



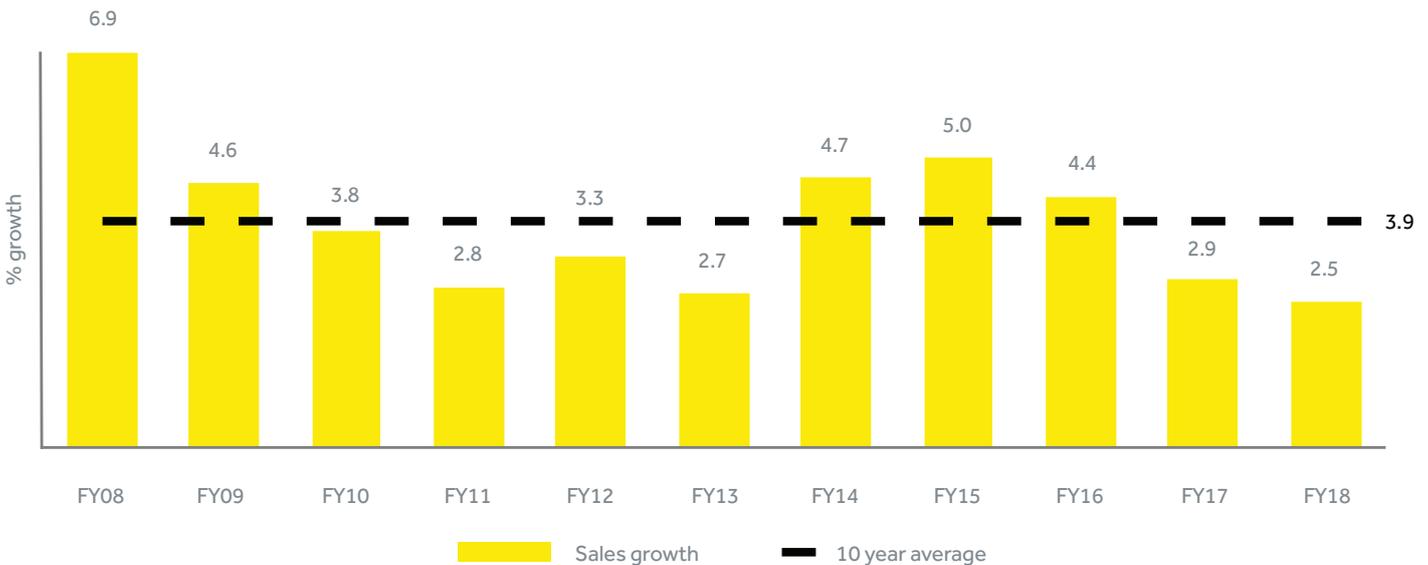
### SNAPSHOT

- Despite improvements in consumer confidence, retail sales in FY18 grew at their slowest annual growth rate in the 10 years since the GFC (2.5% compared to the 10 year average of 3.9%).
- Online sales growth accelerated in FY18 to growth not seen for the past six years. Consumers have greater access to products online as retailers are investing in their online offering and leveraging third party platforms.
- There was a distinct shift in performance of categories, suggesting spending pressure on discretionary categories.
- Despite a modest increase in sales, profits of many listed retailers declined in FY18, suggesting retailers are having difficulty in adapting to intense competition and changes in the industry.

### RETAIL SALES

The Australian Bureau of Statistics (ABS) reported retail sales to be \$315.7 billion in FY18, representing an increase of \$7.7 billion (2.5%) compared to FY17.

