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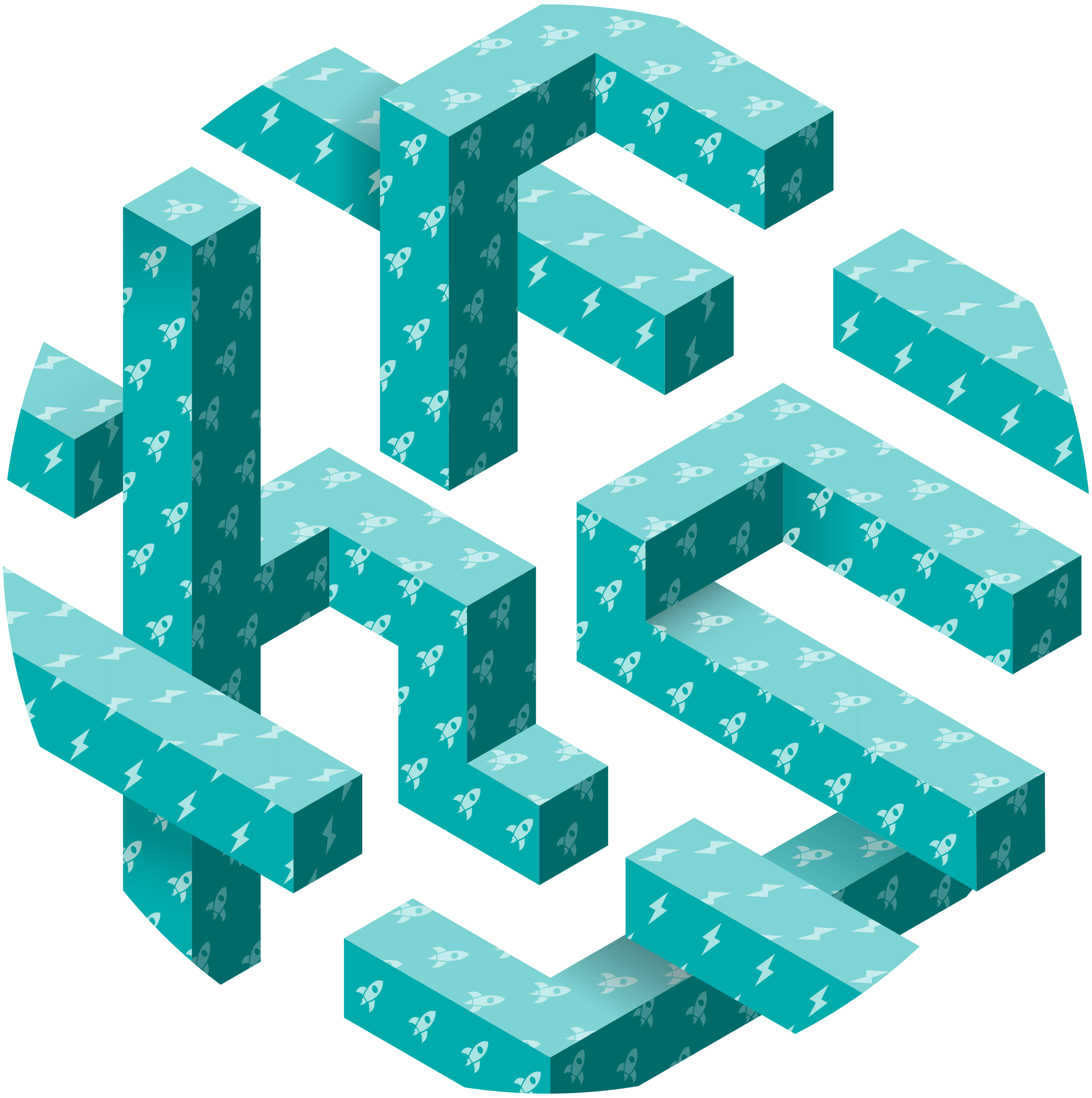

2022 Deloitte Retailers' Holiday Survey

The coming of age of Australian retail

Contents

Introduction

Welcome to the eleventh annual edition of the Deloitte Retailers' Holiday Survey. For over a decade, the annual survey has helped gauge sentiment heading into retail's crucial months. The report surveys a cross-section of executives and senior management from Australia's leading retailers on their expectations for the holiday season and beyond. This year, we investigate as pandemic concerns gradually begin to ease and consumers are confronted with new challenges. We explore shifting priorities, financial well-being, spending intentions, sustainability attitudes and more. This exploration continues to prompt new questions, new data and new insights into an industry that is continually being shaped by an expanding consciousness of global events, markets and players.

This report contains a detailed analysis of retailers' sentiment for the holiday trading period, key trends, expectations, and priorities of Australian retailers for 2022 and beyond.

Holiday summary

The past decade in Australia's retail industry reads as a coming of age story. It's a ten year period that's seen more fundamental change in the global retail space than any other period in history. It's when the promise of e-commerce really took hold across the world. It saw the explosion of online retail goliaths like Amazon and Alibaba. It created a booming fulfilment industry. It saw the global industry reconsider what real-world retail stores are for. From the Australian point of view, it was an anxious time with new challenges. From additional competition from online stores, to growing fear on the entry of established multinationals into the Australian market. Even as pandemic concerns gradually begin to ease, consumers continue to be confronted by new challenges in the form of inflation and geopolitical uncertainty.

Words and expressions such as "unprecedented", "disruption" and "the new normal" became all too familiar over the last two years. Now, retailers and consumers are transitioning and settling into a new, yet complex rhythm post-pandemic.

Though trepidation and anxiety looms with the reality of brewing economic uncertainties, retail is emerging into the newly opened world with hopefulness, opportunity, and a thirst for self-governance. Businesses are engaging both consumers and talent after extended periods of isolation and a greater desire for community and interaction is apparent now more than ever. And - we can finally shop in-store.

As retailers begin to look past COVID-19, there is a sense that technology, innovation and new business models will allow the industry to capitalise on emerging consumer behaviour and take a big step forward toward defining what the shopping experience of the future. Enabling Australian retailers to become digital by design and take advantage of the acceleration of the digital-first approach is helping growth – from fast growing sideline, to core business model and operations. We are truly coming of age.

However, a series of new headwinds are combining to make the market more challenging than ever for retailers and their suppliers: the price and scarcity of fuel and raw materials has driven up the cost of doing business, the world faces a cost-of-living crisis with rampant inflation putting a dent on the ability of the consumer to spend, and the Russian invasion of Ukraine has impacted supply chains and forced businesses to cease operations in the region.

The digital retail world is no longer the sole preserve of the agile start-up or online pureplay business. We have begun to see the major established retail businesses fight back by embracing digital themselves. The modern retailer's journey into digital sees them adapting their core and exploring digital products and experiences, including the metaverse. With consumers demanding a frictionless and often contactless retail experience, checkout-free stores and ultra-fast and autonomous delivery are rapidly becoming mainstream.

With such seismic changes all around us, emerging trends are fast becoming central to the retail playbook.

Environmental, social, and governance (ESG) choices are fast becoming strategic financial decisions, which will increasingly be seen in the bottom line. By holding businesses to account to be more transparent, authentic, and collaborative, consumers are placing great expectations on brands and businesses to lead responsibly with integrity – and they put their money where their mouth is.

Circularity is on a fantastic growth trajectory with the second-hand clothing sector expected to grow faster than fast fashion. Conscious consumerism and a challenging market is encouraging retailers to diversify and move into completely new businesses to utilise their assets better and find new sources of growth.

Resilience in supply chain is imperative. The strain felt over the last two holiday seasons has led to a heighted need for security in delivery and manpower, cost reduction and efficiency. Businesses are returning to inventory on site - only to potentially face "old world" stock sale concerns - and securing supply chain costs to protect margins, and re-evaluating their last mile operations.

Despite the challenges facing the sector, the future is still exciting. New technologies are paving the way for a more immersive online experience, new consumer behaviour is driving both product and business model innovation, and the world's biggest brands are putting aside local competitive pressures to tackle the biggest issues facing our society and planet.

The retail industry has had to continually build resiliency in the face of the obstacle of the past ten years, and well-run operators know that even in shifting landscape, there are still very healthy profit margins available. The executives we surveyed, were (cautiously) optimistic that consumers are ready to embrace the holidays, and are eager to find opportunities within the evolving inflation challenges. But with economic clouds on the horizon, retail executives are much more worried about achieving growth in 2023.

Despite the economic uncertainties, the Australian consumer still loves to spend and by accompanying customers along their journey and adapting to their shifting needs, retailers will be well-placed for a strong holiday period and beyond.

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SPOTLIGHT

The most critical quarter on our retail calendar
The Christmas trading quarter is the most critical on the retail calendar, when most discretionary stores make up to two thirds of their profits. As retailers ramp up preparations for their busiest time of year, the mood is upbeat, but questions remain over the severity of the cost-of-living challenges and how that will impact consumer spending over the festive shopping period.

Despite the uncertainty, retail sales have been on a record-breaking run over the first half of this year. Consumers have continued spending in the face of rising interest rates and inflationary pressures, which haven't had an immediate impact on spending. The concern is that it takes some time for those factors to wash through the economy, so we could see some belt tightening and a softening of sales as we head into 2023. When households are under increased financial stress, discretionary purchases are some of the first things consumers cut back on.

Supply chain disruptions and supplier price increases are still problematic in the industry with no clear end in sight. As we lead into Christmas, labour shortages remain the biggest issue. There are over 40,000 job vacancies in retail and many businesses are struggling to trade at their full potential because they can't get enough people to fill shifts. It means the recruitment of Christmas casuals will be a difficult one, as businesses are already struggling without the high demand of the festive season. It means retailers have to plan well in advance - much earlier than they normally would - to ensure they have enough staff to cope with the Christmas shopping rush.

Christmas has come early

Despite the sales season beginning earlier than ever, December remains the most important month of the silly season.

In 2012, Obama had just won his second term, Julia Gillard was our Prime Minister, and Amazon had not yet come to Australia. The world was a different place, and so too was the retail landscape.

Even with all the change that has happened since then, some things remain the same. Our respondents continue to highlight the importance of December as a key trading window with 24% identifying it as a critical period.

But could the holidays come even earlier? Target in the US thinks so – the holiday season begins from October 6, with Target Deal Days[1] kicking off the holiday sales season and Wal-Mart following suit with its holiday returns program.[2]

Certainly the biggest change in habits we've observed over the survey's history is the timing of Christmas spend.

While 10 years ago most spending occurred in the early to mid-December weeks, Christmas now comes earlier than ever and truly kicks off at the start of November. This year, the updated design of the Holiday Survey reflects the growing length of the silly season.

But how customers want to shop has also changed. As customers look for a more balanced approach to their shopping between in-store and online, a good customer experience is what will keep them coming back to your brand, regardless of the channel.

Retailers seem to be balancing their focus between in-store and online experiences, with digital and omni-channel and store format and footfall scoring 21% and 15% respectively in terms of importance.

Clearly, these areas are not mutually exclusive. The goal for the vast majority is to deliver world-class customer service through digital enablement and convenient delivery options at reasonable prices.

Christmas comes earlier and earlier

Approximately half of holiday shopping is predicted to begin by Halloween[3] and 29% of holiday sales will occur in early November, a 5% increase from 2021.[4]

> We are upweighting our focus on key events as they relate to Black Friday, Cyber Monday and gifting for Christmas.

Retail Executive's View

In some more good news, the pressure on global supply chains, identified in 2021, at last seems to be easing. Retailers appear to be more confident in their abilities to meet the demand for the holiday season than they were last year.

Up from just 29% in 2021, 58% of those surveyed were somewhat confident or very confident that their logistics teams will meet demand.

Many retailers responded to the challenge throughout the year by stocking up, risking discounting to clear stock if sales don’t materialise.

