Consumer Goods Retailing in Australia

CATHRO & PARTNERS

The consumer retail sector is bracing for a very uncertain 2023 as the impact of high interest rates, inflation, supply chain issues and cost of living pressures is likely to see consumers reduce their spending particularly on discretionary spending items.

There is likely to be some distress and turnaround situations in the sector. Coupled with this we will continue to see the need for businesses in this sector to innovate and develop new sources of revenue to offset any change in consumer behavior or buying patterns.

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Having run businesses in a distressed situation and seeing the need to restructure, often with a downsizing of the business, we are likely to see businesses that have poor management, failing product lines and low discipline suffer the most during 2023.

The reduction in discretionary spending by the typical consumer will see greater competition for a smaller pool of available money. Consumers will look for quality customer service and value for money and are most likely to take longer to make the purchase decision.

The businesses that rely heavily on spontaneous spending or casual spending will suffer the most as consumers resist the urge to waste money.

- Simon Cathro

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Key Takeaways

- The consumer goods sector's annual growth rate will decline in 2022-2027. With the annual Consumer Price Index reaching 6.1% in June, the wholesalers face higher prices.

- Conventional brick-and-mortar stores find it difficult to offer new and innovative experiences as internal and external competitive pressures have intensified.

- The real household disposable income is expected to fall by 4.0% in 2022-23, to $597.3 billion, due to a rise in inflation. In 2022, the Index of Consumer Sentiment for Australia dropped by 6.9% to 78 Month on Month, marking the lowest reading since April 2020, as rising interest rates and soaring inflation negatively impacted the economy and family finances.

- The world has been adopting digitalisation at a much faster rate. Also, the recent pandemic has widely changed the e-shopping scenario. The newest developments include online retailing and the advent of new and creative international shops.

- Many firms are anticipated to close underperforming stores or exit the retail sector altogether.

- 56% of consumers shop at neighbourhood stores or buy more locally produced goods, and 79% of them plan to keep doing so in the future.

- Australia has lagged behind other developed markets in seamless omnichannel offerings and eCommerce adoption.

- There have been some disruptions that disturbed the supply chain considerably. There are combined factors like labour constraints, port congestion, restrictions in cargo space, container and pallet shortages, etc.

- High inflation rates mean consumers' purchasing power decreases, resulting in less consumer spending and lower business sales. This results in excess inventory, dead stock, and therefore lost revenue for the business.

- Major issues must be addressed immediately in the upcoming years. There must be plans to develop a robust operating model for the envisioned future and create refreshed, customer-led offerings backed up by the latest technologies.

Introduction

The Australian Consumer Goods Retailing industry faced significant challenges in the past few years. The COVID-19 pandemic, especially, has had a substantial influence on physical stores–one of the largest distribution channels of the continent. Although, the lockdown measures, social distancing norms, and other protocols made consumers more comfortable with online purchases.

As the economy recovers from COVID-19, it is expected that there will be only marginal improvements in the retail landscape. A recent market survey reveals that over the next five years through 2026-27, the subdivision revenue will rise at an annual growth rate of 1.3%, reaching $221.7 billion. However, consumer goods retailers will likely face intense competition from the online-only brands that gained traction during the pandemic restrictions.

1.3% → **$221.7 billion**

A recent market survey reveals that over the next five years through 2026-27, the subdivision revenue will rise at an annual growth rate of 1.3%, reaching $221.7 billion.

Retailers are now aware of the importance of implementing an effective pricing strategy to contend with the growing competition in the market. Therefore, many retailers are already focusing on capitalising on this trend and growing their sales through online channels.

This white paper outlines the current scenario of consumer goods and retailing in the Australian market and its future scope. The paper also sheds light on how the sector can recover from the pandemic stress and emerge in the coming years.

The Current State of Consumer Goods Industry in Australia

Recent reports suggest that the annual growth rate for the consumer goods sector will decline in the period 2022-2027 in terms of revenue, profit, businesses and employment. Inflationary pressures continued to rise in the second half of 2021-22, with the annual Consumer Price Index reaching 6.1% in June. Also, the wholesalers are facing higher prices, causing a flow-on effect on retailers. This strain has squeezed profitability for the Australian wholesale and retail sectors in the current year.

Economic uncertainty caused by the COVID-19 pandemic and a growing trend toward eCommerce has hindered revenue growth for traditional retailers. Online retailers can offer lower prices than physical retail stores, making them more appealing to consumers during economic downturns. The shift in consumer preferences towards online retailing has particularly affected department store giants such as Myer and David Jones.

