RETAIL
INSIGHT PAPER

Quarterly Outlook :
February 2016

insight

Harrier
HUMAN CAPITAL

This paper provides a high level insight into the current retail markets in Australia and the United Kingdom (UK), with a look forward to projected trends for 2016.

The start of 2016 has been a tumultous one for Masters and Dick Smith, while sales at Bunnings, Costco and David Jones soar.

Snapshot of Retail in Australia

Electronics retailer Dick Smith entered voluntary administration in early January 2016, struggling with $390 million of debt. Approximately 3,300 staff members are expected to continue to be paid and 393 stores operated until the company is fully restructured for sale. Competitors JB Hi-Fi and Harvey Norman are expected to earn as much as $200 million each in extra sales on Dick Smith's exit from the market. Entrepreneur Dick Smith founded the company and sold it to Woolworths in 1982.

Woolworths are "seeking sale or closure"[1] of Masters, the ailing home improvement store that opened in 2011 and has racked up $600 million in losses.[2] The move comes after joint venture partner Lowe's, the US home improvement chain, exercised its option to sell back its one third share. Approximately 7,000 jobs and 63 stores are likely to be affected, with Chairman Gordon Cairns claiming "the Woolworths board determined it wasn't sustainable under our ownership."[3] Efforts will apparently be made to roll some of the affected staff members into the supermarket's 200,000 headcount.

Wesfarmers has secured the purchase of British retailer Homebase from Home Retail Group, for $705 million. Their strategy is reportedly to take the Bunnings brand, Australian-style warehouse format and business formula to the UK's home improvement market. In their 265 stores, Homebase tends to offer premium prices and low promotions, compared to Bunnings with its low prices in 334 stores across three formats. Bunnings' sales went up by 11.6% to $2.5 billion in the September quarter.[4]

Premium department store David Jones saw its sales rise by 11.2% in the 26 weeks to 27 December, with like-for-like sales increasing by 9.7%.[5] In the same period, Country Road Group achieved a 13.4% increase in Australia and New Zealand.[6] Wholesaler Metcash reported a 20% increase in profits for the six months to 31 October, thanks to the improvement in liquor and hardware sales that counteracted the flattening of food and grocery results, where sales only increased by 0.7%.[7]

Costco in Australia has recorded sales of over $1 billion for the first time. Growth in new and existing outlets led to an increase of 50.7% in FY15 sales. Costco entered the market in 2009 and currently trades through eight stores. As part of its well documented national growth strategy, discounter Aldi is currently recruiting for 400 positions in WA for its 70 new planned stores. The distribution centre in Jandakot is due to open in Easter.

Last year, foreign luxury retailers including Cartier, Sephora, Omega and Valentino opened 40 stores in Australia, compared to 35 in 2014.[8] This year, even more are said to be looking for retail space, particularly in Melbourne and Sydney. Microsoft is also said to be opening a flagship store in Melbourne in an attempt to compete with Apple and Samsung, who have a bricks and mortar presence there. Although this might prompt concerns over heightened competition for Australian retailers, the arrival of international luxury brands brings customers into malls and shopping areas, as well as forcing local retailers to "up their game".[9] Those expected to be opening stores in Australia in 2016-17 include:

- Agent Provocateur
- All Saints
- Carolina Herrera
- Cole Haan
- Escada
- Missoni
- Miu Miu
- Moncler
- Paul Shark
- Rag and Bone
- Tod's[10]

Stephen McNabb, head of research at retail services company CBRE says Australia is a popular location for those retailers looking to expand into new markets:

The "low penetration rate minimises competition between the foreign brands, which supports higher turnover per store. Zara's Sydney and Melbourne stores were among the group's best global traders in their first year of operation and continue to be in the top 10 list."[11]

Bath and Body Works has already brought its "cult products"[12] to Australia, opening its first store in Sydney's Domestic Airport at the end of 2015.