Although delivery times are expected to improve, costs are expected to rise, putting pressure on margins. With the addition of rising wages and fuel prices, it is costing more to ensure goods reach the stores and the customers on time.

Businesses are also turning to automation to control rising costs and secure supply chains.

Although this requires a cash investment up front, the returns could prove positive for years to come, and 20% of survey respondents are looking to invest in automation.

Investing in talent and training is another way retailers foresee cutting costs.

With the historic low levels of unemployment and increased demand for labour, this is a smart strategy.

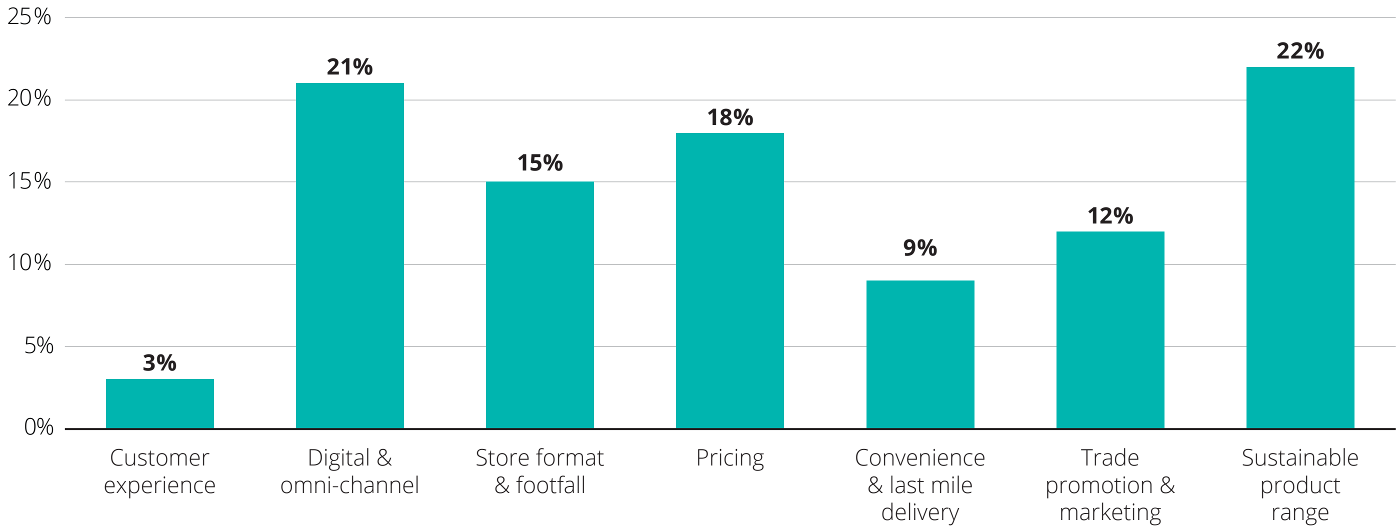
55%

of retailers believe that the December 2022 trading period is very important to the overall performance of their company[Q1]

While December remains critical to business performance, the holiday promotional period increasingly extends earlier into the year and lends importance to the lead-up months of October and November.

Sustainability and integrated channel engagement are the most important focus areas for businesses to increase sales

Retailer focus areas[Q2]



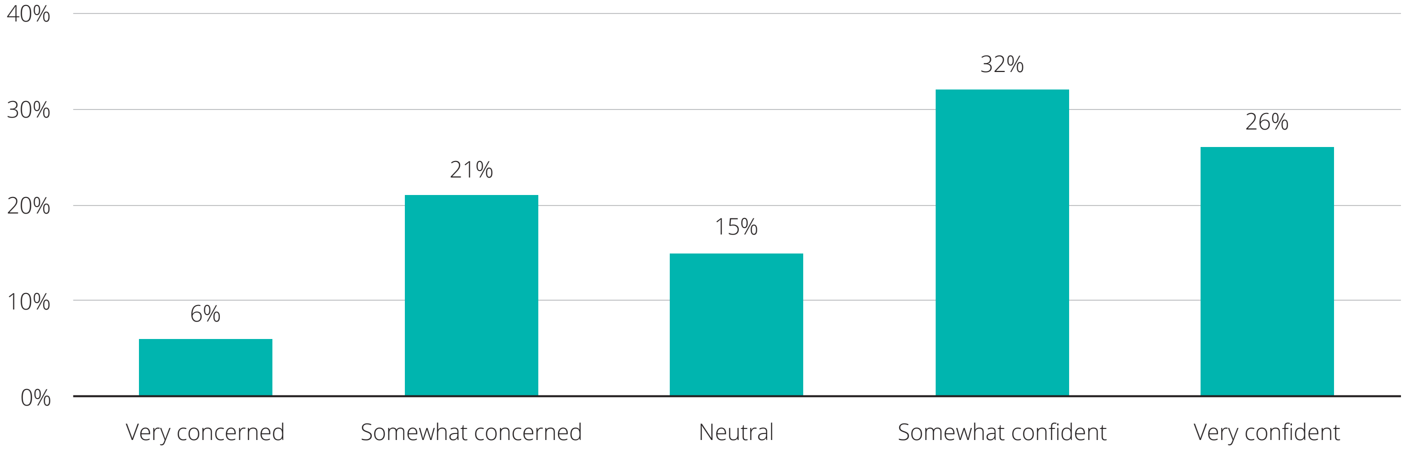
Question 1: The landscape has changed in the past decade: How important is the December 2022 trading period to the overall performance of your company?
Question 2: What is the single most important focus area of your business to increase sales this Christmas?

So this is agile: companies get innovative to solve supply chain challenges

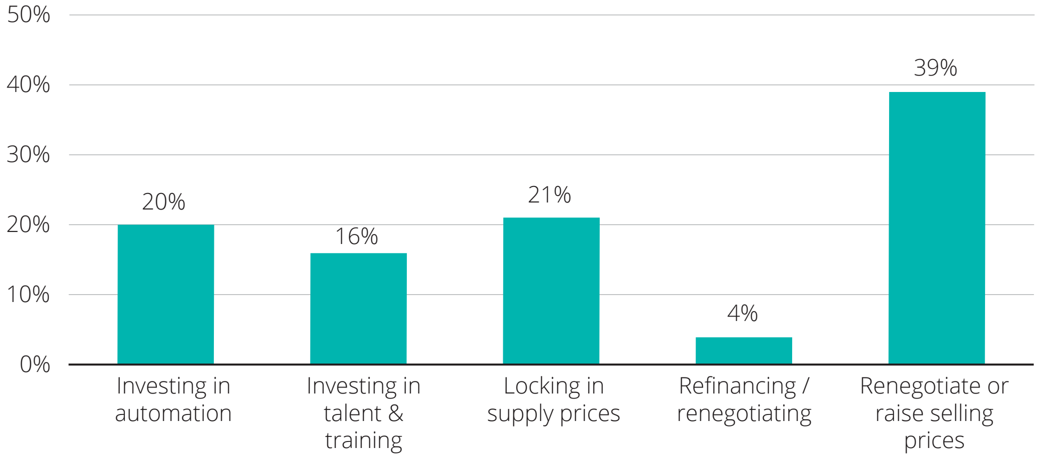
A major logistics chain turned to smart packaging and Radio-Frequency IDentification (RFID) tags at 100 facilities in 2022 to drive productivity and reliability. This strategy eliminates 20 million manual scans and contributes to a $500 million reduction target in non-operating costs.[5]

A large sport lifestyle brand has taken multiple approaches to mitigating supply chain delays. Automation meant deploying robots for sorting and packing during labour shortage, and they deployed a distribution network spread throughout the US rather than centralising distribution from their US facility. From there, transportation partnerships with local drayage carries fast-tracked product.[6]

Retailers are more confident in meeting holiday demand with businesses preparing earlier in the year for supply chain and stock challenges[Q1]



Top strategies to mitigate inflation impact[Q2]



Sales and supply pricing are key strategies to mitigate the impact of inflation

Question 1: How confident are you about your logistics team's ability to meet demand this Holiday season?
Question 2: Top strategies to mitigate the impact of inflation?

Tis the season for mark-ups

The cost of living is rising, but so far consumers are still spending – will this continue through the silly season?

In the face of a number of challenges such as rising costs, staff shortages and a slow down in the property market, Australian retailers have traded relatively well over the past 12 months off the back of the COVID-19 recovery-led reopening.

But the outlook is changing fast. Factors such as rising inflation, higher interest rates and continued supply chain delays are putting pressure on businesses, and rising cost of living expenses are carving out a greater share of consumer wallets.

This backdrop creates an uncertain environment as we approach the holiday sales season.

A decline in the number of retailers expecting more than 5% sales growth over the Christmas period backs up this sentiment. In comparison to 2021, many retailers have a more conservative view of growth with expectations sitting between 0% and 2%, and some expect no growth or even a decline in sales.

With cost of living pressures beginning to bite into discretionary spending, there could be more subdued growth this Christmas season in comparison to last year.

Consumers are expected to shift their spending to focus on services rather than goods, and retailers are paying attention; the number of retailers who expect sales to grow this year has dropped from 80% to 67%.

80%

Percentage of retailers who expected to grow sales last year

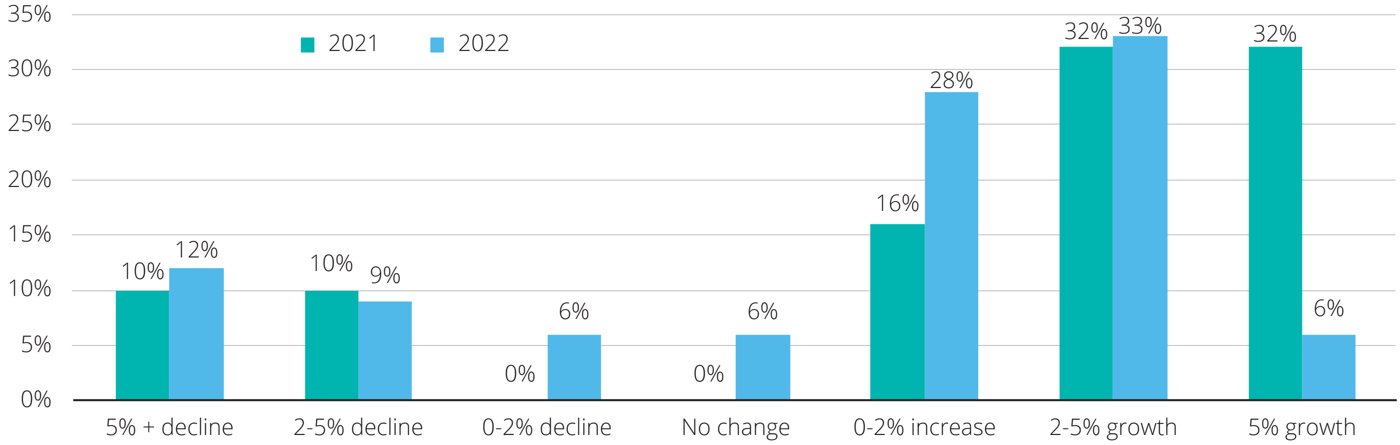
67%

Percentage of retailers who expect to grow sales this year

> [I expect it will be] harder to grow sales, looking at increasing cost and wage pressures and continued supply chain disruption.

Retail Executive's View

Market uncertainties lead to a lower expectation in sales growth this year



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

Over in the US, Deloitte's retail and consumer products practice projects holiday sales will increase between 4-6% this year, compared to 15.1% in 2021[7].

Growth is expected to be largely driven by price increases rather than growth in volumes. Nick Handrinos[7], Deloitte US retail, wholesale and distribution and consumer products leader noted that "As inflation weighs on consumer demand, we can expect consumers to continue to shift how they spend their holiday budget this upcoming season".