Conventional brick-and-mortar stores find it difficult to offer new and innovative experiences as internal and external competitive pressures have intensified. Consumers are now getting more comfortable with online shopping due to the convenience these digital platforms offer. Also, international retailers have expanded their existing businesses by embracing online sales to enhance their global reach.

Here are some key trends related to the Australian consumer goods and retailing industry:

- With technological advances, there has been scope for growth in some retail industries. (for example, consumer electronics and software sales).
- Profitability is expected to increase for those businesses that reduce retail wages and store operating expenses as consumers embrace online shopping platforms.
- Domestic firms have been developing multichannel sales platforms to migrate online.
- Online-only retailers pose a rising competition for subdivision operators.

Market Segmentation

In the Consumer Goods and Retailing subdivision, there is a diverse range of products that can be grouped under three broad categories:

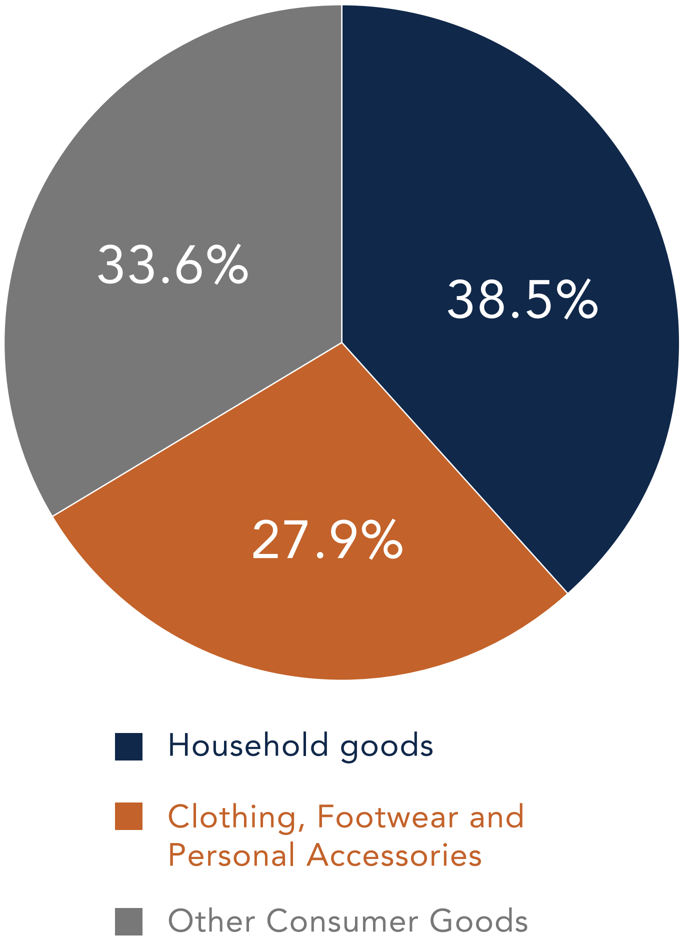
Household Goods

As per reports, household goods account for 38.5% of the Australian retail market and include products like furniture, computers, hardware, housewares, domestic appliances and building supplies. In the subdivision revenue, this segment accounts for the largest share.

People spent more time at home due to the COVID-19 protocols and lockdown guidelines. As a result, the demand for household goods accelerated as consumers increasingly invested in home renovation and DIY projects.

New technology releases have led to rising demand for computers and software. Therefore, retailers dealing with home-based technology products benefitted due to technological advances.

Other areas that have also achieved steady revenue growth are hardware, building supplies, and domestic appliances.



Clothing, Footwear and Personal Accessories

This segment accounts for the smallest share in the retail subdivision, accounting for only about 27.9%. There are several factors that affect this particular segment. Some of these are income trends, fashion trends, weather conditions, price, quality and consumer preferences.

As online platforms are expanding intensely, there is an extensive range of clothing, footwear and personal accessories available that cater to the preferences of every consumer segment.

Online retailers cut down several fixed costs like rent, maintenance, and store design, which help them offer products with heavy discounts.

Therefore, the performance of this particular segment has been negatively affected in recent times due to the decline in discretionary incomes and tough competition from online fashion retailers.

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In the Napoleon Perdis restructure, we needed to address the business model which had not moved to meet the market conditions and evolving consumer expectations.

The customer had moved towards an online presence and high profile individuals such as Kylie Jenner and Rihanna (to a lesser extent at that time) were starting to dominate sales together with the major players like Mecca and Sophora.

Quite simply, the business had not progressed and changed sufficiently quick enough to meet the expectations of the consumer.

This was likely caused by its focus on recovering from its failed US investment.

