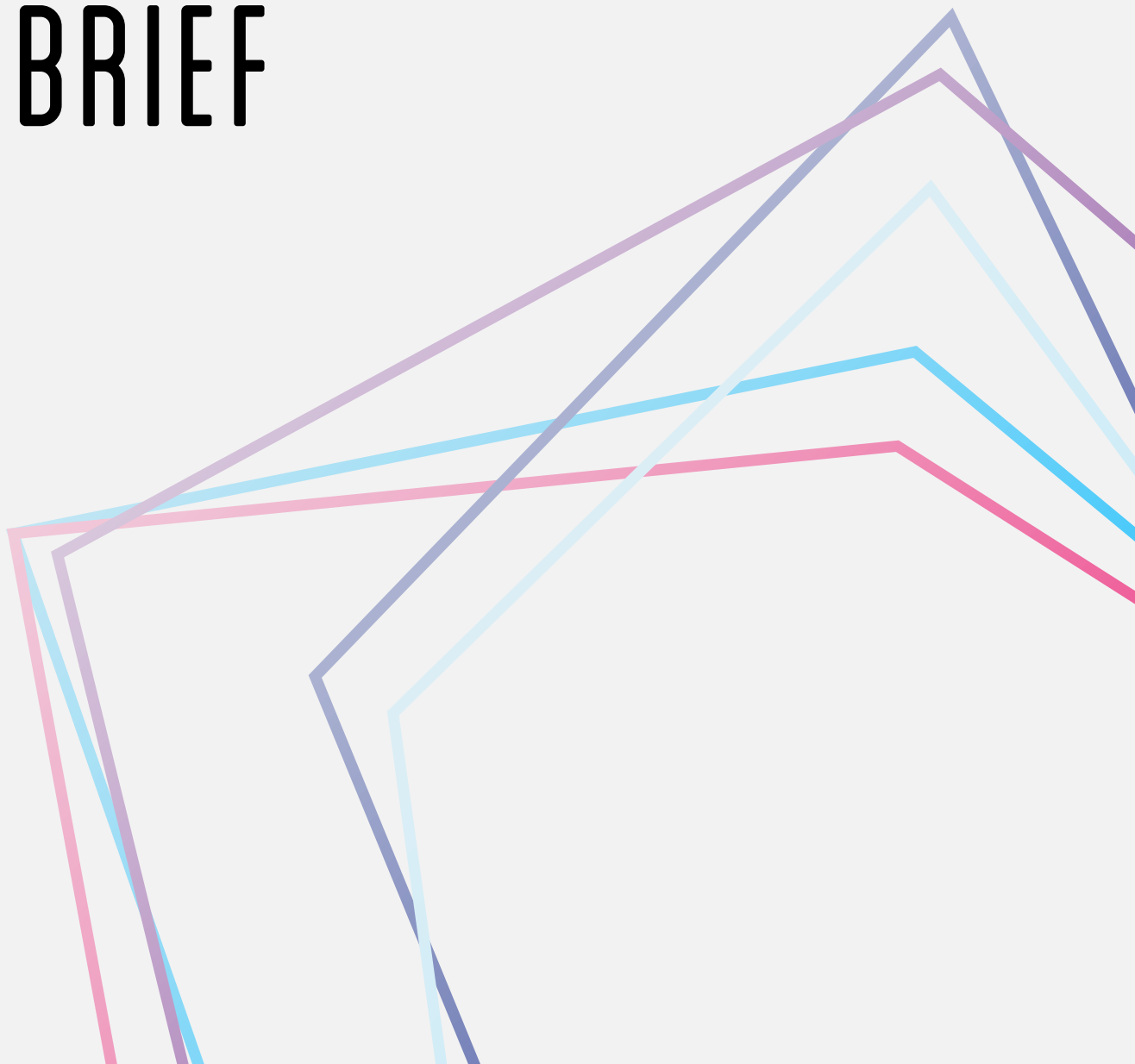


Q4 SEPTEMBER - DECEMBER 2017



Australian
Retailers
Association

THE ARA'S QUARTERLY RETAIL DEBRIEF



A BRIEF SUMMARY

A BRIEF SUMMARY OF THE AUSTRALIAN RETAIL MARKET FOR SEPTEMBER - DECEMBER 2017

BY KATHERINE MECHANICOS [ARA]

