Q3 JUNE 2017 - AUGUST 2017

Australian **Retailers** Association

THE ARA'S QUARTERLY RETAIL DEBRIEF

A BRIEF SUMMARY

OF THE AUSTRALIAN RETAIL MARKET FOR JUNE - AUGUST 2017

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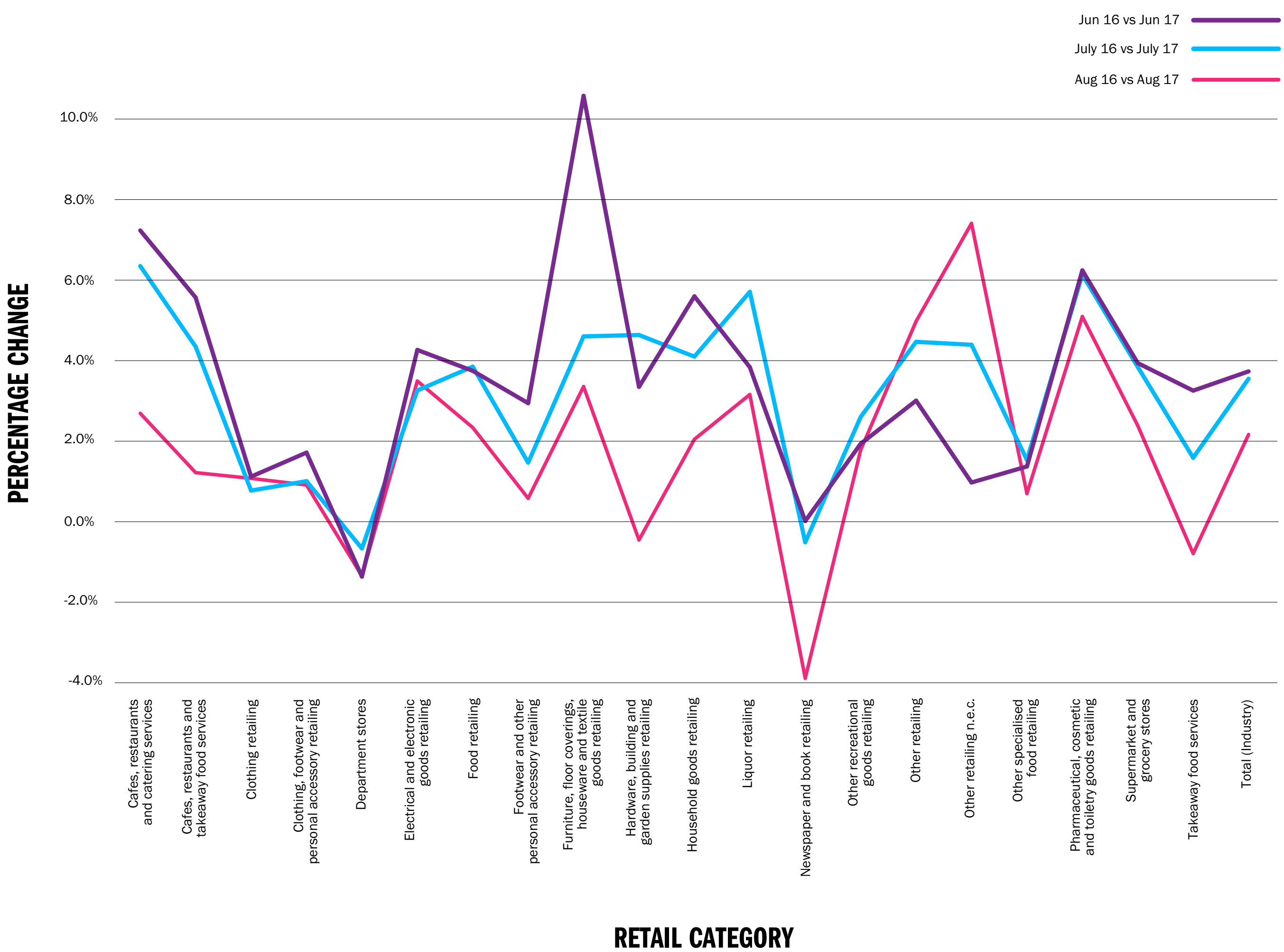
RETAIL SPEND