- Simon Cathro
Joint Administrator and Deed Administrator
of the Napoelon Perdis business.

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Other Consumer Goods

Other products like newspapers, books and stationery items, makeup products, sports and camping equipment, entertainment media, account for about 33.6% of the total consumer retail market.

These industries show mixed results, and there is no particular trend. Some industries have performed exceptionally well, like the pharmacy industry. The COVID-19 pandemic favoured this segment. Medical devices, especially, saw increased demand, helping people monitor their health during uncertain times.

Other retailers, like newspapers or booksellers, struggled with a sharp decline in their sales. As e-papers or e-books were readily available and could be downloaded and stored without hassle, people opted for these convenient options. Similarly, the over-the-top (OTT) platforms made significant profits as the mass shifted towards online content.

The population distribution and economic activity across an area also affect business concentration. So, less populated areas have less share of business establishments. Similarly, areas with a dense population and greater exposure to consumer traffic will fuel business growth and sales.

In Australia, areas like New South Wales, Victoria, and Queensland are in demand for setting up consumer goods and retailing businesses. These urbanised locations also record high per capita expenditure. Therefore, people based out of these locations have better purchasing power.

Market Drivers

The following market drivers encompass the forces that influence consumer purchasing decisions. They reflect global and regional trends as well as macroeconomic conditions. Some of the key market drivers that affect the performance of Australian Consumer Goods Retailing are:

Real Income

Real household disposable income trends have a direct impact on consumer demand. Consumers with higher household earnings have more money to spend on essential and non-essential retail purchases.

So, they can spend on their needs as well as splurge on luxury items to fulfil their desires. On the other hand, a drop in discretionary income may compel households to put off non-essential purchases or choose less expensive options even to fulfil their basic needs.

According to reports, the real household disposable income is expected to fall by 4.0% in 2022-23, to $597.3 billion, due to a rise in inflation.

$597.3 billion
Real Income

Real household disposable income is expected to fall by 4.0% in 2022-23

4% ↓

The Surge in Online Shopping Demand

Retailers of consumer goods confront escalating competition from online businesses that offer comparable goods. The world has been adopting digitalisation at a much faster rate.

Also, the recent pandemic has widely changed the e-shopping scenario, and Recent research suggests that Australian eCommerce grew 23.4% year on year and continues to grow further.

As internet retailers frequently have reduced overhead expenses and therefore are capable of offering discounted pricing on a variety of commodities, this trend poses a danger to subdivision revenue.

23.4% YOY
The Surge in Online Shopping Demand

Australian eCommerce grew 23.4% YOY and continues to grow further

23.4% ↑

Consumer Sentiment Index

The consumer sentiment index gauges how secure households are in both their financial circumstances and in the state of the economy.

When consumer confidence is high, people are optimistic and more likely to buy non-essential consumption goods.

A negative index, however, typically causes a decline in retail sales as customers become more cautious about their spending and debt accumulation.

In 2022, the Index of Consumer Sentiment for Australia dropped by 6.9% to 78 month on month, marking the lowest reading since April 2020, as rising interest rates and soaring inflation negatively impacted the economy and family finances.

78 points
Consumer Sentiment Index

the Index of Consumer Sentiment for Australia dropped by 6.9%

6.9% ↓

Trade-weighted Index

The performance of the subdivision may be impacted by changes in the trade-weighted index, which tracks changes in the value of the Australian dollar.

If the dollar strengthens, the relative price of imported goods falls. The trend of sourcing numerous consumer items from foreign producers lowers the cost of purchases for retailers, which helps to support profit margins.

Furthermore, a drop in import cost may increase consumer demand for products offered overseas, driving businesses away from local businesses. As per reports, the trade-weighted index is expected to increase by 1.9% to 62.8 index points in 2022–2023.

62.8 index points
The Surge in Online Shopping Demand

the trade-weighted index is expected to increase by 1.9%

1.9% ↑

Australian Consumer Retailing Market

In the coming years, the retail business may not experience phenomenal growth. Over the next five years, consumer confidence and disposable income trends will determine demand.

Biggest Companies in the AU Market

Here is a glimpse at some of the most prominent retail organisations in the AU market:

Wesfarmers Limited

Perth serves as the home base for Australian Wesfarmers Limited. It operates in the retail, chemical, fertiliser, industrial, and safety product sectors. With a 13.1% market share, it dominates the industry.

Starting as a farmers' cooperative in Western Australia in 1914, it became a publicly listed business in 1984 following several M&A. It bought Bunnings in 1994, which marked the company's entry into hardware retail.