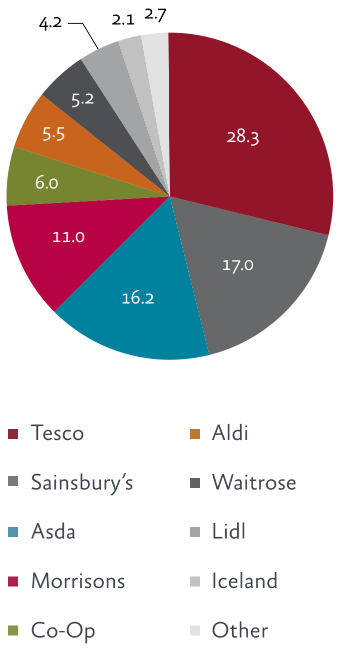
The 2015 Christmas trading results from the retail industry in the UK reflected some interesting trends: the Big Four held strong against the discounters in the food sector, while the warmest December on record caused trouble for Britain's apparel retailers.

Snapshot of Retail in the UK

Market Share

Recent data from Kantar Worldpanel shows the market split of the UK's food retail sector, in the 12 weeks to 3 January. Compared to the same period last year, Aldi has overtaken Waitrose, taking 5.5% market share, an increase from 4.8%. Among the big four, Sainsbury's is the only supermarket to have gained market share, moving from 16.9% to 17.0%: Market shares of Tesco, Asda and Morrisons have all dropped.

Percentage market share



Christmas Trading

Tesco enjoyed a 1.3% increase in like-for-like sales in the six weeks to 9 January, the strongest performance of the big four supermarkets. According to CEO Dave Lewis, their strategy of moving from voucher promotions to lower basic prices was key to their favourable results.[13] Sainsbury's saw like-for-like sales in established stores reduce by 0.4% in the 15 weeks to 9 January, ahead of the forecasted 0.7% fall.[14] Total sales increased by 0.8% in the 12 weeks to 3 January.[15] In the British tradition of Christmas TV adverts, Sainsbury's was also a highlight, with its ad campaign being viewed 37 million times online.[16] Sales of the book that features the ad's protagonist, and the associated soft toy, raised £1.5 million for charity.

Asda's like-for-like sales have slumped 5.8% in the fourth quarter, losing them 0.6% of the market.[17] Morrisons enjoyed its first increase in sales in more than a year, reporting like-for-like sales rising by 0.2% in the nine weeks to 3 January: Far better than the forecasted 2 - 3% fall. With Sainsbury's, Tesco and Morrisons delivering better than expected results, despite the fall in total sales among the latter, are the supermarket giants holding firm against the rise of the German discounters?

At the premium end of the market, Waitrose said it experienced record trading days on 22, 23 and 24 December as customers left their shopping until later in the season. Sales fell by 1.4% at established stores but the 8% increase in online sales bolstered results.[18] Marks and Spencer food sales were at record levels in the run up to Christmas, though like-for-like sales only increased by 0.4%.[19] This was overshadowed however by the 5.8% fall in general merchandise (including clothing and homewares).

Snapshot of Retail in the UK

Retailer	Sales period	Like-for-like sales	Total sales
Aldi	12 weeks to 3 January	Flat	+13.3%
Argos	18 weeks to 2 January	-2.2%	+0.9%
Asda	12 weeks to 3 January	5.8%[20]	-3.5%
Co-op	12 weeks to 3 January	No data	+1.4%
Debenhams	9 weeks to 9 January	+3.5%	No data
Homebase	18 weeks to 2 January	+5.0%	-4.0%
House of Fraser	6 weeks to 2 January	+5.3%	No data
JD Sports	5 weeks to 2 January	+10.6%	No data
John Lewis Partnership	6 weeks to 2 January	No data	+7.0%
Lidl	12 weeks to 3 January	No data	+18.5%
Majestic	10 weeks to 4 January	No data	+42.6%
Marks and Spencer (Food)	13 weeks to 28 December	+0.4%	No data
Marks and Spencer (General merchandise)	13 weeks to 28 December	-5.8%	No data
Morrisons	9 weeks to 3 January	+0.2%	-2.6%*
Next	13 weeks to 24 December	+0.4%	No data
Poundland	13 weeks to 27 December	No data	+9.0%
Primark	16 weeks to 2 January	No data but fell for the first time in 9 years	+3%
Sainsbury's	15 weeks to 9 January	-0.4%	+0.8%
Superdrug	5 weeks to 2 January	+6.8%	No data
Tesco	6 weeks to 9 January	+1.3%	-2.7%*
Waitrose	12 weeks to 3 January	-1.4%	+1.4%

*These total sales figures are for sales period 12 weeks to 3 January

SOURCE: KANTAR WORLDPANEL[21]

December saw the UK and parts of Europe enjoy the warmest December on record, impacting sales at clothing retailers such as Next and Primark. Debenhams "kept tight control of clothing stock, such as winter coats, to reflect the unseasonably warm winter",[22] and saw a 3.7% increase in like-for-like sales for the nine weeks to 9 January.