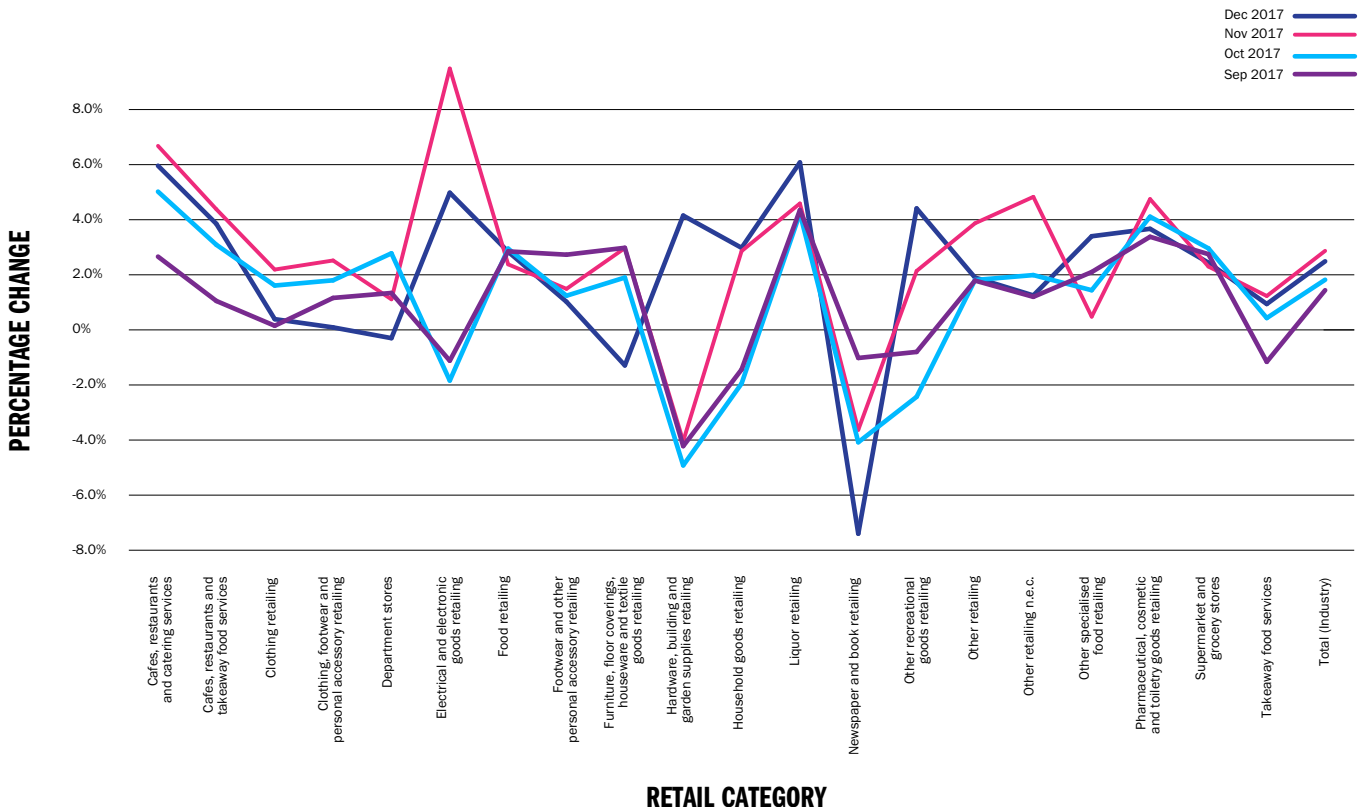
RETAIL CATEGORY SPEND

Last year we saw the retail industry average a 2.76% sales growth year-on-year (YoY), although this figure is not as strong as we might have hoped for, the Australian Retailers Association (ARA) are confident 2018 will bring greater opportunities for the industry. Fortunately, the last quarter of 2017 saw strength begin to return to the industry, as each month saw growth across all retail categories. Unfortunately, September trade figures showed the weakest (1.44%) YoY growth of the quarter, with Hardware and Building (-4.22%), Electrical Goods Retailing (-1.12%), and Furniture (2.98%) all showing a big drop in YoY growth due to the softness in the housing market¹. October trade remained rocky, with a meek 1.82% YoY growth as Household Goods continued to drop significantly (-1.95%)². November trade figures finally showed signs of relief, representing a slow but positive lead into Christmas with 2.87% YoY growth³. Regrettably, December retail trade represented a more conservative Christmas than

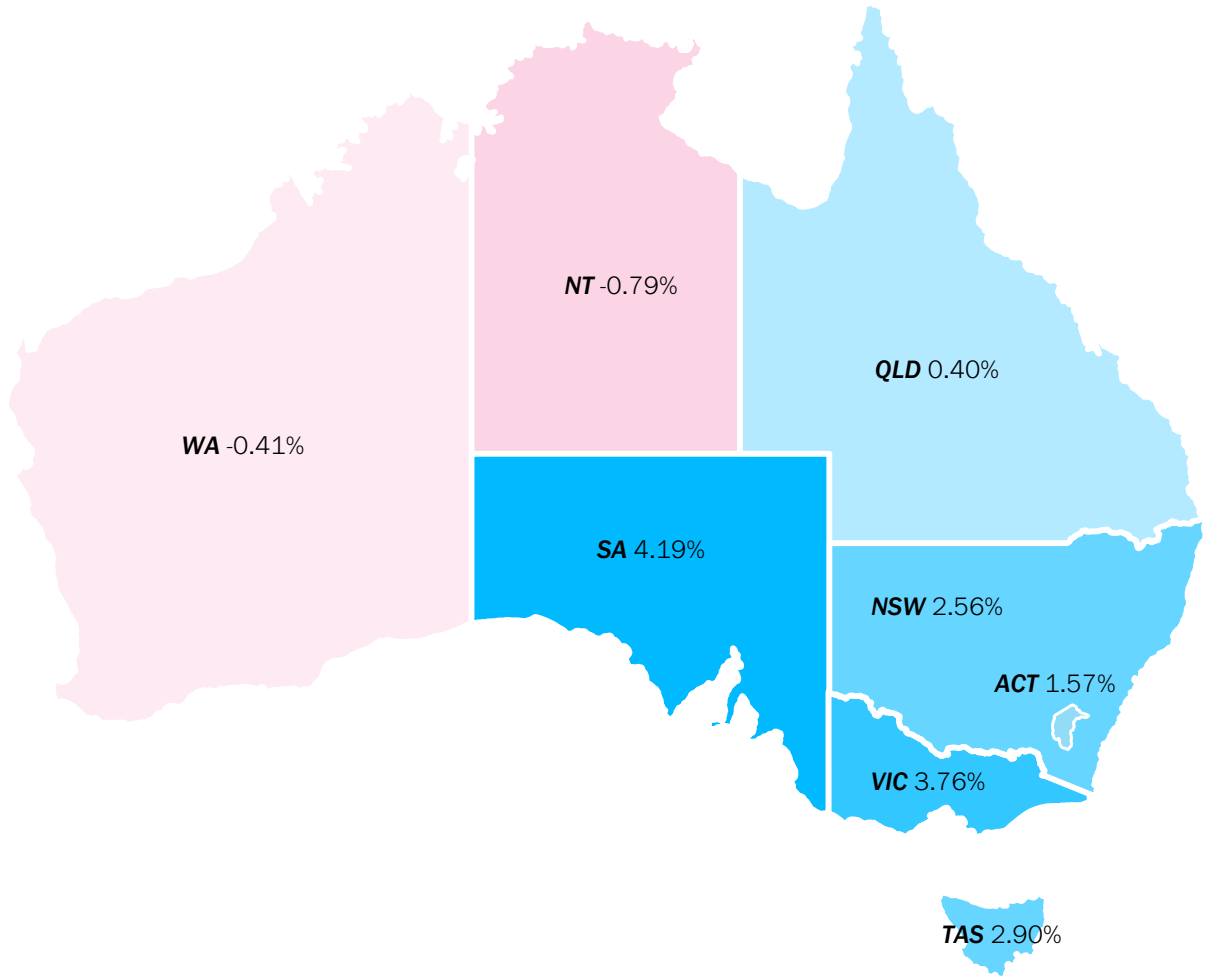
retailers would have liked, with a 2.49% total YoY growth⁴.