With increased economic pressures affecting local retailers across the board, the Australian retail industry has been quite unstable over the last quarter. June started strong increasing 3.80% year-on-year (YoY) with *Household Goods* (5.88%) and *Cafés, Restaurants and Takeaway Food Services* (5.58%) leading this month's growth year-on-year (YoY)[1]. July saw a minor dip in total growth YoY (3.77%) with most retail categories slipping slightly from June's strong trade figures[2]. The *Other Retailing* category increased dramatically in July to 4.24%, almost doubling June's 2.92% growth YoY in this same category[1,2]. Unfortunately, August retail figures were not so lucky as we saw a dramatic decline in overall sales (2.13%) with the usual strong retail categories like *Household Goods, Food Retailing, Cafés, Restaurants and Takeaway Food Services*, and *Clothing Footwear and Personal Accessories* taking the biggest hit in total growth YoY in over eight months[3]. The shining light in August trade figures was the *Other Retailing* category again, growing at 4.92% YoY[3]. As we move towards Christmas, the Australian Retailers Association (ARA) hopes that the reduction in various economic pressures affecting the industry will provide a positive pathway ahead for both retailers and consumers.

ABS RETAIL TRADE : YOY % CHANGE

(June, July and August 2017)

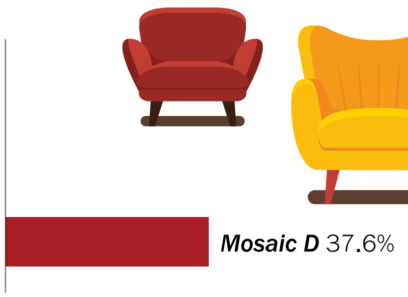


AVERAGE SPEND : YOY % CHANGE

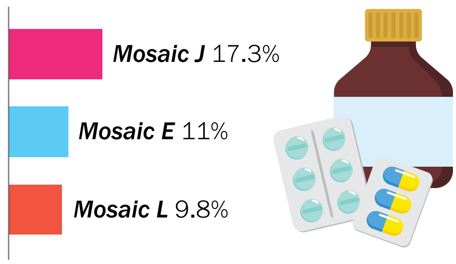
(June, July and August 2017)

