchased a sustainable product or service in the last 4 weeks, and 32% paid significantly more than an alternative⁵. 87% of our survey respondents rate social, environmental and ethical responsibility as important to brand perception and this will continue to drive differentiation in the marketplace.

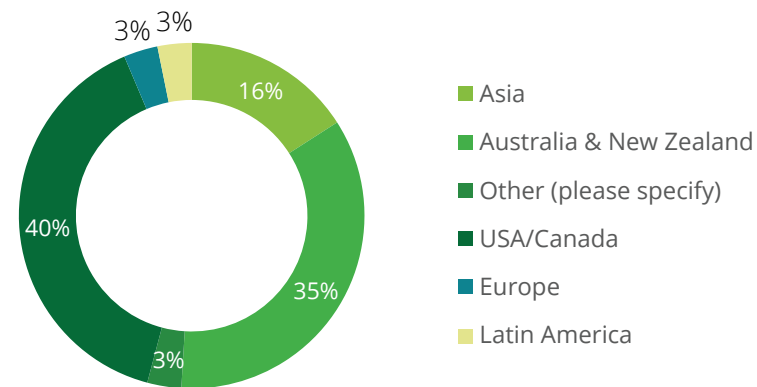
Increasingly, retailers in Australia are looking abroad to meet growth strategies. 39% of respondents see the US and Canada as the most market with the most growth opportunities, with 16% looking north to Asia. COVID-19 has made the world further away but at the same time smaller; there are incredible learnings through the necessity of remote deal making.

Overseas geographic expansion has become closer than ever and 7.9 billion consumers are waiting to spend.

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



Which markets do you see having the best growth/investment prospects?



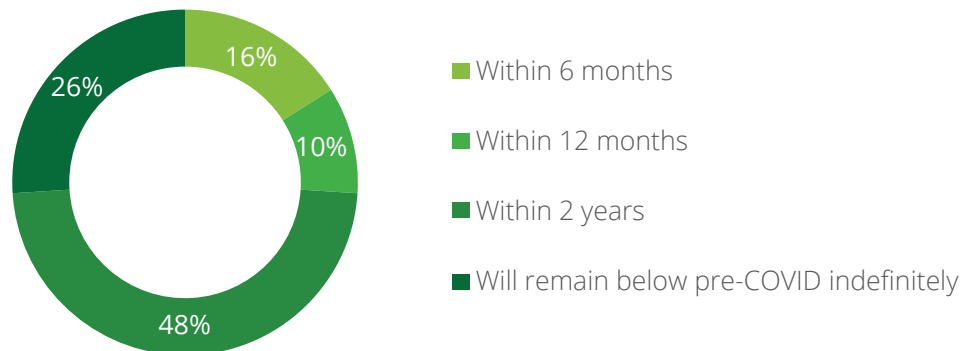
⁵ Deloitte Global Consumer Tracker Survey – 24 September 2021

The next 12 months

Nearly half of the survey respondents expect that it will take 2 years for CBD stores to return to their pre-COVID levels of activity. This is unsurprising, as retailers are expecting working trends and preferences of office workers as well as international tourism and overseas students.

Interestingly, there were 26% who expect activity levels to remain below pre-COVID indefinitely, as there may be a widespread adoption of working from home as customers enjoy the benefits of reduced commute time resulting in a better work-life balance.

When do you believe CBD areas & stores will return to their pre-COVID levels of activity?



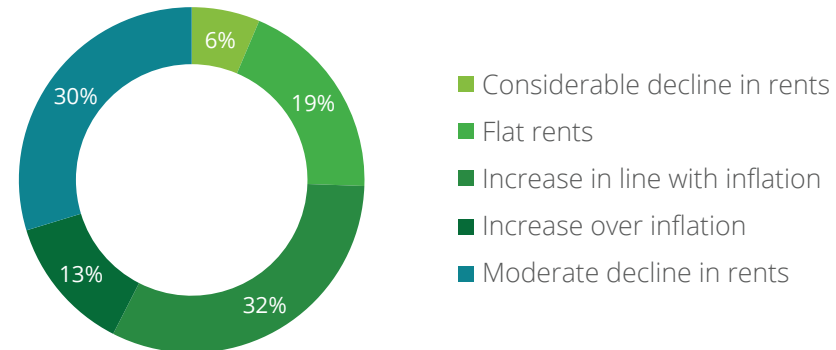
It is clear retailers will need to closely monitor trends and be ready to take advantage of the rebound when it happens – but it will require retailers and landlords working together.