The ARA and Roy Morgan release the only professionally researched retail predictions annually, and are proud to announce that the ARA and Roy Morgan 2017 pre-Christmas sales forecast was on par with the actual Christmas trade results released by the Australian Bureau of Statistics (ABS) earlier this year. The ARA and Roy Morgan predicted a 2.8% increase in 2017 pre-Christmas sales, forecasting Australians to spend more than \$50 billion from 15 November to 24 December 2017⁵. After analysing November and December trade figures, the ARA and Roy Morgan have identified a 0.1% difference between our forecast and actual Christmas trade, as actual Christmas sales growth reached 2.7%, and shoppers managed to spend just over \$50 billion during this period⁵. Although December trade figures were lighter than expected, November trade results were able to balance out the tills for retailers last Christmas.

ABS RETAIL TRADE : YOY % CHANGE
(September - December 2017)



RETAIL TURNOVER : QUARTERLY AVERAGE (September - December 2017)



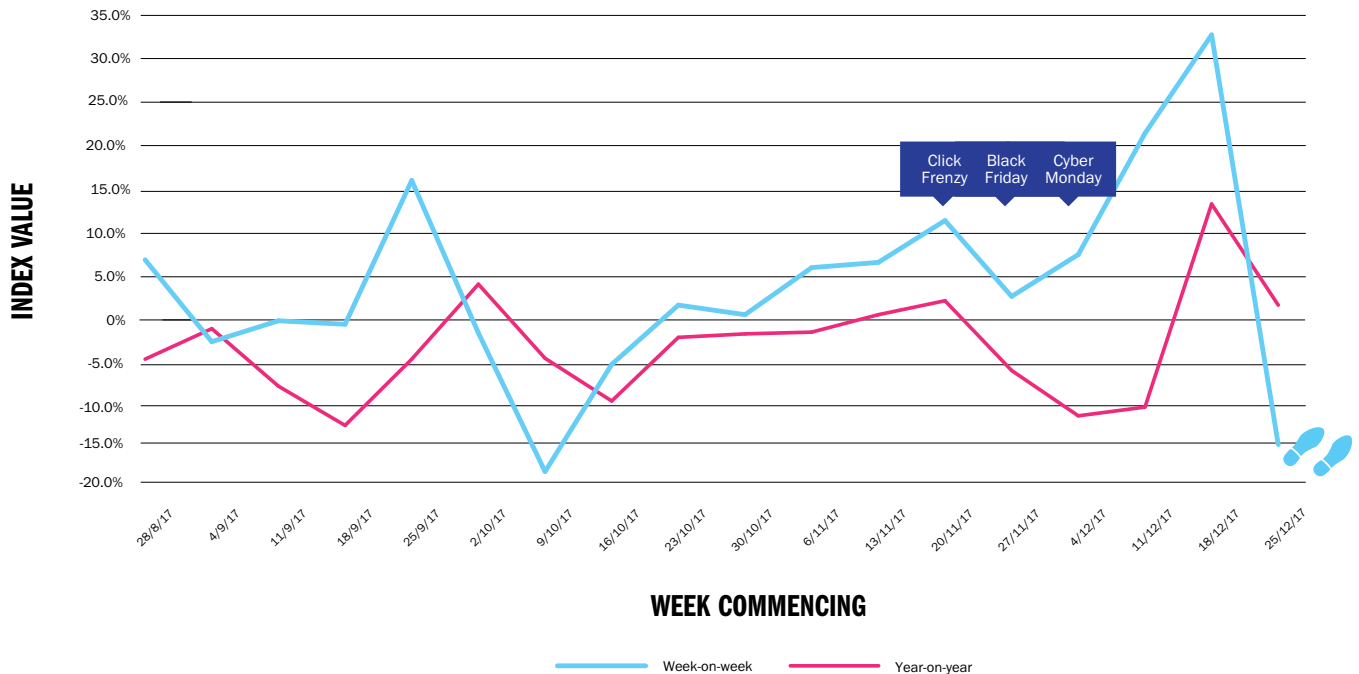
STATE RETAIL SPEND

Taking a quick look around the country, the last quarter of 2017 saw South Australia, Victoria and Tasmania receive the strongest YoY growth, with South Australia reaching the highest sales growth of 6.18% YoY and averaging a 4.19% YoY growth for last quarter. Victoria (3.76%), New South Wales (2.56%) and the Australian Capital Territory (1.57%) remained quite steady throughout the quarter, averaging the next strongest YoY growth across the country. Queensland (0.40%),