Wesfarmers purchased Coles & Linde Gas in 2007, expanding the business in retailing consumer products and creating a department store segment comprising Target and Kmart. Wesfarmers demerged the Coles Group in 2018 while keeping the consumer goods businesses.

Wesfarmers' net profit for 2021-2022 shrank by 2.9% to $2.35 billion, exceeding analyst expectations of about $2.2 billion. The reason for this declining performance can be attributed to the COVID-19 pandemic restrictions.

JB Hi-Fi Limited

The Australian retailer, JB Hi-Fi Limited, owns a 4.3% market share, making them the second-largest retailer. They sell a variety of home appliances and consumer electronics.

The company initially aimed to offer the best-recorded music and a specialised selection of Hi-Fi at affordable prices in Australia. After the company was sold in 1983, nine additional locations were added by 1999.

Private equity bankers and senior management bought JB Hi-Fi in 2000, intending to expand the successful concept across the country. JB Hi-Fi went public on the Australian Stock Exchange in October 2003.

In 2021–2022 JB Hi-Fi Limited's revenue increased by an annualised 23.11% year on year to $6.69 billion. This was due to consumers spending more time at home due to COVID-19 and growing demand for entertainment products.

Current Market Performance

Nearly 140,000 retail establishments operate in Australia, contributing 10.7% of employment and 4.1% of the country's GDP. The retail sector has faced numerous obstacles due to competition in the past.

The newest developments include online retailing and the advent of new and creative international shops. Consumers will benefit from the increased competition, but the industry will have difficulties because its productivity is lower than that of many foreign nations.

Some of the highlighting points are:

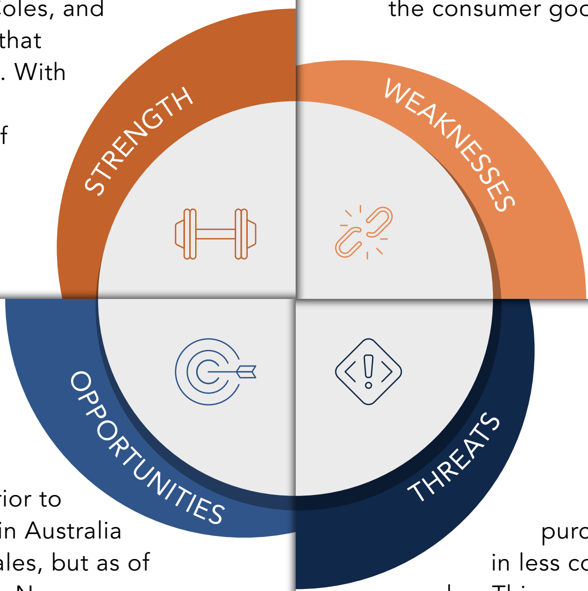
- The segment is growing at a slower pace than the overall economy
- Average profit margins across the subdivision have fallen over the past five years continuing to decline as COVID-19 restrictions eased.
- Consumers are spending more on other channels, like travel, tourism and hospitality.
- The number of retail establishments is projected to decline over the ten years through 2026-27
- Many businesses are anticipated to close underperforming stores or exit the retail sector altogether.

If these trends continue, it could also trigger the “retail apocalypse” in the country, forcing small stores to close as businesses look for ways to save operational overheads.

Since retail is the nation’s second-largest employing sector, the slowdown could considerably affect Australia’s overall economic performance.

SWOT Analysis

Over the last few years, Australia's retail business has been constantly disrupted. The resilience of many retailers is being put to the test by rising business costs due to the pandemic. A SWOT analysis can reveal the entire picture of the retail sector in the country.



STRENGTHS

COVID-19 reshaped consumer behaviour: According to recent global consumer research, living, working, and shopping are still primarily done at home. 56% of consumers shop at neighbourhood stores or buy more locally produced goods, and 79% of them plan to keep doing so in the future.

Fewer market players: Woolworths, Coles, and Metcash are the major local retailers that dominate the Australian retail market. With few foreign competitors, domestic competitors can avoid the pressure of price wars and brand-differentiated products.

WEAKNESS

Fewer online distribution channels: Australia has lagged behind other developed markets in seamless omnichannel offerings and eCommerce adoption.

Barriers to entry in this industry are low, and the trend is steady: Over the past few years, there have been low entry barriers for prospective operators preparing to penetrate the consumer goods market. New entrants have mostly faced the barrier of entry costs.

OPPORTUNITIES

Accelerated and online expansion: Prior to COVID-19, eCommerce transactions in Australia were already up to 10% of all retail sales, but as of 2021, adoption has increased to 15%. Now, more first-time digital buyers enter the market, and many current customers make more online purchases. Thus, the online expansion will continue.