Historically CBDs across Australia have been a key location for many retailers. The shopping pattern shift to suburban stores will change the landscape of retail CBD stores and consequently impact retail rents in future years.

This may be the reason why 35% of our survey respondents expect a decline in rents in future years with 19% expecting flat rents. There were 46% of respondents who remain cautiously optimistic and expect increases in line with or over inflation.

As states across Australia reopen based on government regulations, the trends over the COVID horizon will require both lessors and lessees to reinvent and act quickly. Broader success for the sector will be determined by collaborative efforts between both retailers and landlords.

What do you believe the trend will be for retail rents over the next several years?



Retailers – Locked down, loading up & positioning for the new norm



As soon as FY21 closed, retailers' operational agility and financial strength were put to the test with NSW and VIC entering prolonged lockdowns, forcing the closure of over 50% of stores for a number of national retailers.

Christmas is always a retailers' annual prize, but this year its more critical than ever – capturing pent-up demand, recouping losses and repaying cost deferrals, all while navigating supply chain constraints.

Deloitte Access Economics forecast a softer post-lockdown retail bounce back compared to last year, with a greater share of wallet put to travel and social activities over retail goods. Respondents to the Retailers Christmas Survey also had mixed outlooks on the speed of the return of consumer demand, with 39% expecting a slow return. Nonetheless retailers are loading up on stock for the anticipated post-lockdown and Christmas trading spike.

Beyond Christmas, shifts in consumer preferences, interest rates, population growth and border restrictions will undoubtedly change the retail landscape, but actions taken by retailers over the last 18 months gives us a sense of what we can expect to see through 2022.

What are the key themes over the last year?

Customer, Product & Channel


01. Physical stores played an important role through lockdowns, acting as **'dark' stores**, local **online distribution hubs** and **click-and-collect points**, with 45% of retailers indicating stores were the most effective customer distribution channels in recent lockdowns.
02. Those with a lacklustre online presence, **reacted with online investment** and partnered with existing online retailers, while those more established online players tended to drive innovation and efficiency.
03. Channels expanded through **social media and mobile apps**, further accelerating **customer data** collection driving loyalty schemes and tiered "VIP" memberships.
04. Some retailers found themselves fortunately placed in **high growth market segments** such as homewares, with others expanded their range to ride this wave.
05. Many retailer's with **diversified portfolios (multi-national or multi-category)** benefitted from the cross-subsidising impacts of easing global restrictions, new geographies or varied brand portfolio performance.

Operations & Supply Chain

01. **Overseas supply challenges** led to **production & shipping delays, stock shortages and increased costs**. 71% of Survey participants indicated that freight costs had a material impact on their input costs, with uncertainty as to how permanent this issue is.
02. This was a key trigger for **ordering Christmas stock earlier and in higher quantities**, to minimise risk of stock-outs while capturing pent-up demand.
03. **Investments** in online-only delivery centres and expansion of supply chain operations helped manage rapid online growth.
04. **Tensions between retailers and landlords** have continued – some agreed short term relief, while others simply stopped paying rent until their stores opened.
05. A successful Christmas trading period is critical to **repay rent deferrals and ensure commercial relationships with suppliers** are strengthened.

FY21 Financial Performance*



Revenue increase
for **86%**
of retailers 

Australian retailers navigated snap lockdowns, global supply chain issues, yet in some cases, excelled with radical shifts to online and peak demand categories, such as home furnishings.



EBITDA increase
for **83%**
of retailers 

Retailer's kept tight cost control through employee stand downs, landlord negotiations/ rent deferrals, reduced marketing and Government support, driving strong operating profit (EBITDA) performance.



Debt decrease
for **90%**
of retailers 

Many retailer's took advantage by paying down debt and/or accelerating investments, with a number undertaking equity raises to fuel inorganic growth or support working capital.