Source: EXPERIAN MOSAIC, EMMA

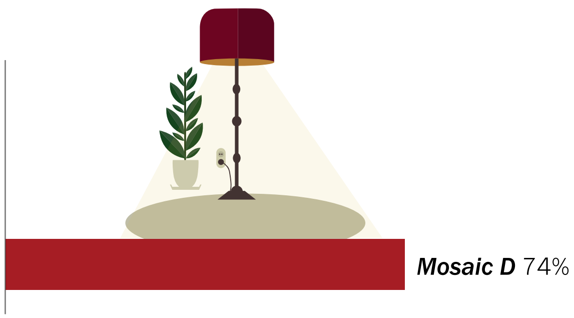
Furniture



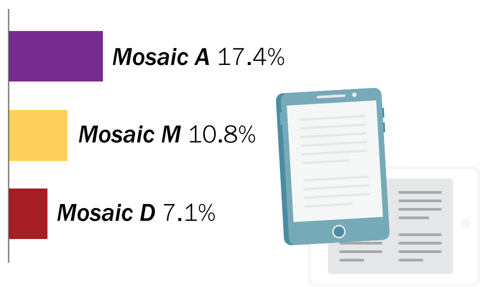
Pharmaceuticals



Homewares



Online Books



CONSUMER SEGMENTS

Along with this quarter's fluctuating retail environment, consumer spending habits have been quite unpredictable over the past few months. June received a substantial increase in *Furniture, Floor Covering, Houseware and Textile Goods* (10.5%), however this category dropped dramatically to 4.9% in July and then to just 3.3% in August[1,2,3]. With such a generous increase in June, ARA's combined research with Experian saw the biggest contributors to these sales were Mosaic Group • *D Affluent Acreage* as they significantly increased their spending in both Furniture (37.6%) and Homeware (74%) this quarter[4,5]. This Mosaic Group usually represents wealthy, older retirees who live in sought-after costal locations, and own large houses with multiple bedrooms, meaning furnishing is a never-ending expenditure for them[4,5].

With June, July and August being the coldest months of the year, Emma data saw a significant rise in *Prescription Pharmaceuticals* with Mosaic Group • *J Provincial Living* (17.3%), • *E Distanced Existence* (11%), and • *L Regional Endeavors* (9.8%) contributing to this growth[4,5]. These three consumer segments live in low-density and remote locations, therefore when they do shop, they usually stock up on practical and relevant products to keep their health at optimal level, especially during winter[4,5].

As we continue to see an increase in online activity, this quarter saw *Newspaper and Book Retailing* drop dramatically over the last few months[1,2,3]. This doesn't necessarily mean that Australians are no longer consuming books, as Emma data saw *Online Books* spending increase significantly in August amongst various Mosaic Groups including • *A Exclusive Environs* (17.4%), • *M Remotely Blue* (10.8) and • *D Affluent Acreage* (7.1%)[4,5]. While these consumer segments differ quite largely from each other, they all find purchasing books online more convenient for their lifestyles[4,5].