We are likely to see a similar trend in Australia, and if retailers hold steady on margins despite the rising input costs it is likely to be a pricing-led holiday season.

But all is not lost. Just over 40% of respondents are expecting to hold margin steady this year, up from 30% in the prior year. Increasing selling prices is the main mitigation strategy with 39% of respondents expecting to offset rising costs this way, to ensure that margins remain relatively stable.

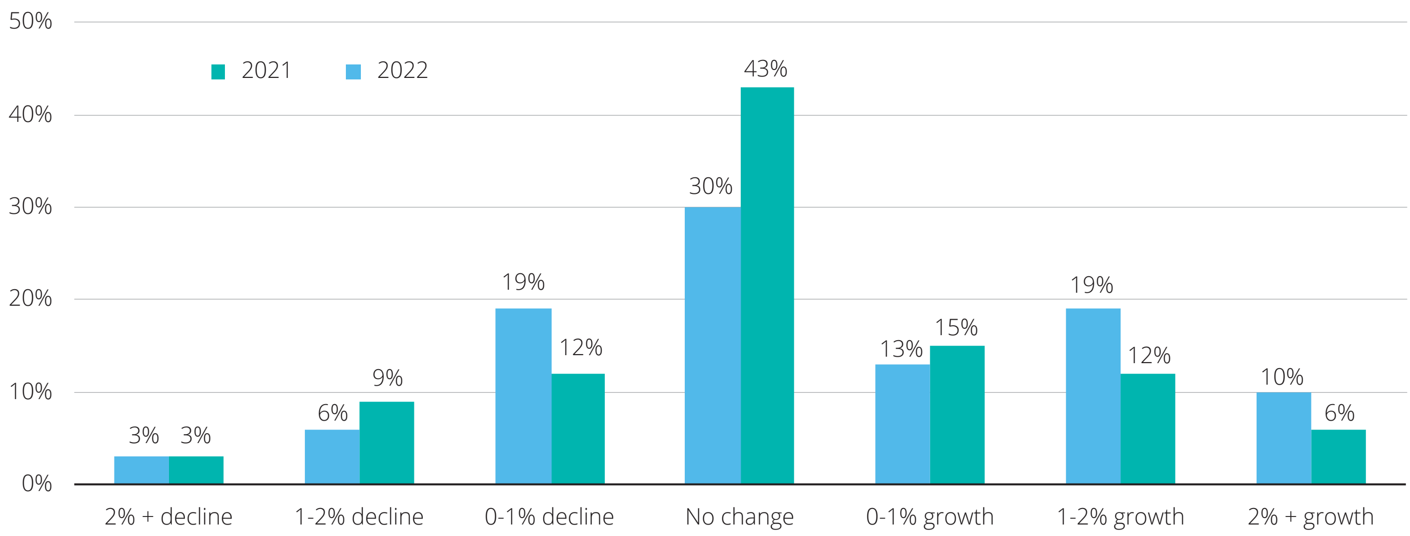
With inflation on the rise, simply increasing selling prices is not going to cut it in the long-term. Savings have to be found elsewhere. Of retailers surveyed, 21% are looking to lock in their supply prices to improve margins and optimise forecasting and planning.

What are you doing to attract customers these holidays?

Creating a magical in store experience for customers, to have timeless toys and games that are hard to say no to. This includes making the holiday shopping experience pain free, for example, we're wrapping gifts and holding in store until Christmas Eve to keep safe from prying eyes.

Retail Executive's View

Retailers are looking for ways to protect margins mostly expecting this year's margin growth to be flat



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

Digital adoption is now a holiday habit

How some brands are trimming their trees: finding efficiencies through technology and creating greater value

Stores are investing in tech solutions for greater efficiencies in space, time and labour costs. They have the added benefit of attracting customers by offering 'no muss no fuss' self-checkout experiences – a true gift at one of the busiest times of the year. Some QR codes allow for items to be scanned straight into shopping carts linking to your account for fast payment - free grocery delivery is also offered within 30 mins if shoppers live within 3km. Most self checkout machines now read product identification tags when placed in the counter space for fast cart calculation and a speedy customer exit. Some retailers go one step further with no need for a checkout at all. Store technology uses sensor fusion, deep learning and computer vision[8] to detect what products are taken, returned or are in your virtual cart so customers can "just walk out" with a charge to your account and a receipt sent to your inbox.

The more value the merrier

Emphasising and offering value to customers be it through highlighting sustainable products, limited-quantity items, special trend offerings or exclusivity through membership opportunities, could help avoid early price cutting whilst low price stores may perform well in this period. Communicate early and drive urgency.

In store is in vogue this holiday season

The online sales channel is firmly entrenched but growth is moderating

With the rate of growth in online sales expected to drop for the first time since 2018, it's clear that consumers are looking to get back into stores this Christmas. Just 45% of retailers are now expecting online sales above 10%, compared to 55% in 2021.

In many cases the online channel was the only route to market across the 2020-21 period, so it isn't a surprise that online sales growth is moderating this year. It's worth noting where we've come from – despite the fall this year, online sales expectations remain well above the pre-pandemic level and the industry has entered an age where omni-channel retail is the standard.

With Australia Post warning online consumers to finish their Christmas shopping earlier and earlier each year, consumers could see shopping in-store as a way of ensuring they get their gifts on time.

While most retailers are expecting online Christmas sales to be 6-10% of their overall sales, there are still those that believe online will be above 10% with some still confident they will be above 30%.

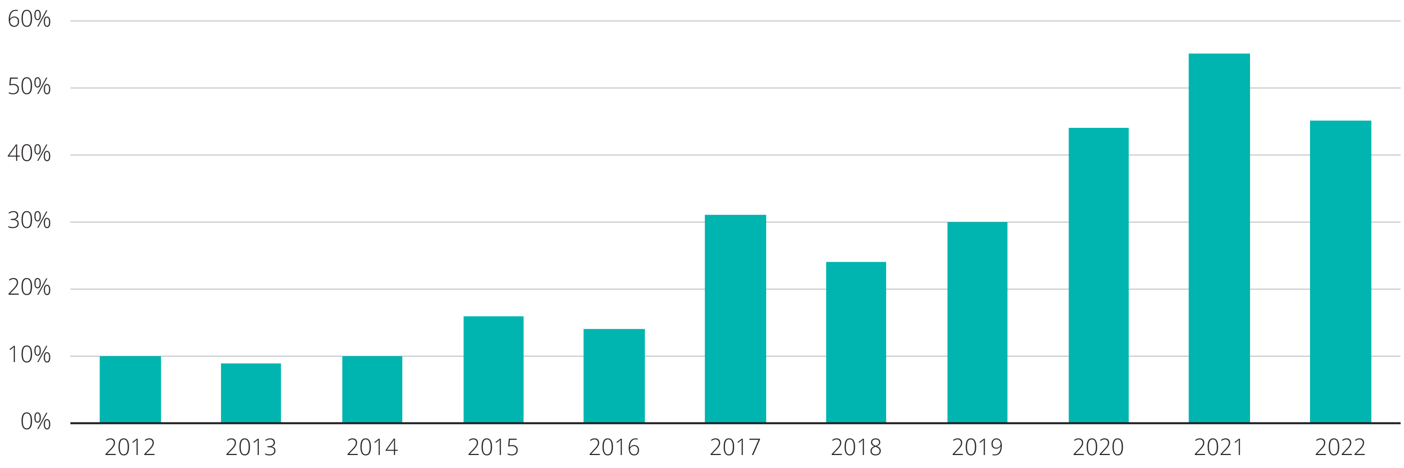
The importance of truly integrated channel engagements

In Australia, according to Meta's Holiday Mega Sale Insights report[9], 78% of consumers research their holiday shopping online, but last holiday season, more purchases were made in-store. As customers return to store it is wise to keep pre-pandemic shopping behaviours in mind. The penultimate holiday season before the pandemic saw that in China that less than 20% of final purchases were online and in the US, less than 10%.[10]

What's next in the journey from clicks to bricks and back again?

The UK is considering an online sales tax, which would fund a reduction in rates for shops that are increasing their in-store presence. Such regulation introductions could influence the retail landscape in other markets.[11]

With the return to stores, expectations of online sales accounting for more than 10% have lowered[Q1]



Question 1: Expectations of online sales above 10%: 2012 to 2022

With lockdowns and closed borders likely a thing of the past, more consumers are emerging from their lounge rooms looking for in-person shopping experiences.

Although obviously still important, online sales seem to be taking a back seat this year.

As the pandemic's impacts have shifted over the past two and a half years, retailers have adapted and many have thrived. The investment in omni-channel, supply chain visibility, innovative loyalty programs and customer acquisition strategies have set retailers up well to face whatever comes next.

Our respondents are pointing to meeting the customer where, when and how they choose as a critical strategy for success this holiday season.

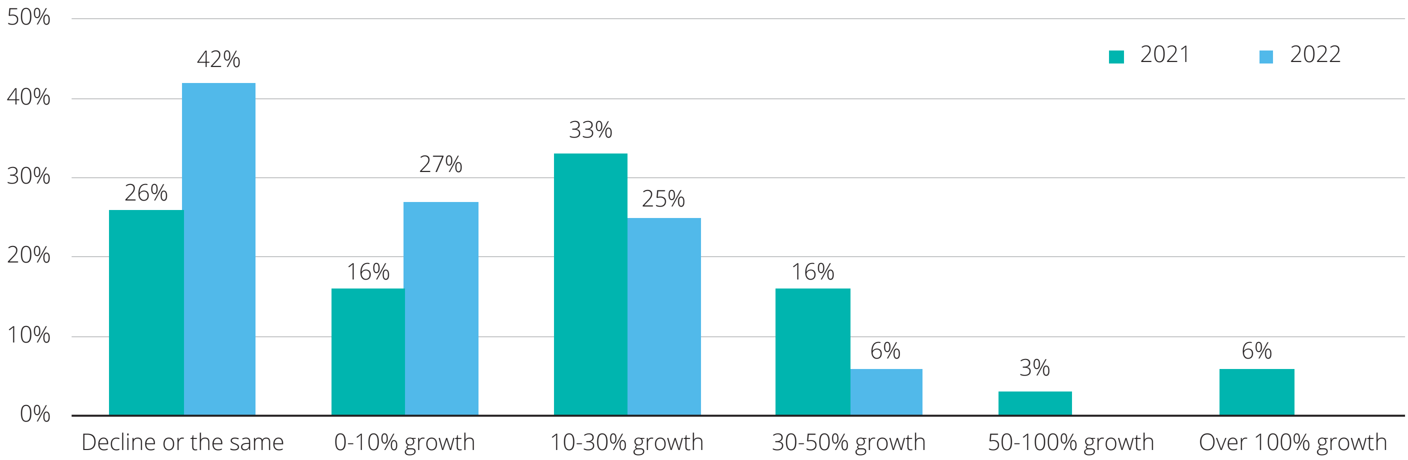
The proof is in the pudding; mastering the omni-channel experience

A few beauty and cosmetic retailers have a 'try to buy' model which bridges offline with online and infuses both worlds with personalisation. In stores, the brand merges makeovers, product trials and informed salespeople with augmented reality, colour matching to scan skin colour for the perfect match and other touch screen interactions. To mirror the in-store customer connection, some apps offer virtual try-ons, beauty rewards, tutorials, wish lists, and location-based marketing sensing when a customer enters a store to offer recommendations and store maps.[12] Investment in photography, chatbot customer service and providing product reviews have been key to the online/offline experience.[13]

> We're in very challenging conditions with consumer income and confidence set to decline, pure play online to struggle against those with omni-channel businesses, rising need for significant cost control, and the creation of personalised and differentiated experiences to defend against competition.