Retailers' available capital has increased with improved performance due to pandemic-fuelled demand or cost control, government support schemes, capital raises and ongoing available external liquidity.

With this, retailers have varied their responses, which has informed how well they are set up for 2022

What were the 3 broad categories of Retailers based on their responses?



Reactor

Minimise risk, adjust to pandemic shifts and survive



Accelerator

Enhancing business to become a strong modern retailer



Pioneer

Innovating the industry with new disruptive models

What was the response?

Focused on minimising downside of lockdowns & supply challenges while ensuring an online presence to capture demand – a game of survival.

Fast-tracked initiatives to innovate & evolve through the pandemic, while building financial strength for post-pandemic growth.

Market leading and disruptive innovation to capitalise on shifts in consumer demand, building on existing operational excellence.

Where to from here?

How do you differentiate yourself in the new norm?

There's a risk that competitors accelerated, and reverting to a pre-COVID retail proposition could render you less relevant in 2022.

How do you capitalise on new capabilities while staying focused on your core?

There's a risk of losing focus on core product/brand value and lacking visibility on the financial impacts of operational changes.

How do you scale investments and stay ahead while maintaining financial strength?

There's a risk that new growth ventures are challenging to scale, divert leaders' focus, create operating complexity and/or drain cash.

What can be learned from the Accelerators and Pioneers to that help shape expectations of 2022 and beyond?

Customer, Product & Channel

- More seamless **omni-channel experience** with stores advancing in AI, or converting to concept stores or show-rooms, while **mobile augmented reality and online marketplaces grow**.
- Further advancements in data analytics to unlock **hyper-personalised customer interactions, community ecosystems** and fact-based strategic or product decisions.
- Delivery and customer service expectations have evolved, demanding real time, **end-to-end product visibility, simple returns, rapid response time and local store fulfilment options**.
- **Product diversification and investment in private label is growing but** requires careful choices to ensure **core brand value** is maintained, while staying relevant to changing preferences (e.g. **Health and wellbeing**), and driving strategy (e.g. **global expansion**).
- Capital lite, **strategic partnerships** can be an effective way to increase exposure (e.g. affiliate marketing, cross-category alliances and 'buy now pay later' options).

Operations & Supply Chain

- **Building strong stakeholder relationships by improving information transparency** is becoming more critical for operational stability (suppliers and delivery partners), and financial strength (lenders and owners).
- Operational agility informed by rapid scenario analysis that cascades down through the organisation will enable swift response to future restrictions and behaviour shifts (e.g. online distribution centres and drop-shipping).
- **Automated fulfilment and robotics in warehouses** will become more common to drive efficiency and scale.
- **Lease flexibility, landlord engagement and data-driven site selection** is critical to improve long term occupancy outcomes. 26% of retailers estimate that CBD activity will indefinitely remain below pre-COVID levels.
- **Predictive forecasting and data-driven stock allocation** will help manage risk of **supply chain and stock ageing issues** from increased and diversified SKU portfolios.

Authors



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Financial Performance



Revenue

Targeted marketing, smart discounting, sales initiatives and strong customer service will help drive revenue and optimise post-Christmas stock realisation.



Profit

Automated and interactive performance monitoring will help drive profit-focused decision making and enable higher ROI investments and manage costs.




Stock

While product margins are generally well known, **a deep understanding of stock investment returns (GMROI) is critical**, coupled with dynamic forecasting and ordering, to ensure high returns on cash investment while reducing stockouts or write-offs.



Capital

Balance sheet strength, whether supported by lenders or equity, provides the foundation for the business to execute its strategy. **Understanding the capital options that best aligns to the situation and strategy helps set retailers up for success with ongoing, timely and fact-based reporting** to ensure support of capital providers.

The background features a dark field with numerous bright green diagonal lines of varying lengths and orientations, creating a dynamic, grid-like pattern. On the right side, there is a vertical sidebar with a dark background and several thin, horizontal white lines.