Western Australia (-0.41%) and the Northern Territory (-0.79) struggled the most across the nation, all showing a low-to-negative average sales growth for the quarter. With each state showing more positive sales growth earlier in the year, the ARA are concerned the continual increase in cost pressures for retailers will create even further challenges for retailers already struggling in such a volatile trading environment.

FOOT TRAFFIC (September - December 2017)

Source: SHOPPERTRAK



FOOT TRAFFIC

With a number of key retail events taking place last quarter, the ARA and ShopperTrak have seen foot traffic illustrate an interesting pattern over the last few months. One notable increase was the 16% spike in foot traffic during the week commencing 25 September⁶. With Father's Day taking place earlier that month, we believe many dads were out redeeming their Father's Day gift cards or enjoying the good weather with family and friends during the grand final long weekend.

In October, shopper traffic was quite inconsistent, while November remained low but steady as several online retail events took place this month. With Click Frenzy, Black Friday and Cyber Monday all occurring in November, these online-only events all grew in popularity and had a

significant impact on the substantial online growth in 2017. With late November and early December showing a consistent reduction in foot traffic YoY we can assume that organised shoppers would have bought their Christmas gifts online early, to ensure they arrived on time for the big day.

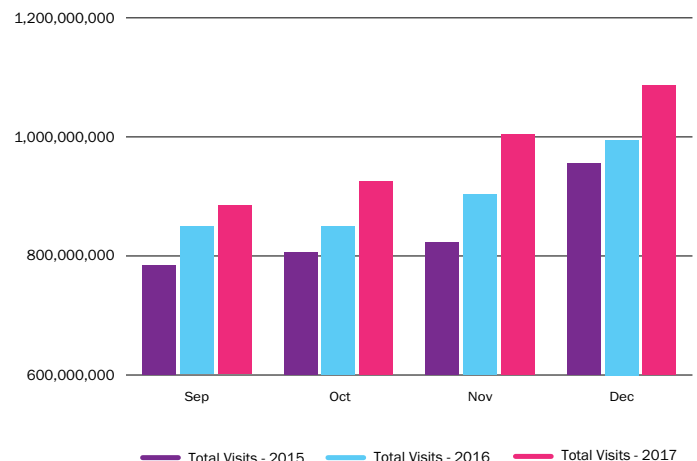
It's no surprise December saw the busiest foot traffic last quarter, with the biggest spike showing a 32.7% increase week-on-week (WoW) and a 13.3% increase YoY the week before Christmas⁶. These stats not only indicate the strength in bricks-and-mortar retailing, but also reveal a strong tendency for late Christmas shoppers to head in-store and purchase last-minute Christmas gifts.