Retail Executive's View

As we emerge from Covid, there is a decline in the expectation for online sales to exceed those from last Christmas



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

SPOTLIGHT

Why every organisation needs a corporate purpose

"Organisations which 'stand for something' beyond generating a profit can create meaningful value across the organisation and often outperform profit focused organisations."

When Yvon Chouinard declared that he was giving away Patagonia, the world took notice. Boldly declaring that Earth is now its sole shareholder, the move confirmed what many retailers already knew to be true, that corporate purpose has forced itself to the top of the agenda in Executive and Board level discussions. The past two years have cast a spotlight on purpose and the increasing role of companies in advocating and progressing environmental and social causes, amplified by the COVID-19 pandemic, COP26 and the war in the Ukraine.

While some cynics might see purpose as a 'marketing exercise', there is increasing evidence and research to show that organisations which 'stand for something' beyond generating a profit can create meaningful value across the organisation and often outperform profit-focused organisations in the long term.

As this intersection between companies and social and environmental issues becomes more pronounced, CEOs and leaders might be increasingly asking themselves:

1. Do I need a corporate purpose?
2. And what is our organisation's purpose, beyond shareholder returns?

What is purpose?

Purpose articulates the 'why' of an organisation, their reason for being, beyond profit. It sits at the heart of the 'Winning Aspiration' in any strategy. Purpose helps to narrow your vision by guiding the articulation of where your business wants to be in the future, the kind of company you need to create and the measures of success.

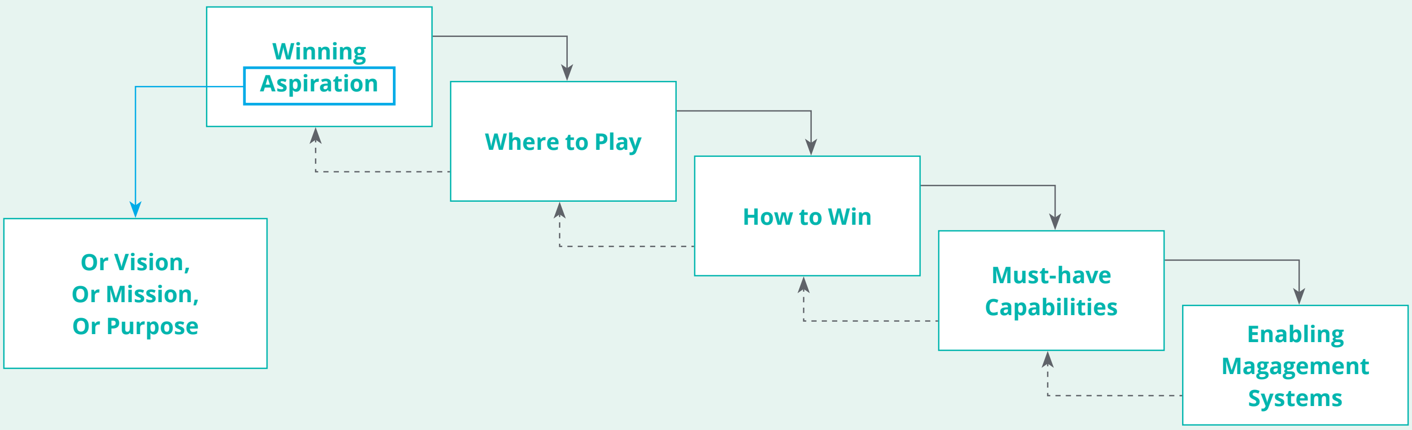
A clear purpose then helps to guide decision-making of 'Where to Play' and 'How to Win' choices. Roger Martin[14] calls this "selection bias" that leads you towards an upward spiral of reinforcing choices.

Why call Purpose out separately within your Winning Aspiration?

Purpose has three benefits when called out separately to an organisation's Winning Aspiration.[15]

- **To help make choices:** A clear purpose acts as an intrinsic decision-making tool for leaders to make.
- **To help motivate:** Purpose provides motivation and direction to staff, helping them rally behind short and long term decisions, resolve challenging tensions and is a common call to arms. It often serves as a more compelling incentive than monetary benefits and advancement in career opportunities.
- **To help attract:** When companies make purpose their priority, this energy is outwardly manifested through authentic storytelling and impactful marketing that attracts enthusiastic customers, talent, suppliers and investors.

The Purpose of Corporate Purpose?



Case study: How CVS Pharmacy's purpose influenced its 'Where to Play choices'

Having recently refreshed their purpose, CVS made the decision to stop selling cigarettes as doing so was contrary to their pursuit of 'healthy living'. The CEO at the time stated "the sale of tobacco products is inconsistent with our purpose".

This decision amounted to a loss of US$2 billion in annual sales. However, CVS still turned a profit and has made an almost 10% increase in revenue since the decision was made.

Today, the company's stock price is up 66% since the removal of cigarettes. But perhaps more significantly, their decision to stop selling cigarettes has contributed to a drop in the sale of tobacco products for all retailers across the US, including CVS customers who indicated they were 38% more likely to stop purchasing cigarettes.

How do you define your purpose?

An organisation's purpose is the intersection of two lenses, what an organisation is uniquely positioned to create and what the world needs. This intersection is uncovered best by:

Leaders driving the discussion – defining an organisation's purpose should be led by leadership; both the C-Suite and the Board need to show ownership and role model purpose from the outset. With purpose at the core, leadership must show a commitment to aligning to the purpose once defined.

Engaging widely and without judgement – stakeholders from staff through to senior leaders and the Board should be engaged to provide their perspectives on the organisation's superpower, and the issues and causes that they care about as a citizen. This is likely to be a passionate topic for stakeholders so it's important to allow space for open discussion and debate, and embrace the tension which encourages stakeholder buy-in to the purpose.

Bringing a cross functional team to develop the purpose – a cross functional team consisting of strategy, marketing and creatives will allow for a structured approach (to what is a conceptually difficult problem) and blend in the creative thinking which articulates a purpose that is inspirational for the organisation.

Educating stakeholders along the way – purpose is still a relatively new concept for many organisations. Part of the success in developing purpose will be educating stakeholders along the way to achieve their buy-in.

Understanding the origins – in articulating an organisation's purpose it is often helpful to look into the history of the business and understand its origins and the reasons it was started by the founder.

Taking your time – developing corporate purpose is difficult and it won't be defined in the first attempt. There will need to be multiple conversations and several iterations of a purpose statement to ensure that it truly resonates with different stakeholders.

Embedding your purpose

Deloitte's 2030 purpose report[16] identifies from the research three areas that are the most impactful to embed purpose across an organisation:

Strategy and business operations – purpose should be set as the ultimate goal that informs the business strategy and business model choices. For example, establishing 'purpose key performance indicators' for ongoing monitoring and reporting which establish clear and measurable goals, actions and accountabilities for all levels of the organisation.

People and culture – the purpose should inform engagement with talent, providing the basis for culture change and giving employees a reason to take pride in their work. For example, reviewing employee journeys and embedding purpose into key people 'moments' or embedding purpose across key rituals/ceremonies (town halls etc).

Brand and stakeholder engagement – the purpose should inform the way the organisation engages with customers, community and broader society. For example, reviewing existing community partnerships to ensure these relationships are aligning with the purpose of the organisation.

Key takeaways

- Purpose can play three roles: to help make choices, to help motivate and to help attract.
- Purpose can be found at the intersection of what an organisation is uniquely positioned to create and what the world needs.
- To embed their purpose, organisations should look to their strategy and operations, people and culture, and brand and stakeholder engagement.

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The decade of disruption

The retail landscape is not a static, stagnant place. It is a dynamic, undulating and exciting wilderness.

In 2022, retailer outlook is incredibly different to when Deloitte first published this survey in 2012.

Ten years ago, retailers were worried about foreign competitors coming into the country and taking their lunch. This year, Australian retailers are living comfortably and holding their own with the multinationals.

Over the past decade, the perceived risk of existing competitors dropped from 31% to just 6%. These days it's not so much about competing against other retailers but adjusting to the market landscape.

Eat, drink and buy Australian Made: supporting the local economy

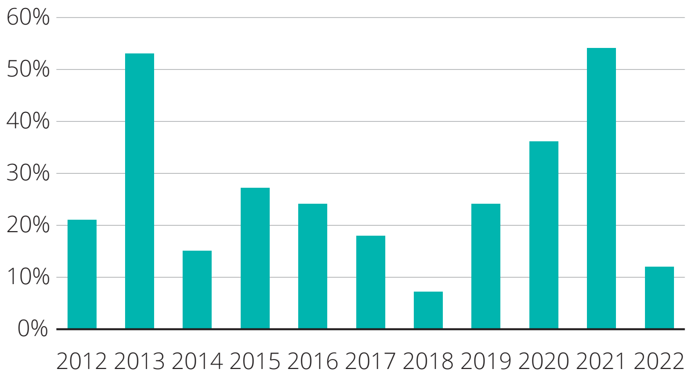
Over 50% of Australians will buy Australian made products to support local businesses, with the dollar staying onshore another important consideration for consumers. Price, however, is increasingly a decision factor with Australians willing to look overseas if a more cost-effective alternative is accessible.[17]

Perhaps Australian retailers have been given a free kick over the pandemic years through the isolating effect of closed borders and inward focus of businesses across the world. Now that the world is open again, Australian retailers may need to step up or be exposed by reinvigorated global operators.

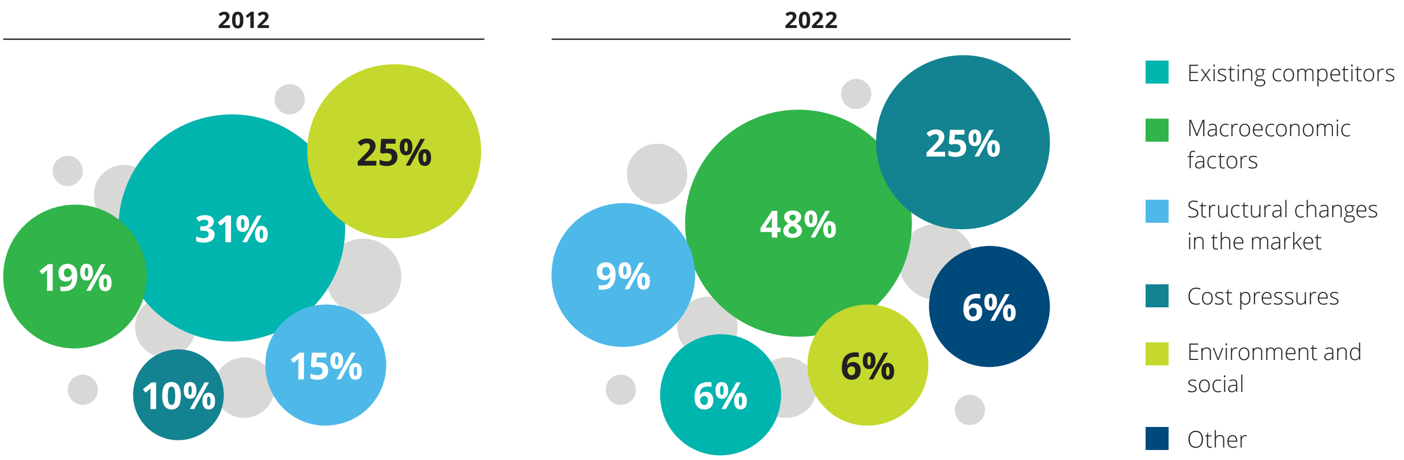
The maturing of the Australian retail environment is illustrated in retailers' omnichannel strategies. In 2012, 63% of respondents expected less than 2% of sales through online channels. This is down to 19% in 2022.

But some things never change. Macroeconomic factors and cost pressures were major concerns in both 2012 and 2022. We've seen confidence rise and fall through the cycle over the years, but retailers are more prepared than ever for anything that may come their way.