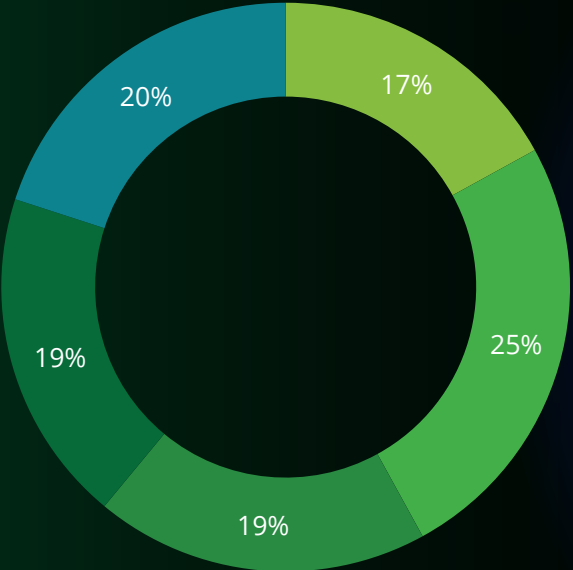
ABOUT THE SURVEY

About the survey

The Deloitte Retailers' Christmas Survey is based on a survey of 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



- Australian owner-managed
- Australian private/other
- Australian listed
- Foreign private
- Foreign listed

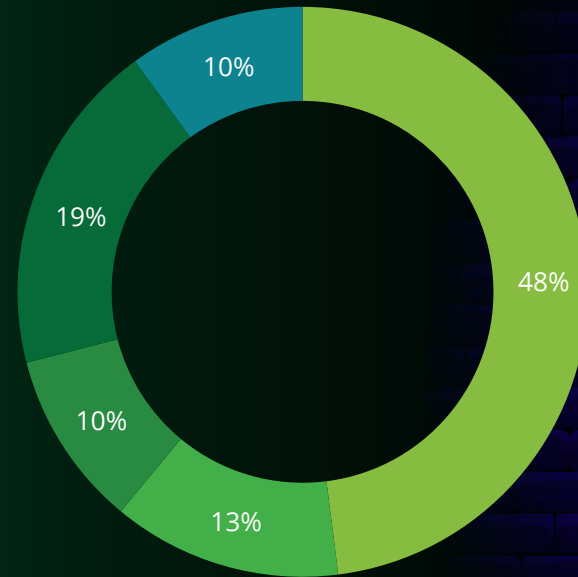


About the survey

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 distributed between Australia, New Zealand and global retailers.