Personalised offerings: Demand for local, sustainable, and value brands is growing as consumers become more cost and mindfulness aware when they shop. The willingness to spend on holistic well-being is on the rise in Australia.

Environmental, Social, and Governance (ESG) agendas: Consumers are in favour of having a positive impact on both people and the environment. More than 80% are willing to cut back on consumption to combat climate change. Consumers are also willing to pay more.

THREATS

High inflation rates will impact the purchasing power of consumers, resulting in less consumer spending and lower business sales. This creates excess inventory, dead stock, and therefore lost revenue for the business.

There have been disruptions to the supply chain. Labour constraints, port congestion, restrictions in cargo space, and container and pallet shortages are some factors responsible for disrupting the supply chain.

Shaping the Future

It is anticipated that the ongoing disruptions due to the pandemic conditions present both problems as well as possibilities for merchants. In order to adapt, retailers must be ready for the new normal, plan efficiently, innovate rapidly, and reinforce their core processes.

Here are a few suggestions regarding how traditional retail businesses can recover:

- **Attractive product presentation**

Several customers, including product seekers and impulse buyers, can be attracted by the way goods are displayed. Improving product packaging and marketing strategies may attract potential customers, luring them into buying goods.

- **Monitor competitors**

Retailers gain by keeping an eye on the selection and costs of goods offered by competitors in the market and outside players. Products must be reasonably priced and provide value in comparison to competing retailers.

- **Control stock on hand**

Retailers can generate more profit by establishing effective stock control procedures to meet the demand during peak periods and avoid blocking storage space for low-selling products.

- **High-skilled workforce**

For an excellent buying experience, the store staff must also remain informed about the goods they sell and advise customers on which items will best suit their needs. Specialised training programs can equip these staff with better marketing skills.

- **Having a broad and expanding product range**

Retailers gain from ensuring their product mix matches the customer's wants. Therefore, they must stay abreast of consumer trends, product design, and functionality advancements.

- **Omnichannel experience**

Retailers need to embrace a multi-channel approach to offer customers a convenient way to interact with the goods and transact through their preferred platforms. Besides, omnichannel strategies also help reach a much wider target base and thus aid in business expansion.

Shaping the Future

It is evident that Australia's consumer goods retailing industry will have a specific set of operational, financial, and strategic challenges to deal with. However, some major issues must be addressed immediately in the upcoming years:

- Creating a robust operating model for the envisioned future
- Becoming a technology-led organisation
- Creating refreshed, customer-led offerings

The financial health of Australian retailers has also deteriorated due to declining profitability and liquidity.

Retailers are expected to soon confront the most challenging circumstances in recent years due to inflation, rising borrowing rates, and rising food and power expenses.

The simultaneous convergence and domino impact of several macroeconomic factors led to this most recent inflationary episode.

Engaging a third party can help these businesses comprehend the stakeholders' needs and goals. These firms are equipped with the required skills and technology to help retailers solve their problems, manage changes and maintain value. They can assess the current enterprise requirements, be it infrastructural changes, strategic planning or implementing better business models that can compete in the ever-changing market conditions.

Cathro & Partners at Your Service

The Australian retail market will likely witness a disruptive and dynamic environment over the coming years.

Rising prices and the pressures due to inflation, persistent disruptions in the supply chain, and changing customer behaviours are some of the factors that will significantly influence the retail market in the country.

Moreover, the demand for personalised products and services, omnichannel presence, the growing importance of the Environmental, Social, and Governance factor, and a battle for the best retail talent will keep retailers on their toes.

Consequently, building a solid strategy that supports innovation and addresses the profitability of the core business will be crucial for retail companies.

Cathro & Partners has the expertise and experience to help businesses overcome external and internal challenges efficiently that can help increase and protect business value.

With a strong reputation for producing outcomes of the highest calibre, our expert team provides businesses with specifically tailored financial, strategic, commercial, and operational solutions.

Cathro & Partners has a broad clientele that includes businesses across all major industry verticals across Australia, including Manufacturing, Hospitality, Petroleum, Apparel, Cosmetics, Pharmaceuticals, Construction, and Real Estate.

We offer expert restructuring and insolvency services that support businesses dealing with uncertainties. Our primary services include:

- Debt and capital restructuring, informal debt restructures and stakeholder negotiations
- Generating expert reports useful in recovery actions and court proceedings
- Conducting health-checks on businesses to assess pre-lending or refinancing abilities
- Insolvency services to help enterprises preserve value, recover assets for the benefit of creditors and wind up operations

For more information, **speak to our experts** and avail a free consultation.

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