Retailers have severely low expectations of consumer confidence improving[Q2]



The greatest risk to businesses, as perceived by retailers[Q1]



Question 1: What do you consider to be the greatest risk in your business?
Question 2: Percentage of respondents expecting improvement in consumer confidence: 2012 to 2022

Retailers and consumers are more conscious of their impact than ever.

Environmental, social and governance (ESG) is front of mind for the vast majority of organisations around the world. Customers, talent and stakeholders demand that organisations act in the interests of the broader community, and retailers are taking notice.

76% of survey respondents highlighted ESG as high importance to brand perception. Retail is a significant employer and customers come from a wide range of the population, perhaps driving respondents to highlight social impact as the most important focus area to meet ESG expectations.

But retailers are not immune to the impacts of climate change and decarbonisation. Whilst a collective 26% are focused on these areas, experience overseas suggests that retailers need to do more to differentiate their brand through ESG credentials.

Deloitte US recommends a whole-of-business approach, aligning internal teams between sustainability and corporate performance to realise the benefits of both[18]. The researchers found that companies that direct most attention on their most material sustainability issues enjoy the strongest financial returns.

Most of our respondents told us that consumers will pay more for sustainable products, but all agree that the core product and value proposition must be compelling for sustainable products to succeed.

Good things come in less parts: a sustainable furniture and homewares whole-of-business approach

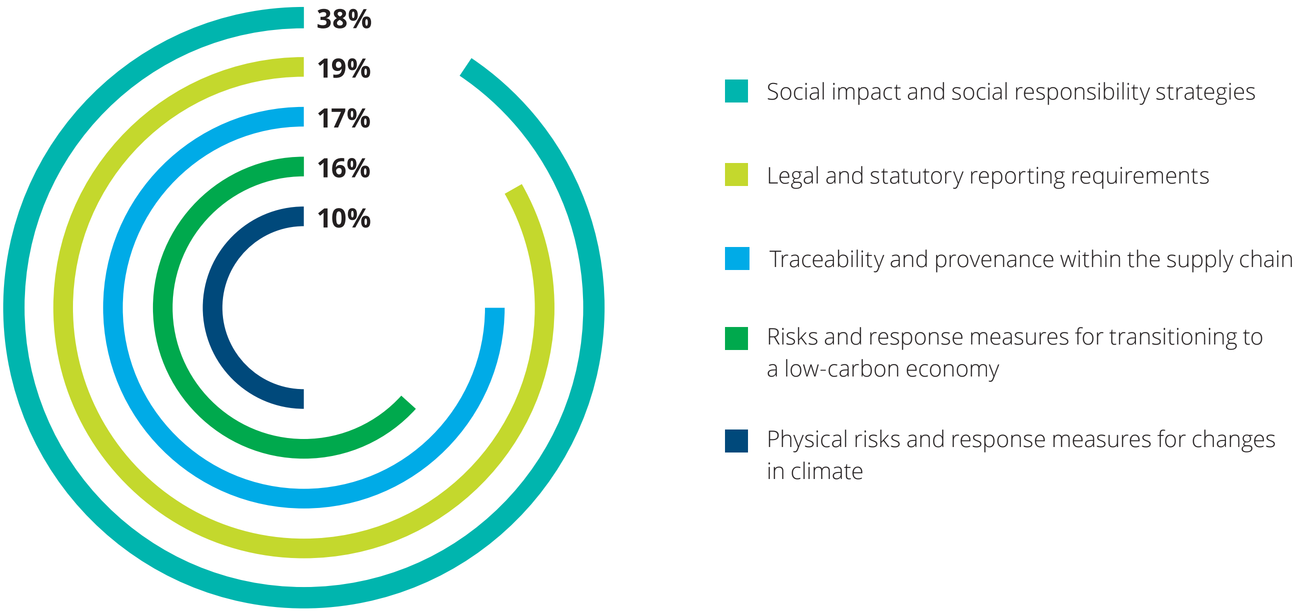
A 'flat packing' concept removes the assembly manufacturing phase from their value chain and in 2020, it proved that fewer parts count in sustainability. Instead of using 122 assembly parts, for a newly launched product the company reduced it to just 13 parts, resulting in a reduction in water and energy usage, and in the number of transport containers and trucks needed in the overall delivery process. This progress in addition to cost savings decreases overall emissions and environment impact.[19] To increase "circularity", its buy-back and resell services will also help to reduce the number of products sent to landfill.[20]

In the current environment, do you believe consumers will pay higher prices for sustainable products?

> Consumers will only pay the perceived value of a product in comparison to a similar type product. They look at the benefits that purchasing a sustainable product will provide for themselves first, and then the global impact.
>
> Therefore when pricing sustainable products the perceived value has to be much higher firstly for the customer, and then the global impact it may or may not have.

Retail Executive's View

What retailers are focusing on to support ESG



Social impact and responsibility is the top strategy to meet ESG and consumer expectations

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

SPOTLIGHT

Coming full circle: The key conscious consumption trends to pay attention to this holiday season

The rise of the conscious consumer has moved from a niche section of the market to mainstream

Sustainability continues to grow in importance as a key driver for purchasing decisions, especially amongst Millennials and Gen Z, and there is a growing willingness for consumers to pay a higher price for brands that are more environmentally proactive and socially equitable.[21]

As Millennials and Gen Z continue to become a larger share of the consumer population with significant purchasing power, the rise of the conscious consumer has moved from a niche section of the market to mainstream. It is increasingly difficult to cut through and as the demand for more sustainable products and services expands, so too does competition between brands and retailers vying for the attention of these consumers.

As the 2022 holiday season fast approaches and with planning for 2023 underway, what are the key conscious consumption trends to which retailers should pay attention?

1. The devil's in the detail – communicating with authenticity

The rise of the conscious consumer is a game-changer in the business case for retailers when it comes to making environmental and ethical claims.

Consumers want to be able to shop their values and are eager to understand what their favourite brands are doing in all aspects of sustainability; from ethical sourcing to decarbonisation and greening the supply chain through to circularity and packaging. That's not to say that your sustainability credentials must be everything to everyone; rather that consumers want transparency and candour and want to understand the detail that sits behind the sustainability claims being made.

This desire for specificity is also shared by regulators including the Australian Competition and Consumer Commission (ACCC) and Australian Securities and Investment Commission (ASIC) who announced in 2022 that they will be collaborating and focusing on brands and product greenwashing.[22]

Greenwashing, or making misleading or deceptive claims about a product or service being 'greener' or more sustainable than it actually is, is covered under the Australian Consumer Law.[23]

Deloitte research[24] found that 90% of executives agreed that consumer trust is lost when brands are not open and transparent in the information they share, particularly when it comes to environmental and ethical claims. Reputational impacts and regulatory costs if found to be greenwashing are significant. A key first step is to ensure that the environmental or ethical claims being made are substantiated and to avoid vague or generic claims or overly broad statements such as 'green' or 'environmentally friendly'.

One way to provide a layer of certainty over the claims being made and to provide additional credibility is to secure limited or reasonable assurance. This essentially means getting an independent opinion from a qualified assurance provider that verifies that the claims are robust. This can give management teams and Boards confidence in communicating in the market about sustainability credentials.

2. Supply chain collaboration and decarbonisation

Climate change is the most systemic issue of our time, and consumers now expect that a company is taking steps to decarbonise, ideally working towards having net-zero carbon emissions. For many years the focus was on reducing the operational carbon footprint of a company, which typically encompasses Scope 1 and Scope 2 emissions. For example, some leading Australian retailers have sought to lower costs and their carbon footprint by entering into renewable Purchase Power Agreements (PPAs). These enable the retailer to lock in longer-term electricity prices, protecting them from price volatility and giving them certainty over procurement of renewable energy

Consumers are increasingly demanding to understand the supply chain carbon impacts of the products and services they use, with examples such as the carbon emissions associated with the delivery of products ordered online. Regulators, investors, and other stakeholders are also increasingly demanding disclosure up and down their value chains (or Scope 3 emissions[24]) with recent developments from the International Sustainability Standards Board and other regulators indicating that pressure to share this information is only set to increase.

Calculating a brand's Scope 3 or supply chains emissions is complex, with one of the biggest challenges being access to credible and reliable data. This is where collaboration with supply chain partners is key, as is understanding a product's end-to-end value chain. This takes time, but some of the benefits of pursuing can be creating new supply chain efficiencies, innovation and improvements across other sustainability indicators such as ethical sourcing and human rights.

3. Circularity and reducing waste

Hard as it is to conceptualise, the amount of plastic in the ocean is expected to double in the next 15 years, and by 2050 there could be more plastic than fish in the sea[25] (by weight)! Whilst plastic has revolutionised the way we live, there has been heightened consumer and stakeholder consciousness of plastic and other waste streams build up in the natural environment.

Thanks to the likes of the Ellen Macarthur Foundation and changes in government waste policy both in Australia and around the world, the concept of 'circularity' is slowly becoming mainstream. The intent for circularity is to design out waste and have products and materials circulating in the economy for as long as possible. Whilst far from easy to achieve, some leading Australian retailers have sought to explore new circular business models such as enabling consumers to bring back products to stores offering refills, collaborating with start-ups to integrate resale platforms into their online offering and providing take-back/repair services to remanufacture old products into new ones. Take the example of a laptop. It might go through the first business user, returned to a store for refurbishment, then sold to a university student, then returned again until the laptop reaches the end of its first intended life, disassembled and the components recycled, ideally into other materials.

Innovating business models and redesigning products, systems and processes can require significant time and effort, but pay-back is only set to grow as consumers seek out retailers and brands who can actively show they are innovating their products and services to design out waste and create circular systems.

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Rockin' around the CBD

If lockdowns are over, where are the people?

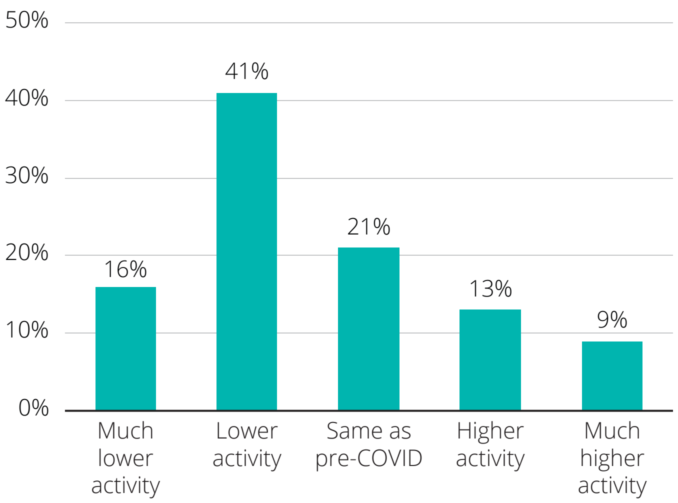
With working from home now the norm, there is a decrease in foot traffic in central business district (CBD) stores. While stores in the suburbs and outskirts are likely returning to normal as people go to stores closer to their homes rather than their workplaces, CBD stores look to have it tougher.

With 57% of survey respondents noting that their store visits are lower than pre-COVID-19, how can retailers and other businesses get people back into the CBDs?