Number of employees



- 1-500
- 501-1,000
- 1001-5,000
- 5,001-10,000
- 10,000+



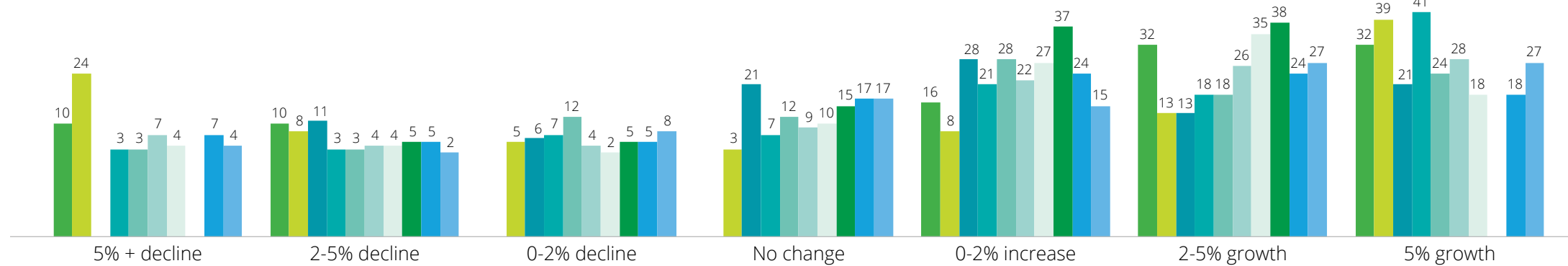
About the survey

Detailed survey data

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

■ 2021 ■ 2020 ■ 2019 ■ 2018 ■ 2017 ■ 2016 ■ 2015 ■ 2014 ■ 2013 ■ 2012

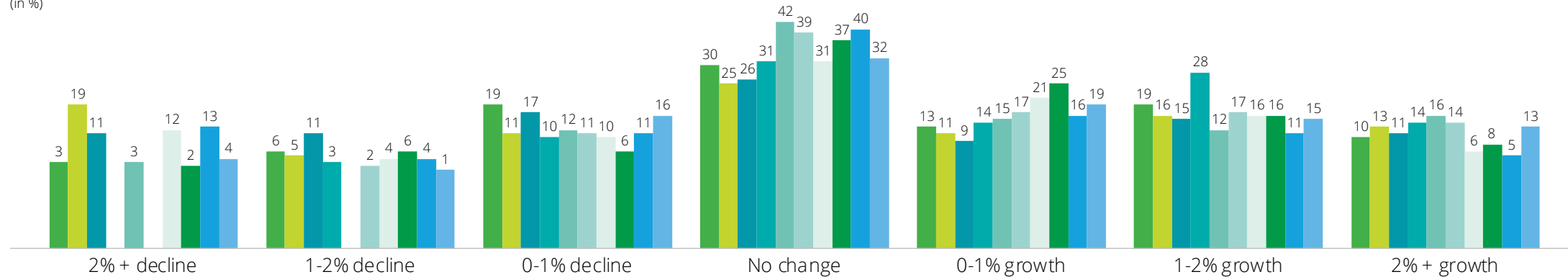
(in %)



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

■ 2021 ■ 2020 ■ 2019 ■ 2018 ■ 2017 ■ 2016 ■ 2015 ■ 2014 ■ 2013 ■ 2012

(in %)

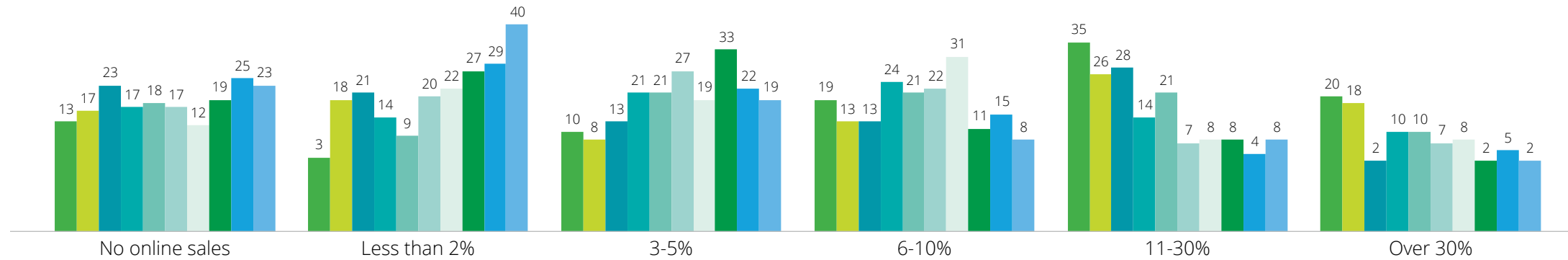


About the survey

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

■ 2021 ■ 2020 ■ 2019 ■ 2018 ■ 2017 ■ 2016 ■ 2015 ■ 2014 ■ 2013 ■ 2012

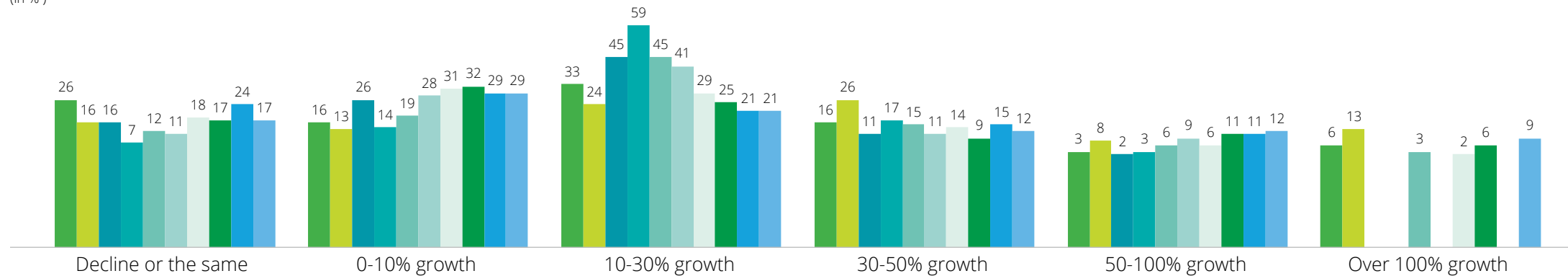
(in %)