ONLINE MARKET

With further analytics from our friends at Hitwise, the ARA saw online retail visits increase dramatically last quarter with month-on-month (MoM) visit growth in November reaching 11.15% and December YoY visits growth doubling that of last year⁷. As online retail continues its 5-7% annual sales growth, we are seeing visitation rates lengthening as last quarter each month saw a steady and substantial visit growth YoY - rather than the traditional surge we usually see in the last two months of the year⁷. >

SHOPPING & CLASSIFIEDS VISITS GROWTH : YOY - Q4 (September - December 2017)

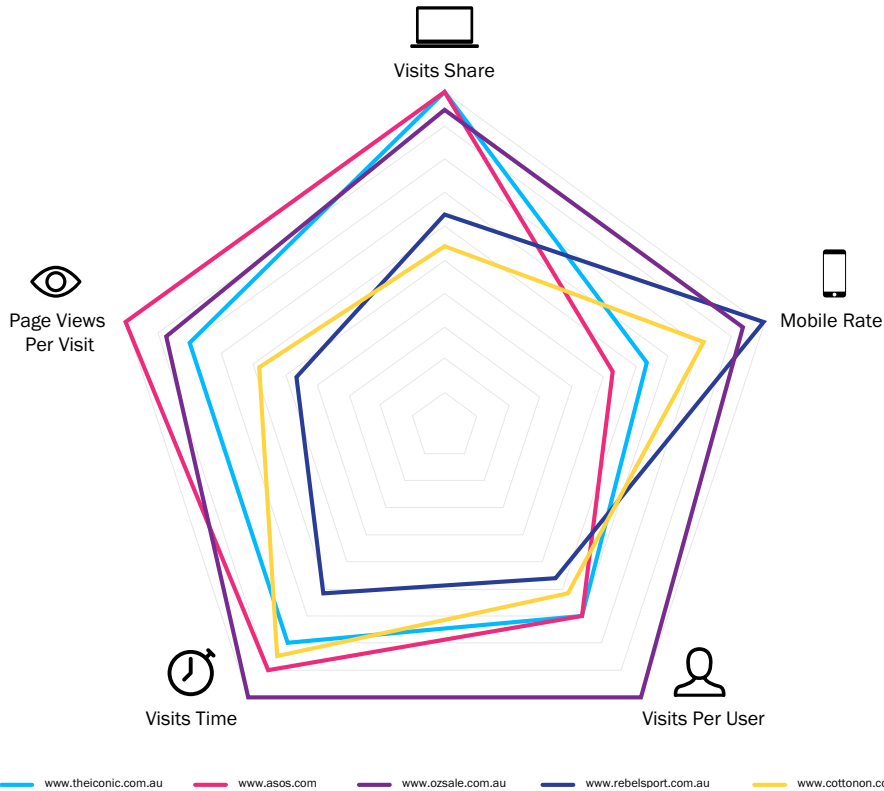
Source: Hitwise



TOP APPAREL SITES - VISITATION & ENGAGEMENT - RELATIVE PERFORMANCE

(September - December 2017)