Could retailers be home for Christmas

CBD vacancy rates across Australia have increased to 17.4% in H1 according to commercial real estate services & investment company, CBRE. Vacancy declined slightly for Sydney to 6.9%, and is followed by Melbourne (15.9%), Adelaide (18.0%), Brisbane (18.9%) and Perth (28.4%). The return to offices is expected to have a positive effect on retailers' spaces within H2.[26]

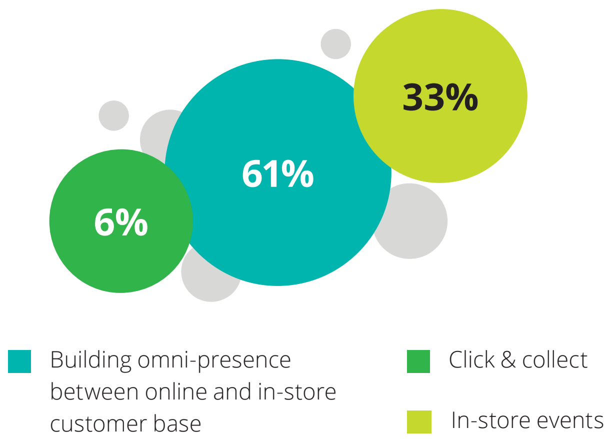
CBD areas and stores have yet to return to pre-COVID activity levels[Q1]



> The retail sector will transition to a post-pandemic world with more resilience and strength, having learnt through the COVID-19 years, how to better manage and prepare for what the world can throw at us, we are ready now and we will survive and grow.

Retail Executive's View

Integrated omni-channel presence and in-person events are the most important strategies to drive in store engagement[Q2]



Retailers can activate strategies to entice people back into stores and CBD areas. 61% of those surveyed are building omni-presence between online and in-store customer bases. In-store events are another way to drive engagement. 33% of retailers are enticing customers with in-store events, hoping that they will purchase other items when in-store, while improving the overall customer experience.

Question 1: Have your CBD areas and stores returned to pre-Covid activity levels?
Question 2: Of the below, what is the most important strategy you are implementing to drive in-store engagement?

The naughty and the nice

Connecting with customers and safeguarding their data

So how do retailers connect with their customers? A staggering 76% of those surveyed said that personalising the retail experience is the way.

Despite this, retailers are not relying on tiered loyalty programs to drive activity with only 12% using those programs. Many online and omni-channel retailers offer paid memberships that provide free or discounted delivery, bespoke promotions and online and physical store integration such as click and collect.

This could be an opportunity for retailers to bring customers further into their ecosystems.

But with the rise of e-commerce, retailers now hold more customer data than ever before and with increased customer data comes increased responsibility. There has been an explosion in cyber security threats over the past few years with many examples of data breaches, ransomware and phishing attacks across the world.

Accordingly, 48% of retailers highlighted that data privacy is a high risk for their business.

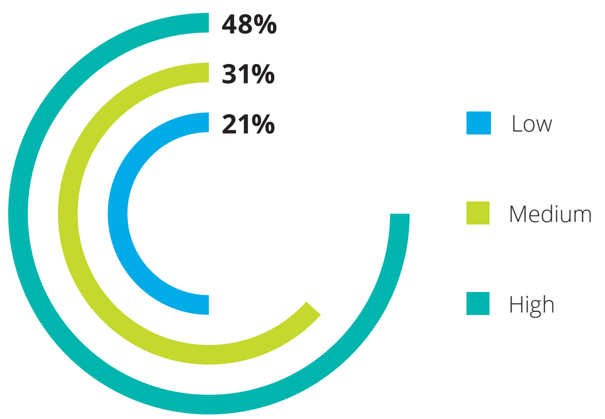
Whilst cyber and data security has been on the agenda for years, recent customer data breaches have rocked the country. It is now at the top of the agenda for governments, consumers and business across the board. Any retailer that collects and uses customer data is exposed to the risk of a cyber data breach and continual investment in cyber security is essential.

> We are part way through a digital transformation of our entire business. This includes a significant focus on data security.

Retail Executive's View

Personalisation and experience are the most effective relationship-building methods with customers[Q1]

In a more progressive digital retail landscape, data privacy is a significant risk in businesses[Q2]



Question 1: What is the most effective method of building and strengthening relationships with customers?
Question 2: How significant a risk is data privacy to your business?

Stocking up on skills

Organisations are pulling out all the stops to attract and retain talent.

Respondents called out supply chain automation, machine learning and data and analytics capabilities as the most critical skills gaps with 36% and 34% of retailers respectively highlighting these areas, and just 12% of retailers showing a gap in back of house and customer service roles.

This shows the growing trend towards a more automated and tech savvy workforce.

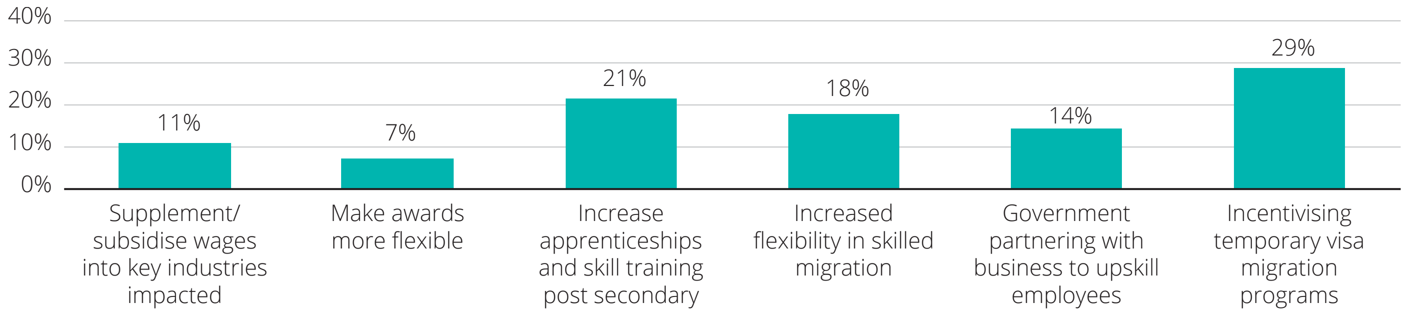
The talent challenge is being faced across all industries and retail is not immune. Our respondents want to invest in talent and for governments to help facilitate the investment. Incentivising apprenticeships, partnerships with government to upskill employees and incentivising temporary visa programs are all measures that are rated highly by our respondents.

In Deloitte's Building The Lucky Country[27] publication, we highlighted that the nature of work is changing. Today's jobs are increasingly likely to require you to use your head rather than your hands, a trend that has been playing out for some time. There is also another factor at play. Regardless of whether jobs rely on brains or brawn, it's the less routine jobs that are harder to automate, and that is where employment has been growing. More specialised skills are needed.

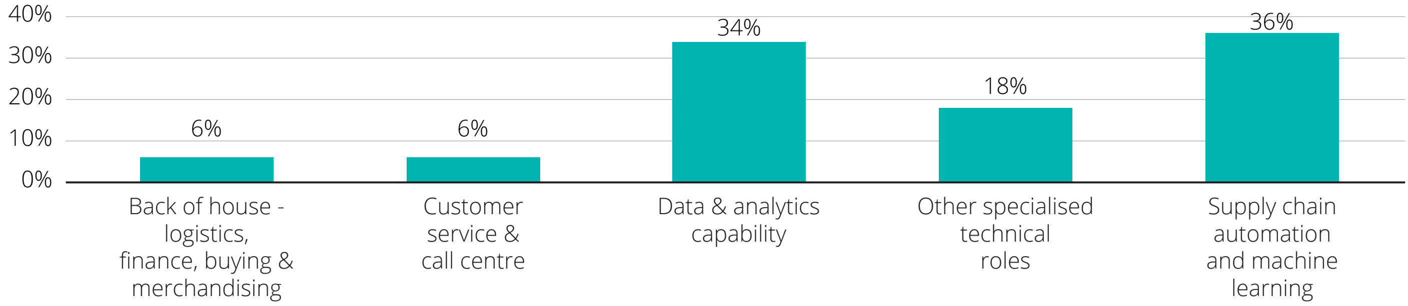
Workforce concerns on tech in retail

The Australian National University (ANU) and the University of Sydney surveyed approximately 11% of workers in the Retail sector on the changing landscape. The survey revealed that the rise of online shopping, and technology advancements in the retail sector, coupled with a lack of training, are a cause for concern for around one quarter of those workers who feel left behind.[28]

Incentivising temporary visa programs and increased flexibility in skilled migration is seen as the route to alleviating workforce shortages[Q1]



Supply chain automation and machine learning along with data & analytics capabilities are business' most crucial gaps to fill[Q2]



Question 1: What are the key actions that government and industry should take now to alleviate skill and workforce shortages?
Question 2: Where is the most critical skill & capability gap in your organisation?

Supply chain, inventory and competing on the international stage

There remains a material gap between the practices we observe globally and what is common here – particularly when it comes to creating and delivering the customer promise.

Australian retailers have come a long way over the past decade, and in some ways have caught up to the international retailers and are competing – but now is not the time to rest on those laurels as the global pace of change is also increasing and home-grown retail may get left behind.

Supply chain disruptions over the past 24 months have come in all shapes and sizes and from a range of unexpected directions. Whilst many of them might have felt perfectly predictable with hindsight, at the time, many organisations were caught off-guard. One of the more pronounced and persistent changes has been in the mix of business that is conducted online and the proportion of customers that have transitioned to home delivery or click and collect.

Many Australian retailers have adapted quickly to this structural change and have flexed their distribution channels as conditions evolved, however, there remains a material gap between the practices we observe globally and what is common here – particularly when it comes to creating and delivering the customer promise.

Retailers are adopting a number of best-practice measures to better satisfy customers in this environment:

The New Treatment of Inventory

Two long-held truths about inventory are being challenged in the current environment:

1. That it is a depreciating asset
2. That it is a known quantity

The fact is that in many industries value appreciation of inventory is outweighing carrying cost and there is merit in sitting on more, rather than less inventory – and not just to ensure customer service.

Perhaps more interestingly, as omni-channel becomes a bigger part of business, a large proportion of retailers are running into problems caused by inaccurate inventory balances – either promising stock that is not available or failing to offer customers stock that is available. Increasingly we are seeing retailers treat inventory as a statistical variable, rather like demand or supply, and planning accordingly.

Supply Chain Illumination

Illumination of your supply base to understand their footprint, their suppliers, maybe even their suppliers' suppliers and the kinds of disruption that they will be susceptible to can make a material impact on stock availability. One thing that we have learned is that looking for alternate sources of a given product is worthwhile but beware that many apparent alternatives do not represent any hedging of your risk at all – they are susceptible to the same challenges as your incumbent.

At a minimum, collaborative planning and information sharing of inventory forecasting and replenishment with your suppliers, and maybe even your suppliers' suppliers, can go some way to reducing unexpected out-of-stocks.

A Refined Customer Promise

In many cases the unpredictability of demand and lack of availability of supply is creating an untenable situation where customer expectations are met more by good luck than good management. In this environment some retailers are subtly adapting their customer promise. This can take a number of forms, in its simplest form it is rationalising the SKU base, and looking at both customer behaviour as well as supplier performance. More sophisticated approaches involve investing in technologies that only present offers that can be met – whether this is products advertised online or, delivery promises that are based on detailed knowledge of available last-mile capacity rather than fixed lead times.

The other facet of the customer promise where we are seeing change is a move toward stabilisation of demand. Whatever the nature of the supply chain disruptions we are facing, they by and large have one common thread: they diminish our ability to react quickly and predictably to unexpected or lumpy demand. For this reason, along with concerns about product availability, we are seeing a move away from the kind of promotions that create volatility in the demand signal. An example of this would be extreme discounting for any reason other than end of line stock clearance.

Next Generation Planning Tools

Amongst the most sophisticated retailers and consumer goods companies we are seeing increased momentum behind the use of more advanced supply chain planning tools. These tools will typically use artificial intelligence and machine learning to not only generate more accurate forecasts of demand and feasible replenishment plans but also help make "next best" decisions when there is a deviation from the plan. These tools use more data than their predecessors – ideally embedding a Control Tower concept to understand what is going on throughout the network - but in some ways are less sensitive to data quality as the built-in intelligence learns its way past unreliable data feeds.