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

■ 2021 ■ 2020 ■ 2019 ■ 2018 ■ 2017 ■ 2016 ■ 2015 ■ 2014 ■ 2013 ■ 2012

(in %)

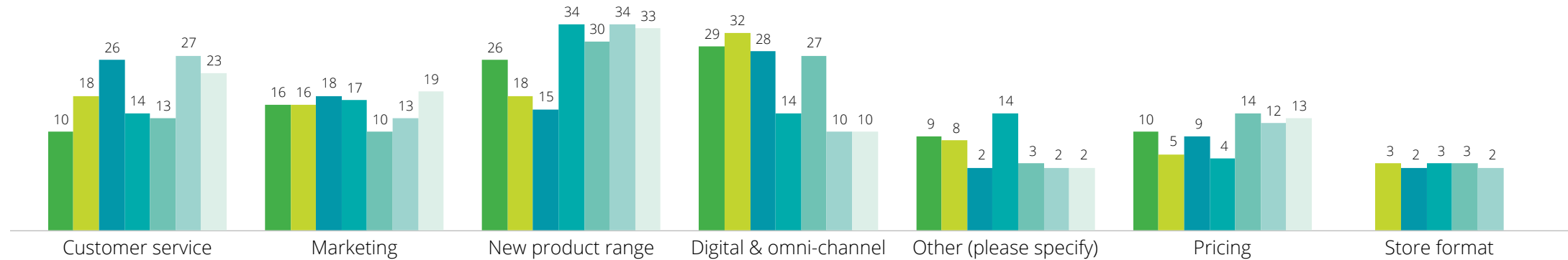


About the survey

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

■ 2021 ■ 2020 ■ 2019 ■ 2018 ■ 2017 ■ 2016 ■ 2015

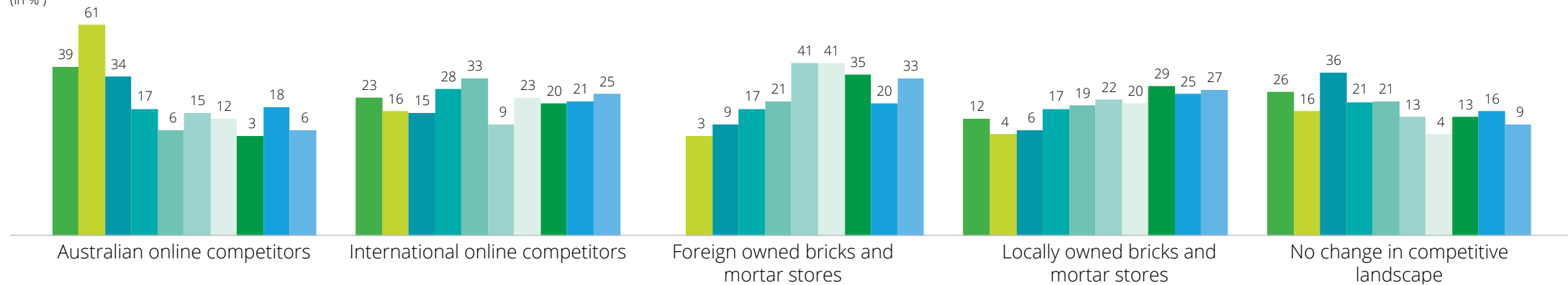
(in %)



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

■ 2021 ■ 2020 ■ 2019 ■ 2018 ■ 2017 ■ 2016 ■ 2015 ■ 2014 ■ 2013 ■ 2012

(in %)





RETAIL
WHOLESALE &
DISTRIBUTION
GROUP

Retail, wholesale & distribution group

Retail, wholesale & 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.

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.

Our services for retailers, wholesalers and distributors include:

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

Retail, wholesale & distribution group

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