Source: Hitwise

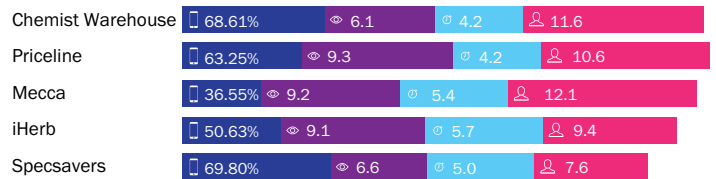


Apparel & Accessories shone brightly last quarter as this retail category saw the highest overall average visit time (nearly 5.5 minutes), proving once and for all a new season does in fact attract a new wardrobe⁷. THE ICONIC, ASOS, OZSALE, Rebel Sport and Cotton On were the five leading retail brands across this category seeing the highest total visits last quarter⁷. Although THE ICONIC and ASOS maintain the strongest visitation, OZSALE saw much higher average visit time and visits per user⁷. OZSALE and Rebel Sport also recorded much higher mobile visit rates than THE ICONIC and ASOS (over 60%), potentially suggesting OZSALE and Rebel Sport offered a more seamless mobile experience for consumers⁷.

Chemist Warehouse and Priceline Pharmacy continued to dominate the Health & Beauty category online, with over 25% of the industry's total online visits between them⁷. However, unfortunately their average visitor engagement results suggest a poor online experience for consumers⁷. Despite being in a distant third place, Mecca recorded much higher visitor engagement than both Chemist Warehouse and Priceline Pharmacy, receiving more than 12 average visits per user, and averaging visit times of over 5 minutes⁷. Although both Mecca and iHerb recorded high average visit time they both saw low mobile engagement last quarter⁷. Further, even though Avon have recently left the Australian market, they recorded extremely strong visitor engagement with their visit time averaging 8 minutes⁷. This direct selling make-up brand, along with Arbonne, Nutrimetics and Younique, not only saw strong visit time, they saw high visitation per user⁷. As these cosmetic brands recruit consultants to sell products directly, their strong visitation metrics can be attributed to the fact that these brands don't have physical bricks-and-mortar locations.

TOP HEALTH & BEAUTY SITES-VISITATION & ENGAGEMENT-RELATIVE PERFORMANCE

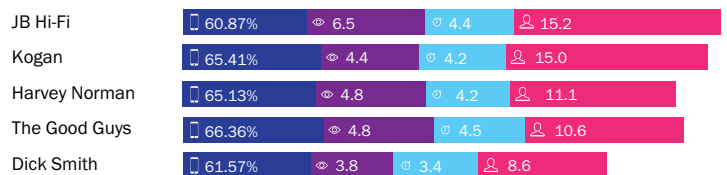
Source: HitWise



In the Appliances & Electronics category we saw JB Hi-Fi not only hold an incredible visitation lead (over 20% of all visits to the industry), they also held a very respectable visitor engagement with over 15 visits per user and more than 6 average page views per visit⁷. Last quarter, Kogan saw strong visit frequency (in line with the renowned JB Hi-Fi) and even managed to overtake Harvey Norman in total visits (partly due to a very strong Black Friday performance)⁷. The Good Guys and Dick Smith weren't too far behind the big players, with both of these brands excelling mostly due to their mobile visit rate⁷. >

TOP APPLIANCES & ELECTRONICS SITES-VISITATION & ENGAGEMENT-RELATIVE PERFORMANCE

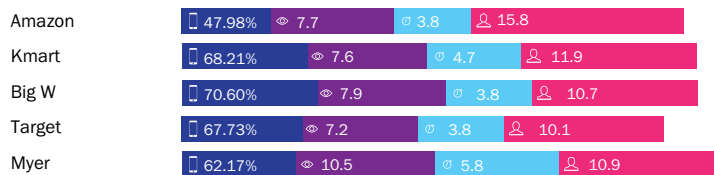
Source: HitWise



With many retailers reporting a considerable growth in online retail during the Christmas trading period, Department Stores performed surprisingly well last quarter. Although Amazon launched into the Australian market late last year, their US store still saw the highest visit frequency last quarter⁷. Unfortunately, Amazon US also saw an extremely low mobile visit rate for the quarter (less than 50%) compared to the other top department store websites. On the other hand, Kmart, Big W and Target all performed relatively well over the last four months, with Myer in particular seeing both a higher average visit time (nearly 6 minutes) and higher average page views per visit (over 10 pages)⁷.