Retaining Talent

Finally, and likely to be most pressing these holidays, is the availability of appropriately skilled staff – at stores and in distribution centres especially. One of the key challenges for larger retailers is providing staff with enough hours to be a compelling single source of employment. Technology which helps staff move seamlessly from task-to-task and provides on-the-job training to new team members is beginning to help address the problem for both parties.

Whilst it is unlikely that any one of these measures will single-handedly address the challenges retailers might be facing in the run-up to Christmas, the right blend can make a material impact on both customer experience and profitability in the peak season.

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Will tills ring in the new year?

Will interest rates and inflation catch up with consumers in 2023?

The Retailers' Holiday Survey has been a snapshot into the minds of retailers over the past decade, capturing the swings in sentiment across the cycle. This year is no different, with confidence in the consumer falling dramatically from last years' rosy expectations.

As inflation, interest rates and economic risk cloud the horizon, retailers are extremely pessimistic about the state of the consumer in 2023. 58% of respondents expect that consumer confidence will deteriorate through 2023.

Respondents are showing a sense of uncertainty in consumers' ability to keep spending in the face of rising prices and inflationary pressure.

This uncertainty will likely continue as volumes tail off and prices increase further. Parts of the market are already impacted such as household goods and supermarkets, for which volumes have declined 1.8% and 0.7% in the June quarter respectively.

To date, price increases have filled in the gap, but as higher interest payments begin to bite this may reduce the spending capacity of consumers.

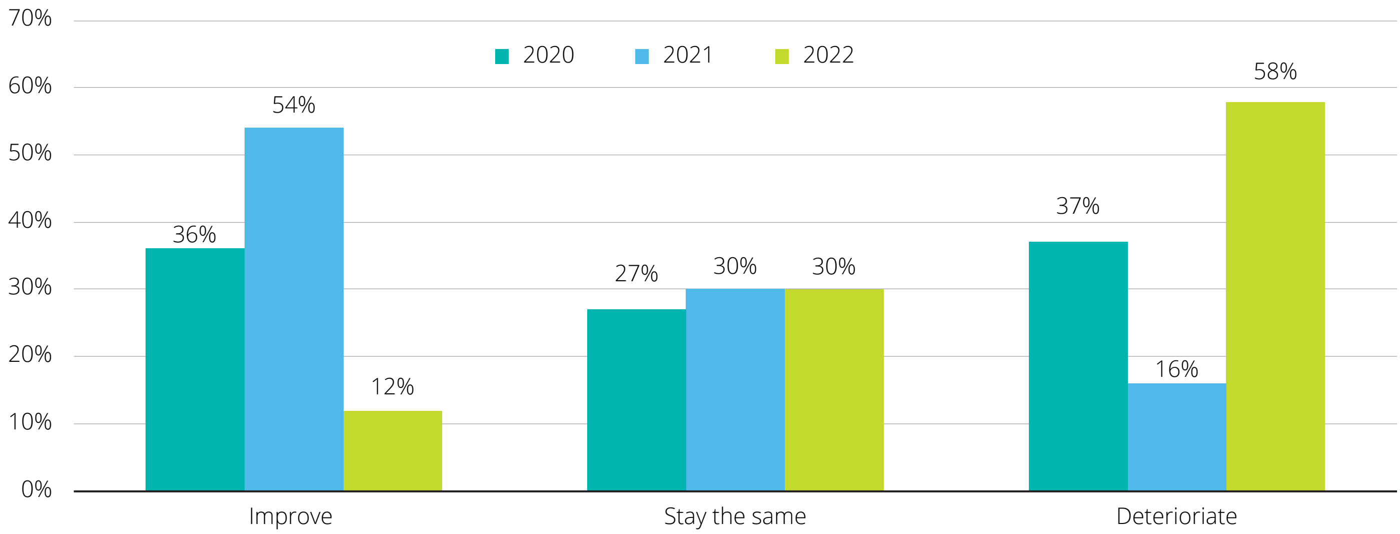
For now, consumers are still spending. Retail trade continued to grow in the first half of 2022, as consumers left the house to work, eat and play.

Deloitte Access Economics forecasts that while there are a range of headwinds both on and offshore, retail sales are expected to remain strong over 2022-23 at 4.1%.

> It is hard to know in the current economic climate with rising interest rates and costs of living. We have already seen a downturn in sales on last year.

Retail Executive's View (online retailer)

Retailers expect consumer confidence to deteriorate in the next 12 months in stark contrast to 2021



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

Despite the expectations of subdued consumer confidence, most of our respondents remain sure in the ability of their strategies to grow revenue in 2023. While the enthusiasm of 2021 has moderated this year, 79% of respondents still expect sales to increase in the coming year.

The retail industry remains a dynamic and diverse environment, and a number of respondents expect falls in sales next year with 18% expecting declines in sales compared to only 3% in 2021.

Nearly half of respondents are worried most about the state of the economy, highlighting macroeconomic factors as their greatest risk this year. A further 25% highlighted cost pressures, citing inflation in input costs, particularly including freight and wages.

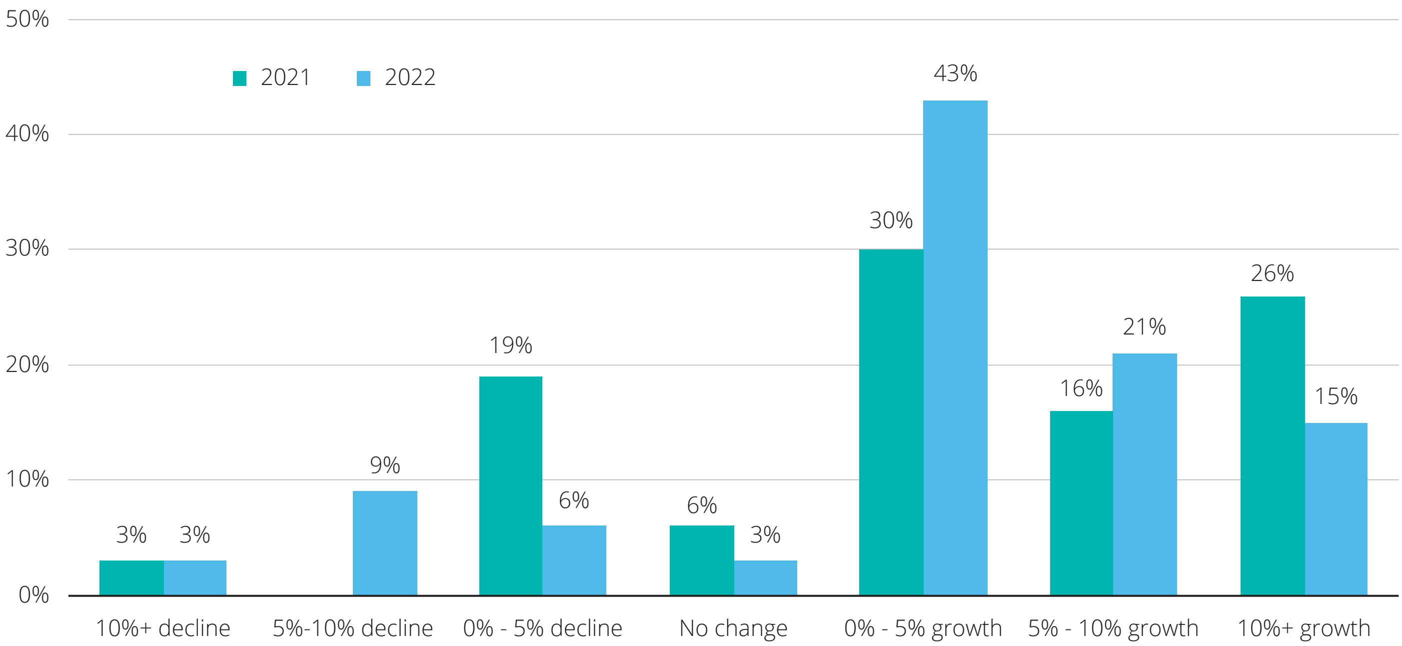
With the volatility of the last few years our respondents largely expect Australian retail to revert to a more typical environment.

Many respondents highlighted changes in the coming year, such as a weakening demand in online channels and customers coming back to the stores. One such respondent highlighted the opportunity for omni-channel retailers compared to pure play online. Whatever the channel, personalisation and a differentiated experience is crucial for success in 2023.

> [I'm expecting] normalisation of demand and customers reverting to historical purchasing behaviour (including increased store traffic). Challenging labour market driving shortages in supply chain labour and in-store labour in certain geographies

Retail Executive's View

Retailers anticipate growth in overall sales in 2023 despite economic uncertainties and expected customer confidence



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

About the survey

About the retail survey
This survey was commissioned by Deloitte and conducted online and in-person between 29th August – 30th September 2022. Over 45 retail executives across a range categories were polled to pull results from a cross-section of the market. The executives included CEO, CMO/CDO, CHRO and CIOs from locally listed, multinational and independent retailers. All have a medium or high level of involvement in buying, supply chain, operations, distribution and merchandising for the coming holiday season.

Thank you to our contributors
The authors would like to thank Aiden Aldred, Daniel Jo, Lily Jarrett, Terry Innerst and Nicole Bertolani for their contributions to this report.

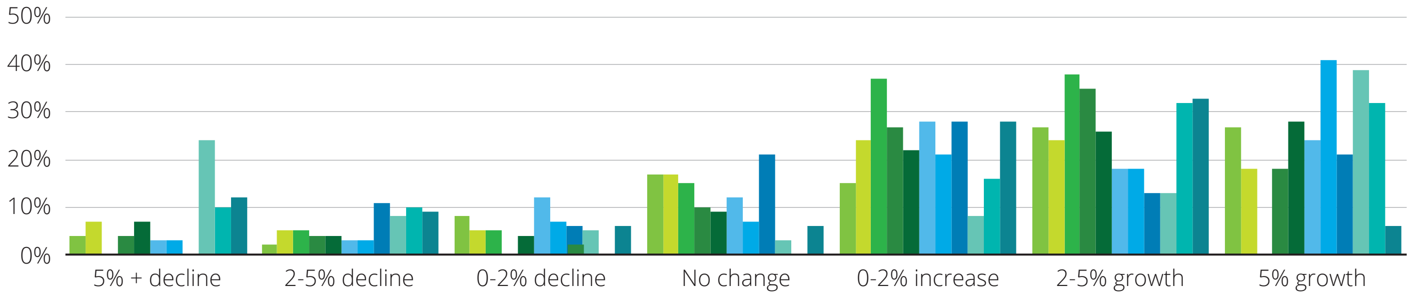
About our team
Deloitte's retail specialists work across every segment of your industry, helping global retailers, wholesalers and distributors to meet their biggest challenges: from supply chain, customer loyalty and franchising trends to changes in consumer preferences.

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.

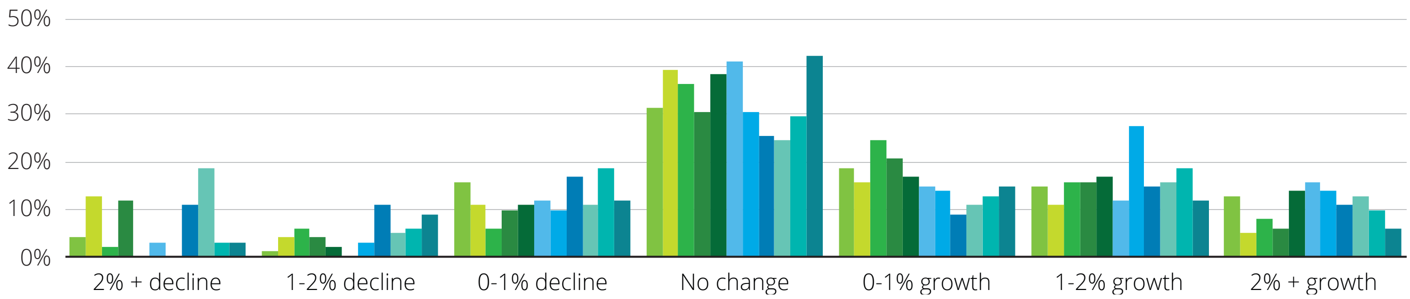
If you would like further information about any of the topics in this report, or our advisory capability in the retail industry, please contact us.