Premium department store John Lewis experienced a better than expected Christmas period, with sales increasing by nearly 7% in the six weeks to 2 January. The big ticket categories were smart phones and tablets (31% increase) and electrical (c.10% increase). There was also an increase in like-for-like sales at competitor House of Fraser, rising 5.3% in the six weeks to 2 January. In-store sales at Next dropped by 0.5%, attributed to the weather, though their Directory sales (including online) rose by 2% in the nine weeks to Christmas Eve.[23]

Primark was arguably the most affected by the weather, as like-for-like sales at its UK stores fell for the first time in nine years. Operating 299 stores in Europe and the US, Primark's total sales were 7% ahead of last year but due to the weakening of the euro against sterling, total sales only increased by 3%.[24]

On the flip side, the weather boosted Superdrug's sales of bronzing products by 20% year on year.[25] The health and beauty retailer reported an increase of 6.8% in like-for-like sales in the five weeks to 2 January and is due to expand its 800+ stores by another 20 in 2016. Competitor Walgreens Boots Alliance saw its net sales surge to USD29 billion in the first quarter of the 2015-16 financial year, an increase of 48.5% as Alliance Boots results are now included.[26]

Majestic Wine saw a huge 42.6% increase in sales for the ten weeks to 4 January, including sales from the newly acquired Naked Wines.[27] The wine warehouse "abandoned its longstanding rule that customers must buy a minimum of six bottles per visit, enabling them to buy single bottles for the first time."[28]

Look ahead for 2016

Poundland is expecting more footfall in 2016 as it opens more stores in retail parks. The variety store saw sales growth of 29.4% over the Christmas period, excluding their trial stores in Spain, but including the newly acquired 99p stores.[29] Primark is also expanding its international footprint in 2016-17, with two new stores in Italy and eight in the US.

JD Sports announced full year profits could be up to 10% higher than expected, thanks in part to the 10.6% increase in like-for-like sales in the five weeks to 2 January.

Following its trial of Argos concessions in-store, Sainsbury's recently revealed it approached Home Retail Group (HRG) in November in a bid to buy Argos. The approach was rejected as HRG felt it undervalued them and their long term prospects, though Sainsbury's was given until 2 February to make a formal offer. Argos's like-for-like sales fell by 2.2% in the 18 weeks to 2 January.

Aldi plans to grow faster than ever in 2016, announcing a £600 million investment plan over the next two years, opening 80 stores compared to c.65 last year. In line with recent retail trends focusing on health and wellbeing, Aldi is once again running its #Aldichallenge, an online initiative "encouraging visitors to 'save money, eat fresh, live well'"[30] and hooking shoppers in from the beginning of the year.

Asda is expected to make approximately 200 staff members from its head office redundant, bringing the total of redundancies to 1,600 in less than two years. Asda claims the job losses are not related to poor sales but part of a wider strategy announced in 2015.

Snapshot of Retail in the USA

Disappointing sales over the Christmas period have led to US department store Macy's to cut thousands of jobs and shut stores. The closing of 36 stores by early spring, plus the loss of 600 jobs from back office roles, 750 call centre roles and 1,500 store positions, is expected to save US$400 million.

Retail Analysis IGD has released its predictions of three formats to watch in the US retail market:

- 2016 sees the eagerly awaited arrival of 365 by Whole Foods Market, a smaller store concept, with lower operating costs and lower prices, than the original. The first store is expected to open in Los Angeles in the second half of the year.
- Target's refreshed food strategy will be trialled in 25 test stores in Los Angeles this year, as it focuses less on grocery, more on fresh foods, reviews its merchandising to motivate shoppers, elevates key categories and enhances "its organic, local and wellness ranges"[31]. Analysts claim, "If successful, [Target] has the scale, store network and growing grocery ecommerce operation to have a much more significant impact on the US grocery sector"[32].
- Kroger is opening a new store in Seattle called Main and Vine, expected to offer fresh, affordable local produce, meat, wine and beer. This, along the recent acquisition of Roundy's, signals its strategic positioning in the key growth segment of fresh, natural, local products.