#### Retail sales growth



Source: ABS Retail Trade

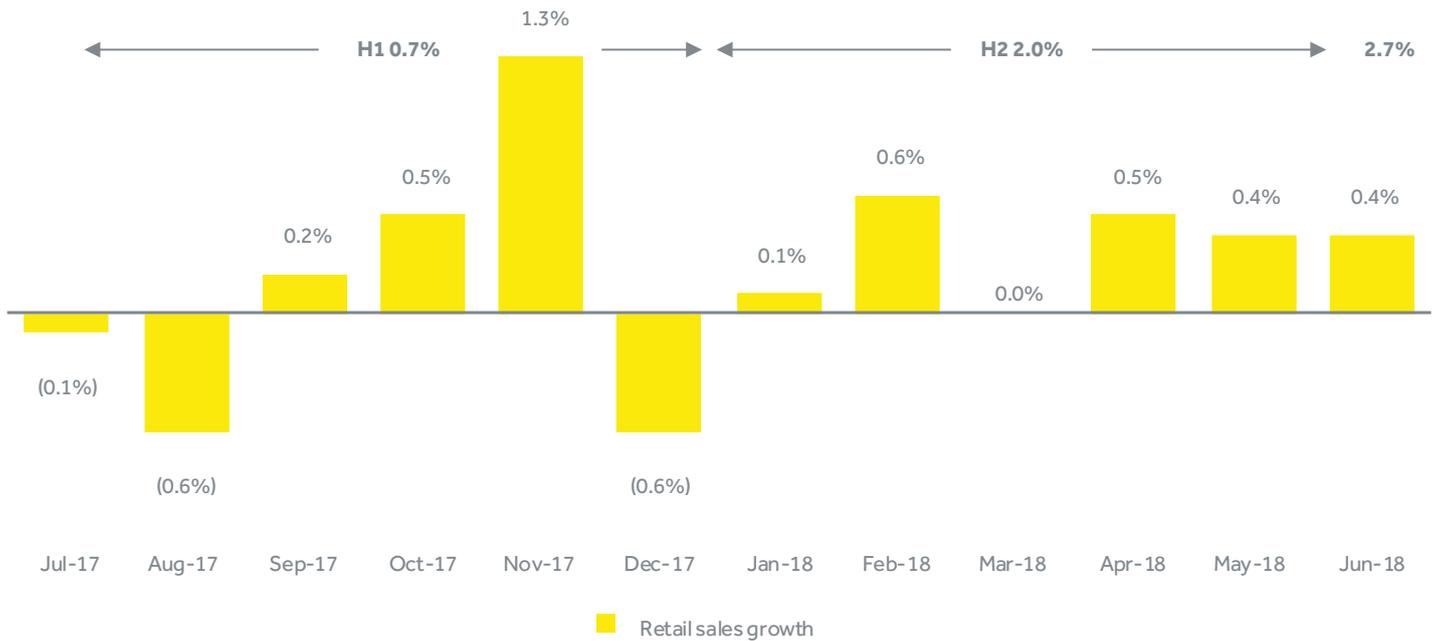


FY18 was a tale of two halves.

Retail sales results were very subdued in the first half of the year. November 2017 was the strongest single monthly result (followed by a contraction in December 2017) suggesting Christmas spending commenced earlier.

While growth remained moderate in the second half compared to long term averages, there were six consecutive months of positive or neutral results, suggesting higher consumer confidence levels began to translate, providing some momentum for retailers through the rest of the calendar year 2018.