Detailed survey data

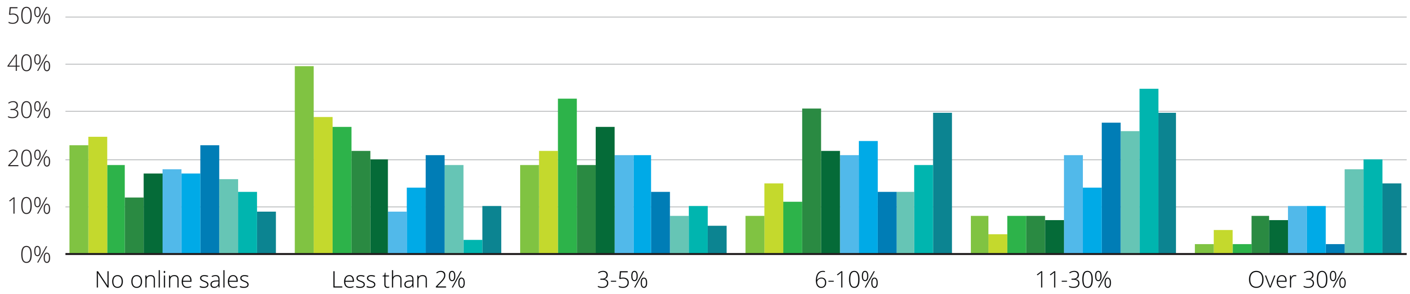
Do you expect Christmas sales to exceed the previous Christmas trading period?



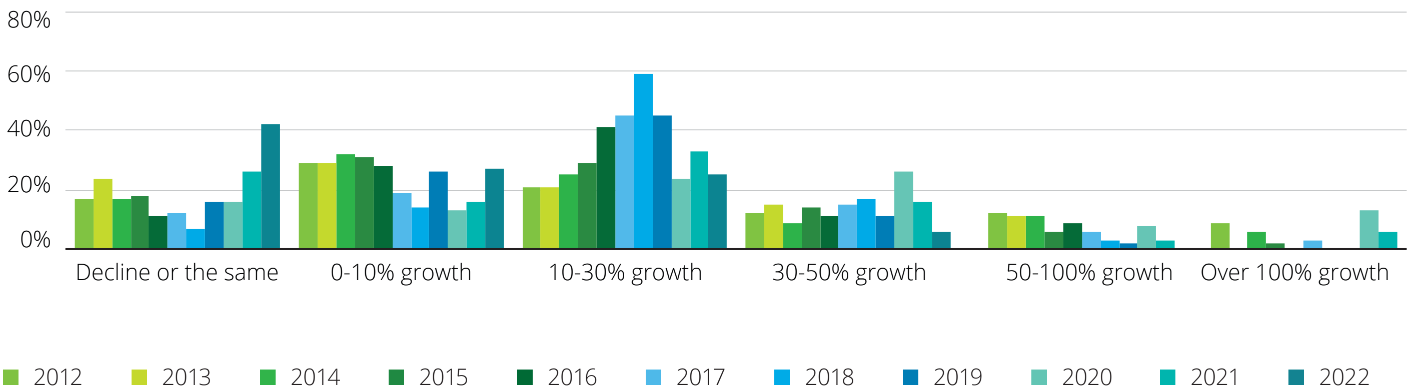
Do you expect margins for the Christmas period to exceed the previous year?



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

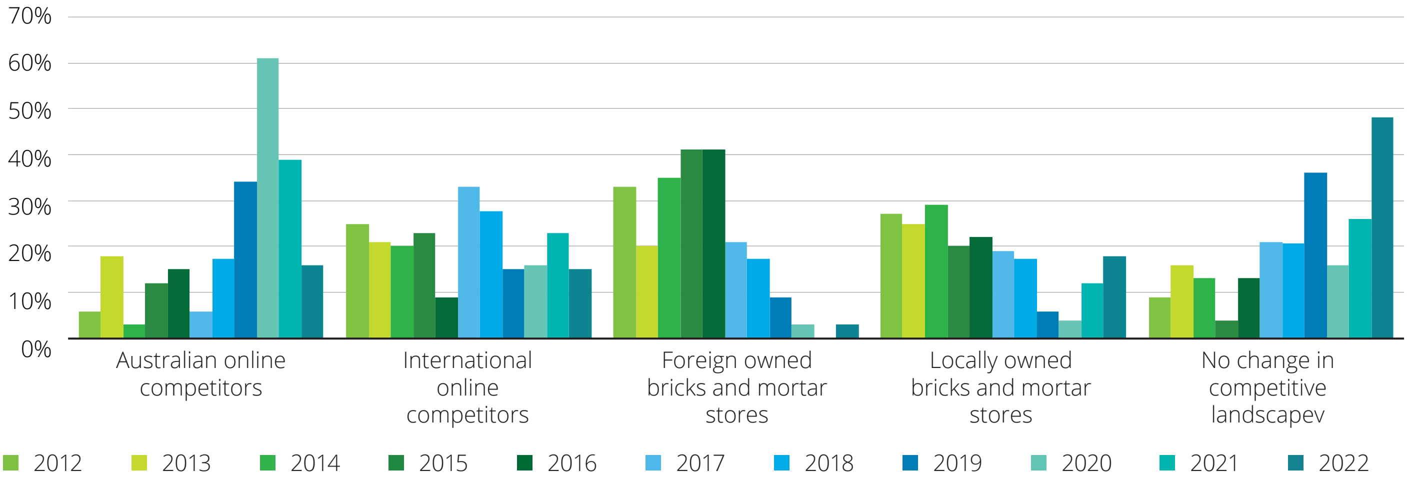


By what percentage do you expect online sales for the current year Christmas period to exceed the prior year?

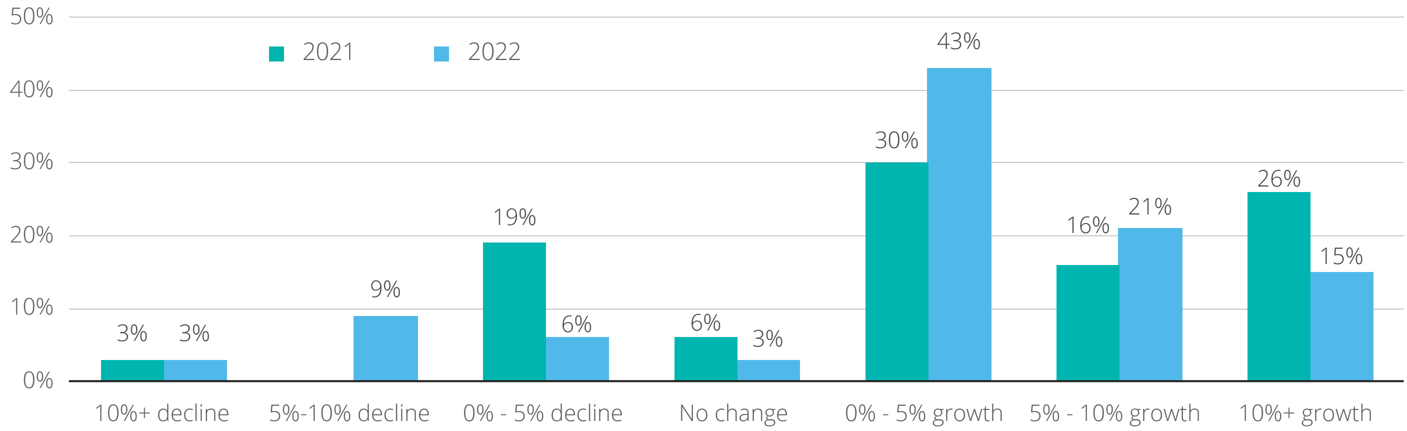


Detailed survey data

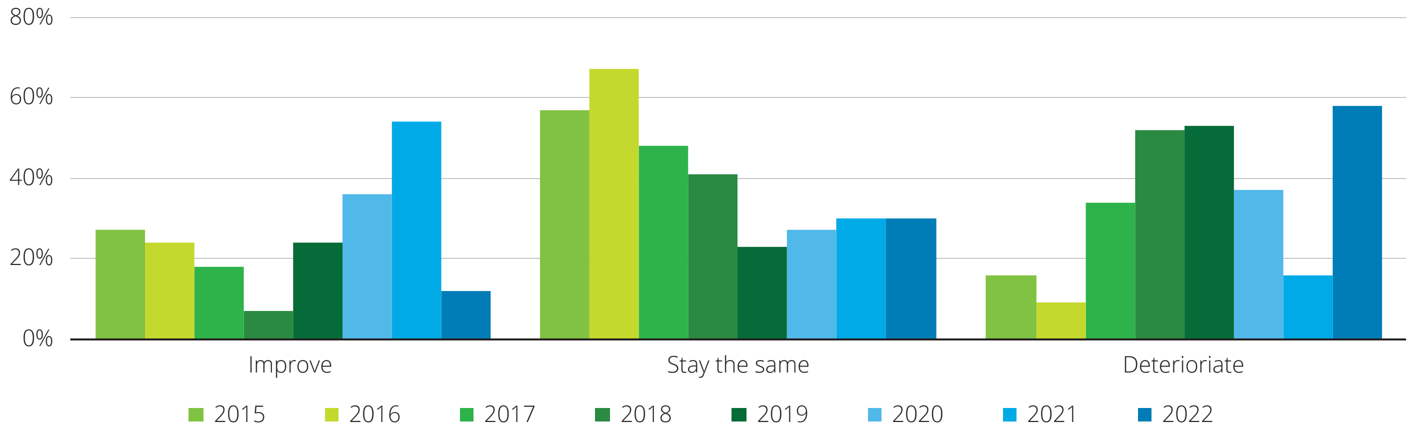
From which source do you expect to see the most increased competition?



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



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



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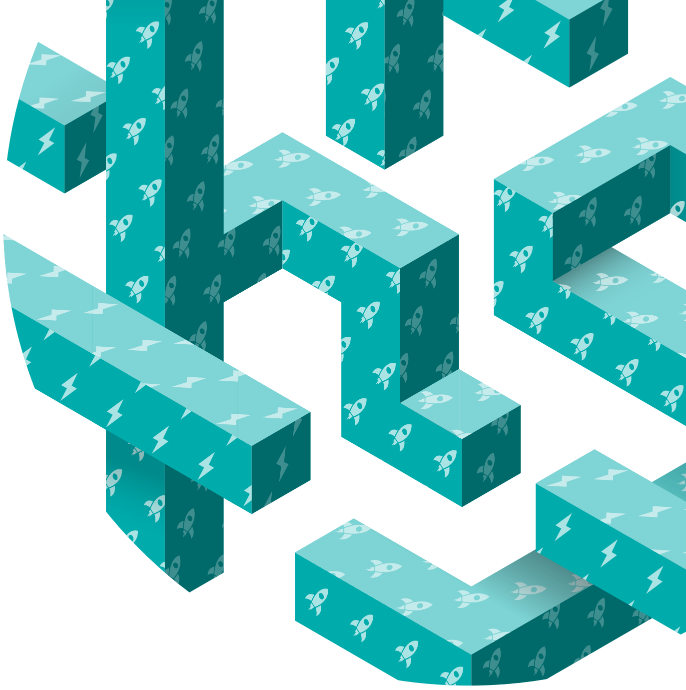
Retail Executive's views sourced from respondents of the 2022 Deloitte Retailers' Holiday survey



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