Movers and Shakers

Marc Bolland, chief executive of Marks and Spencer, is stepping down in April this year after six years in his role. He will be replaced by Steve Rowe, who is described as a Marks and Spencer "lifer" having worked there since he was 15. Appointed to the board in 2012, and most recently working as the head of the clothing and homewares business, Rowe has apparently been "groomed" by his predecessor for the new position having attended Harvard for a global strategic management course for senior leaders last year.

UK media in October 2015 reported that Waitrose MD Mark Price was stepping down after nine years, 33 with parent company John Lewis Partnership, to take on a position at Channel 4 television network. Rob Collins, a 22 year veteran of John Lewis, was rumoured to be replacing him.

In January, Sir Ian Cheshire was announced as the new chairman of Debenhams, succeeding Nigel Northridge who had been chairman since April 2010.

Andy Atkinson has been appointed the Marketing and Customer Director at Morrisons, having acted in the role for the last nine months. According to The Grocer, his "appointment marks the completion of [new CEO] Potts' executive team"[33] after he ousted five senior directors on his arrival.

In Australia, 7-Eleven's chairman, CEO and GM of Operations all resigned in Q4 2015 in the wake of the ABC Four Corners investigation that revealed the retailer was "systematically paying its workers about half the minimum wage"[34] and 'forcing' many of its foreign staff "to work in contravention of their visa conditions"[35]. Michael Smith has been appointed as chairman, replacing Russ Withers.

Harrier's Observations on the Top Australian Trends for 2016

THIS IS THE YEAR OF THE RIO OLYMPICS, THE LAST YEAR OF OBAMA'S TWO-TERM PRESIDENCY, THE YEAR THAT THE WORLD'S LONGEST REIGNING MONARCH TURNS 90... BUT WHAT ELSE COULD 2016 HOLD?

Researcher Mark McCrindle has released his predicted top social trends for this leap year, providing Harrier with interesting insight into what could be in store for the Australian retail industry in 2016.

1. LIFE TRACKING

"The year ahead will see tracking of life go to new levels with the use of the now ubiquitous wearable life tracking technology like the Apple watch, Microsoft band and Fitbit."*

Instagram, Pinterest and YouTube are becoming further ingrained in everyday life, as photography, smart phones and sharing every aspect of life on social media become the norm. Retailers are already in tune with our social media habits, using these platforms (and a multitude of others) to share their inspirational images and videos of apparel, recipes and lifestyle options. With notifications coming through to customer's phones via Bluetooth while they're instore, retailers are making suggestions for purchases and tracking shoppers' movements.

Wearable life-tracking technology takes our national obsession with tracking and uploading every moment to the next level. Enabling wearers to track their heart rate, sleeping habits, calorie intake and steps walked, data from these devices is uploadable, analysable and shareable. According to McCrindle:

"The year ahead will see apps emerge and programs developed to make this data more comparable and usable and interested parties such as health insurance companies, health advocacy groups and even local communities will provide rewards, discounts, competitions and benefits to support the wider use and corresponding healthy lifestyles that such technology encourages."

Just as we've seen the rise of organic, local and fresh food ranges throughout Australia, UK and USA, as well as the prevalence of 'activewear' in the Australian wardrobe, the rise of life-tracking reflects a heightened interest in health, providing an opportunity for supermarkets and food producers to invest in "product improvement and innovation"[36]. Of course it also could pose a threat to those offering products that don't fit in with customers' increasingly healthy choices.

*ALL QUOTES AND STATISTICS IN THIS SECTION ARE TAKEN FROM 'THE TOP 5 TRENDS TO WATCH IN 2016', THE MCCRINDLE BLOG, 4 JANUARY 2016, MCCRINDLE.COM.AU UNLESS OTHERWISE NOTED

2. TECHNOCRACY

> "The year ahead will see more sophisticated technology-driven campaigns and both viral and promoted campaigns will become more common."