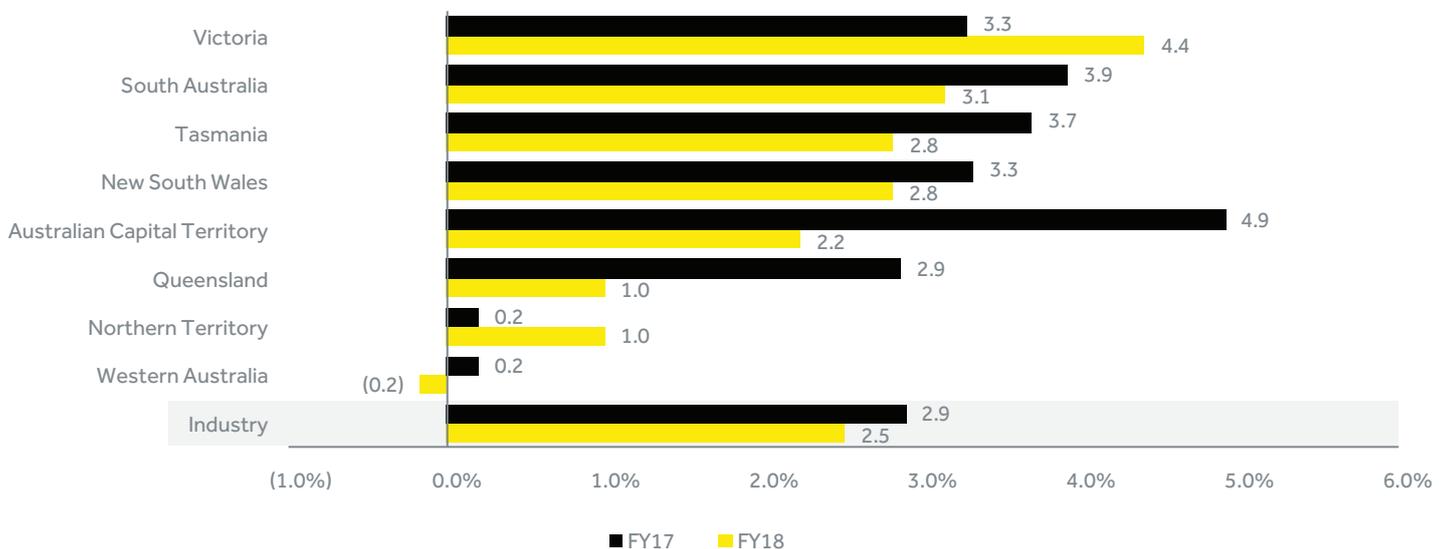
**Retail sales by month FY18**



Source: ABS Retail Trade

Victoria and Northern Territory were the only states to experience growth in FY18. Victoria was the standout growing 4.4%. Ignoring Northern Territory, there was a clear distinction between resource based states and the other states. Queensland and Western Australia were the biggest underperformers.

**Retail sales by state FY17 vs FY18**



Source: ABS Retail Trade

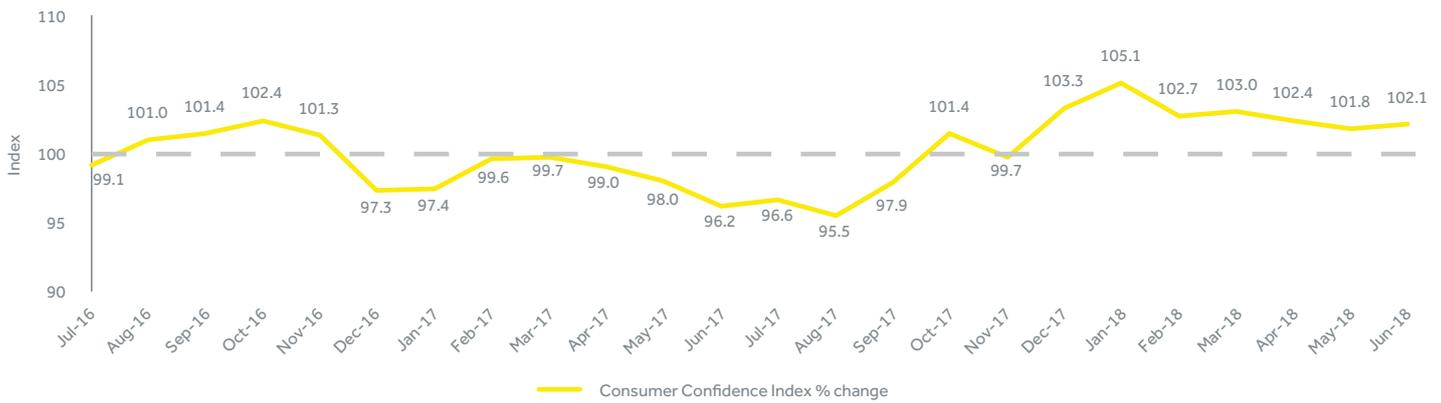


### CONSUMER CONFIDENCE

Consumer confidence as measured by the Westpac-Melbourne Institute improved 5.9 points over the 12 months to June 2018 and was 1.6 points higher on average. Consumer confidence was higher in the second half of the year.

Confidence peaked at 105.1 in January 2018 (the highest level seen in the last two years) and consumers remained more optimistic through June than most of the first half of the year. Negative media around residential housing prices did however moderate confidence levels somewhat from February onward. As noted previously, higher confidence translated into improved retail sales growth in H2.