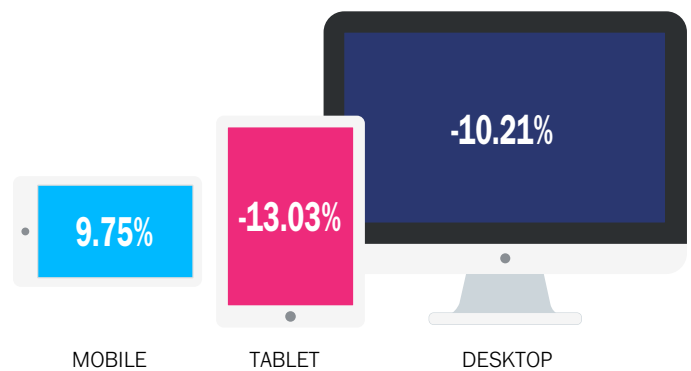
TOP DEPARTMENT STORES SITES-VISITATION & ENGAGEMENT-RELATIVE PERFORMANCE

Source: HitWise



ONLINE BEHAVIOUR

As this last quarter saw many retailers reporting strong online growth, the ARA and Practicology have delved further into online transactions to understand consumer buying behaviour. Total transactions and items per cart continue to rise, with November sales growing 47.82% YoY and items per cart receiving a 12% YoY increase⁸. Last quarter, mobile usage continued to climb with mobile traffic averaging 58.38%, compared to desktop (30.25%) and tablets (11.62%) which averaged much lower traffic over the quarter⁸. Desktop usage significantly declined last quarter with September, October, November and December all showing negative YoY figures⁸. With mobile traffic increasing 9.75% YoY compared to desktop (-10.21%) and tablets (-13.03%) which received negative usage figures YoY, it's evident that smart phones continue to be the most common platform for online shopping⁸. As retail continues to evolve in the 24/7 marketplace, we will see consumers increase their mobile traffic, total transactions and items per cart.



ONLINE DEVICE USAGE: YOY % CHANGE

Source: Practicology

FUTURE OUTLOOK

Although the retail industry has struggled in the last quarter of 2017, the ARA are looking forward to the new opportunities 2018 will bring the Australian retail industry. With many consumers shopping in various ways – ordering online and picking up in-store or going in-store and then purchasing online – progressive retailers will be embracing technology to enhance the customer experience. As the online market continues its rapid growth, retailers will need to improve their online platforms to maximise their functionalities, ensuring potential consumers are not deterred by inconvenient or difficult online systems. With data collection and personalisation continuing to drive sales, retailers must ensure they are collecting and using consumer data wisely to personalise and maximise the customer experience, warranting repeat customers and securing future sales.

If you have any further inquiries on the data provided, please contact the ARA. The ARA's next Retail Debrief we will analyse the first quarter of 2018. So, until next time, we wish you all a healthy and substantial trading year 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 the Australian Bureau of Statistics, Roy Morgan Research, 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, September 2017

² Australian Bureau of Statistics, 2017, 8501.0 - Retail Trade, Australia, October 2017

³ Australian Bureau of Statistics, 2017, 8501.0 - Retail Trade, Australia, November 2017

⁴ Australian Bureau of Statistics, 2017, 8501.0 - Retail Trade, Australia, December 2017

⁵ The Australian Retailers Association and Roy Morgan's 2017 Pre-Christmas Sales Predictions

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 4 Month E-commerce Benchmark, September, October, November, December 2017, <https://datastudio.google.com/org//reporting/OB2vB6qGlvGbSEpsbHBORkFQMWs/page/tlq>



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