Tweets, hashtags, likes, shares and online campaigns are taking over from traditional drivers of democracy, influencing legislation, regulation and policy in what McCrindle calls 'clicktivism'. Recent movements around LGBT rights, racial tension in the US, the Arab Spring of 2010, protests in the Ukraine, demonstrations in Egypt demonstrations and Occupy Wall Street were all deeply rooted in social media, as users turned to Facebook and Twitter for awareness of local and global efforts, directing world events. The reach of the internet and prevalence of social media means that people around the world are communicating in an instant and can easily make their voices heard. According to Pew Research Center, 63% of Twitter and Facebook users turn to these platforms for news consumption, with many saying they trust these sources more than traditional media.

'Communicating in an instant' and 'making their voices heard' on social media also resonates with consumers and potential employees throughout Australia. Be it through amusing online correspondence between an irate customer and their local supermarket, a Facebook status rant about a poor department store customer experience or candidates' reviews on Seek's new company profile platform, retailers are constantly in the spotlight. Social media affects our perception of brands and organisations: As shoppers, we expect organisations to respond to their customers directly and immediately. As candidates, we expect employers to be transparent and authentic. We share feelings about our experiences. We talk about the good and the bad: Just like our politics, our shopping and job hunting behaviours can be shaped by technocracy.

3. BIGGER AUSTRALIA

> "The year ahead will see policy and political responses to population growth through more focus on growing regional centres, investing in public transport and road infrastructure, airport and flight movement expansions."

Australia's population hit 24 million in February 2016, and Sydney will become Australia's first city to reach 5 million inhabitants by the end of the year. Although population growth rates have slowed, there will be 40 million people living in Australia by 2050 based on current trends. According to McCrindle, Australia has responded to this growth with "housing trends of densification, the growth in apartment living and 'walkable' urban communities".

Retailers are lining up to expand their store footprint in Australia to cater for the growing population and diversity in the market: Aldi is planning its expansion in to WA and SA; Costco is due to open more stores on the east coast; luxury brands are fighting for space in Melbourne; Zara, Sephora, H&M and Topshop are soon to be followed by other international high street names.

In the UK, retail is driving the shift to convenience for its population of 64 million through:

- Quicker, more flexible fulfilment. Argos now offers same day delivery to 90% of householders, 7 days a week. Amazon delivers food and drink in under an hour for £6.99[37].
- Micro convenience. As has long been commonplace in Japan and Hong Kong, retailers like Tesco Express and Sainsbury's Local are opening smaller stores to take advantage of more localised retail space, with convenience store openings once again exceeding closures.[38]

Will Australian retailers follow suit as the population grows and we demand more for cheaper and faster?

4. BRAND FATIGUE

> "Cost of living pressures will continue to drive consumer demand for low prices, discounts and sales."

As discussed in Harrier's last Retail Insights, consumer spending in the US and UK has remained cautious even as the economy has picked up: Customers have learned to be more astute in their spending, having not fully gained their confidence back in line with economic growth.

Australia is facing its own cost of living pressures going in to 2016. With the arrival of international retailers and proliferation of online shopping, as well as the rise of discount supermarkets like Aldi, the Australian retail landscape is changing: McCrindle says the challenge falls to "legacy brands to maintain relevance in a landscape of more brands, less loyalty and ongoing price sensitivity". Department stores like Myer are already responding to the challenge, bringing on board new labels to appeal to their target demographic. Coles and Woolworths' strategies for their private label goods is another way retailers are tackling their customer's demand for good quality produce at competitive prices.

5. POWERWORKING

> "The year ahead will see an ongoing attempt by employers to support the flexibility of modern workers and workplaces while improving productivity."

Hotdesking, co-working, telecommuting, compressed working weeks, fly-in fly-out, job sharing, freelancing: More and more Australians are carrying out their work in non-traditional places and outside of typical work hours, in what McCrindle calls 'bursts'. He claims attention spans are getting shorter as we become used to multi-screening, seamlessly switching from our computers, to our phones, our tablets, our wearable technology, our laptops. Such flexibility can be a driver of collaboration but also distraction, and McCrindle suggests we'll see greater acceptance of power working in 2016 – breaking work in to chunks, achieving productivity in bursts rather than sat behind a desk for eight hours a day.

The same applies to retail organisations as to any employer: Flexible working can promote enhanced productivity, innovation and collaboration. It can also be difficult to manage without trust and clearly set expectations. What we do know though is that offering employees diversity in their working arrangements can drive loyalty, lower stress and higher satisfaction[39]. And of course there are apps and wearable technology solutions to help employers and employees track and measure output.

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