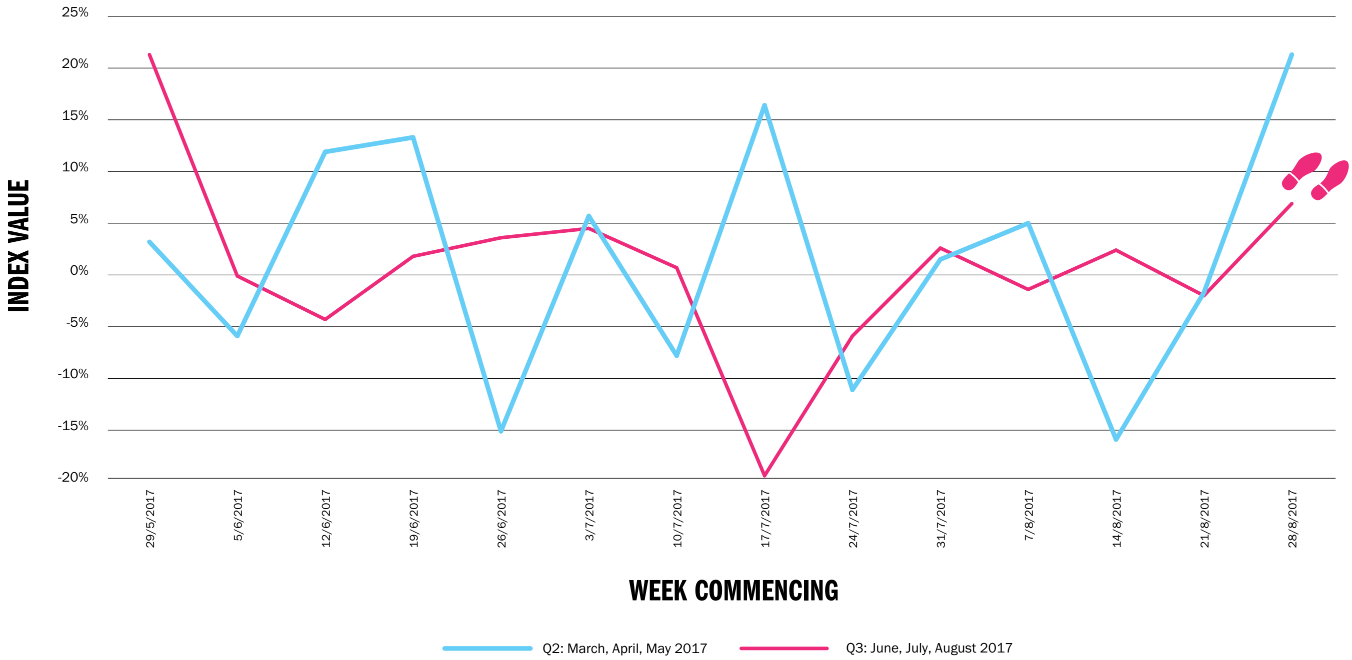
MOSAIC GROUPS DESCRIBED BY THEIR SHOPPING BEHAVIOUR

- **A. EXCLUSIVE ENVIRONS** Brand conscious, wealthy families with extra cash to spend on the finer things
- **B. KNOWLEDGEABLE SUCCESS** Entertainment loving affluent families with children who influence purchases
- **C. INDEPENDENCE AND CAREERS** Cashed up young professionals who value experiences, technology & fashion
- **D. AFFLUENT ACREAGE** Affluent retirees who are willing to spend with a bit of research
- **E. DISTANCED EXISTENCE** Regional families who spend high on home improvement and no-nonsense Australian made products
- **F. NEW HOMES AND HOPES** Young families in new homes who spend high on entertaining their kids and fixing their homes
- **G. MIDDLE AUSTRALIA** Mixed family forms who purchase for the family and value Australian made quality
- **H. INTERNATIONAL INFUSION** Trendsetting and image conscious multicultural families who will buy a lot at bargain prices
- **I. BOOKS AND BOOTS** Young professionals and students who spend their low disposable income on enhancing their image
- **J. PROVINCIAL LIVING** Singles and broken families who spend their low disposable income on the entertainment of their children or themselves
- **K. TRADITIONALLY GREY** Ageing citizens with low income who enjoy the simpler things in life. They will buy in bulk and for special occasions
- **L. REGIONAL ENDEAVOUR** Ageing citizens with limited access to shopping districts. When they do shop they will stock up on practical, long lasting items
- **M. REMOTELY BLUE** Price conscious and remote families who are all about comfort and durability at the best price

FOOT TRAFFIC : WEEK ON WEEK

(March -May 2017 Vs June - August 2017)

Source: SHOPPERTRAK



FOOT TRAFFIC

While last quarters shopper traffic proved quite erratic across March, April and May, this quarter the ARA and ShopperTrak have seen foot fall remain quite steady, with one considerable dip (-19%) in foot traffic across bricks-and-mortar stores in mid-July[6]. With most of the nation on, or coming back from school holidays, this large fall in July could be a result of many Australians enjoying their time on holidays instead of spending big in-store on End of Financial Year (EOFY) sales. This quarter's steady stream in foot traffic has illustrated that EOFY sales didn't seem to have much effect on physical retailers as the biggest increase in shopper traffic this quarter came off the back of May with a 21% increase week-on-week[6]. The only other substantial increase in foot fall was a 4.5% rise in early July and a 6.9% increase in late August – both considerably weak compared to May's increase last quarter[6].

ONLINE MARKET

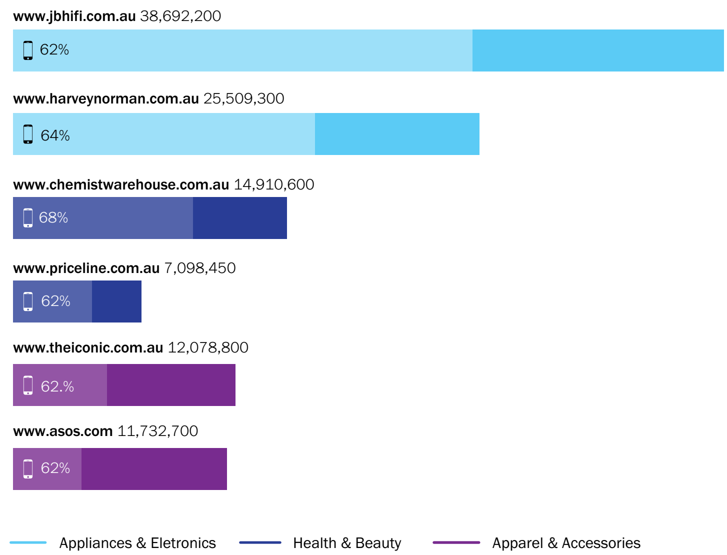
Over the past year the ARA and consumer insights tool, Hitwise, have seen an increase in mobile engagement, however, this quarter we saw mobile engagement drop slightly across the top retail websites[7]. Although this quarter's physical retail sales have been quite unsteady, the traditional heavy-weight brands like eBay, Bunnings, JB Hi-Fi, Harvey Norman and Big W remained quite stable in their search rankings[7].

Appliances & Electronics saw the highest average total visits (5.5%) growth quarter-on-quarter (QoQ) with the top four technology retailers (JB Hi-Fi, Harvey Norman, Kogan and The Good Guys) all receiving a very high mobile visit rate (over 60%)[7]. Kogan in particular, saw an impressive visit growth of 18% QoQ, equating to nearly 3.5 million extra visits across this three-month period[7].

The *Health & Beauty* sector had the highest average mobile visit rate (roughly 56%), much higher than the average mobile rate of 40% across all industries online[7]. Chemist Warehouse and Priceline Pharmacy had the most visits by far, with very high mobile rates (above 60%), and an average of over 10 visits per user across the quarter[7]. The top four websites with substantial average visits per user were all make-up and skincare related retailers (Younique, Avon, Nu Skin and Arbonne) receiving more than 15 visits per user on average in the quarter[7]. >

TOTAL VISITS: QUARTERLY RESULTS

Source: Hitwise



There was a definite technology theme across this last quarter with many electronic retailers (EB Games, Apple, Harvey Norman, Appliances Online, The Good Guys, Kogan and JB Hi-Fi) receiving the highest visitation growth leading up to EOFY[7]. In fact, the average mobile visit rate across these highest surging EOFY retailers was around 60% - a significant growth compared to the general online mobile visitation average of 40% across the other retail categories[7].

Continuing the technology trend from visitation, this quarter's top products (by searches share) included innovative gadgets like the iPhone 7, Nintendo Switch, PlayStation 4 and the LG G6 smartphone[7]. Whilst the Fidget Spinner was still highly searched, it dropped significantly QoQ (-44.62%)[7]. The Nintendo NES Classic Mini saw the highest relative search growth QoQ, with other high growth gaming related terms including Fantasy Life 3DS, Crash Bandicoot PS4 and Nintendo's SNES Mini[7].

HIGHEST SEARCHED PRODUCTS

Source: Hitwise

QUARTERS HOTTEST PRODUCTS

iPhone 7 

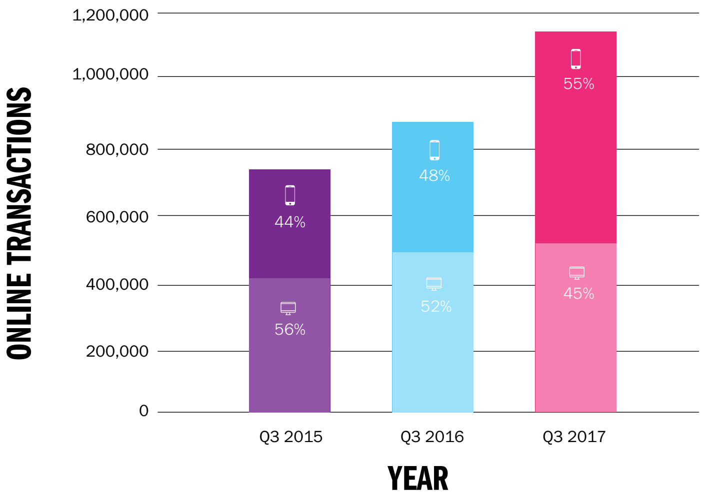
Nintendo Switch 

PlayStation 4 

LG G6 smartphone 

ONLINE TRANSACTIONS

Source: Practicology



The trends represented in the graph are consistent over time, but the numbers can fluctuate due to changes in the Benchmark Participants.

ONLINE SALES

As we see the traditional side of retail transform into a blend of offline and online experiences we see more consumers venturing into the online space. With great help from our friends at Practicology, the ARA have seen Average Order Value (AOV) increase YoY, as consumers become more confident with online shopping, and retailers are fulfilling customer demands[8]. Total transactions have also increased dramatically from last year, in fact, over the last few years we've seen a considerable increase in overall online transactions[8]. While desktop sessions have not increased much over the years, mobile transactions remain strong, with the biggest spike across all channels in June this quarter[8].

With today's consumers enjoying the experience side of shopping in-store, we've seen online sales growth month-on-month (MoM) drop slightly in June[8]. Fortunately, July's online sales growth MoM remain steady, and August online sales have increased slightly to 18.58% from 13.14% MoM last year[8].

FUTURE OUTLOOK

As the retail industry is constantly in a state of change with ever-changing consumer demands, digital transformation and an abundance of competition, we will continue to see the retail sector struggle over the next few months.

Although the retail industry is going through a dramatic change, global giants entering the Australian market will be able to enhance regional retailers' accessibility to consumers and improve processes, increasing their customer base and their conversion rate.

As we head towards the end of the year we will continue to see customer fulfillment as a key differentiator in the retail landscape. With a plethora of options now available for consumers, retailers who are investing in in-store systems to improve their consumer experience will thrive moving forward. With 2018 not too far away, those retailers who also invest in streamlining business operations, in-store integration and data-driven technology will be able to see the challenges ahead as an opportunity.

In the next Retail Debrief, the ARA will review September, October and November retail spending figures, focusing strongly on the changing retail landscape and the lead up to Christmas. If you have any further inquiries on the data provided, please contact the ARA. Until next time, we wish you a strong and substantial quarter ahead.

ABOUT THE ARA RETAIL DEBRIEF

The ARA's Quarterly Retail Debrief is essential reading for the informed Australian retailer, revealing key insights into the most active consumer segments, popular products, evolving technologies and payment systems. With combined research from Experian, consumer insights tool Emma, ShopperTrak, Practicology, and Hitwise, the ARA have been able to create this invaluable resource to keep retailers up-to-date and in the know. For more information on the data provided please contact the ARA on **1300 368 041** or email **araretailer@retail.org.au**

DATA SOURCES

[1] Australian Bureau of Statistics, 2017, 8501.0 - Retail Trade, Australia, June 2017

[2] Australian Bureau of Statistics, 2017, 8501.0 - Retail Trade, Australia, July 2017

[3] Australian Bureau of Statistics, 2017, 8501.0 - Retail Trade, Australia, August 2017

[4] Mosaic Consumer Lifestyle Segmentation by Experian, 2017, http://www.experian.com.au/marketing-services/consumer-segmentation

[5] Emma (Enhanced Media Metrics Australia), August16 vs August17, http://emma.com.au/

[6] Tyco Retail Solutions, 2017, ShopperTrak, www.shoppertrak.com/

[7] Hitwise, Consumer & Competitor Insights 2017, http://www.hitwise.com/au/consumer-insights/

[8] Practicology, ARA 3 Month E-commerce Benchmark, June, July, August 2017, https://datastudio.