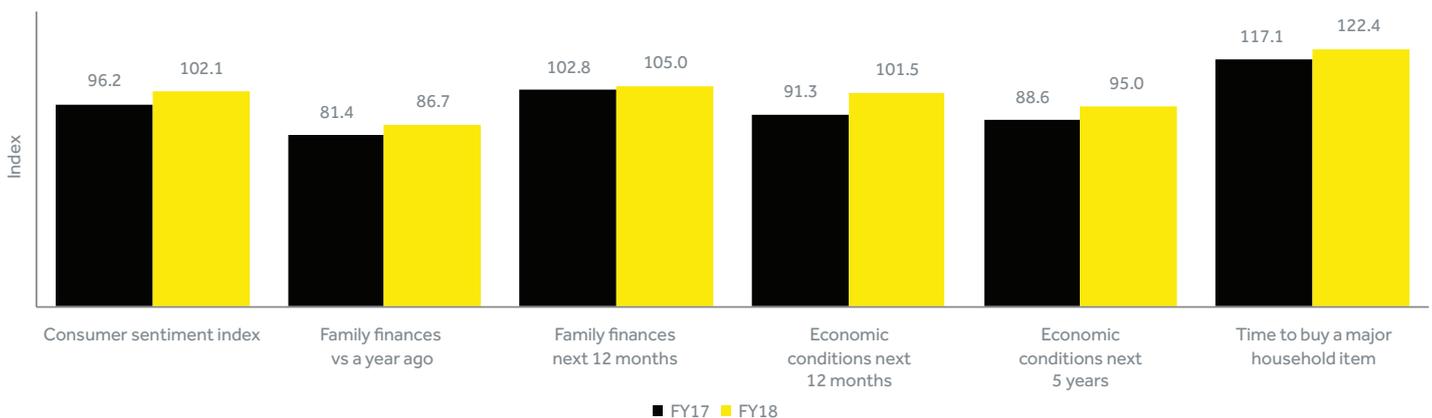
#### Westpac Melbourne Institute Consumer Confidence Index



Source: Westpac Melbourne Institute Consumer Confidence Index

As can be seen in the chart below, consumer confidence and optimism grew in all five of the component indices over the 12 months to June 2018.

#### Consumer confidence component index performance



Source: Westpac Melbourne Institute Consumer Confidence Index

Consumers appear more optimistic about the upcoming 12 months on both a personal and economic level, with expectations for the economic outlook for the next 12 months reporting the biggest improvement (11.2%) and moving into optimistic territory for the first time in four years. Expectations around family finances in the next 12 months also grew by 2.1%.

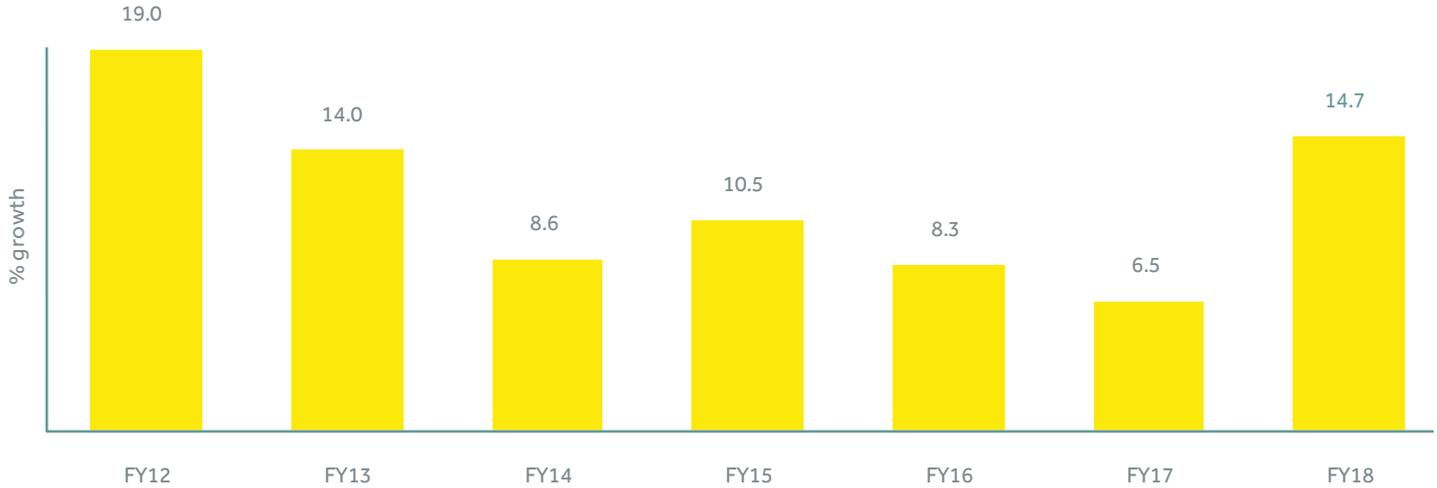
While there is optimism about the next 12 months, the two component indices tracking attitudes to the next five years, albeit improving, remain in pessimistic territory (below 100) likely impacted by house price deterioration.



### ONLINE RETAIL SALES

Online sales as reported by NAB showed strong growth of 14.7% (seasonally adjusted) demonstrating the continued penetration of online channels. Online sales now represent 8.4% of traditional retail sales (excluding food) as reported by the ABS.

#### Online retail sales growth



Source: NAB Online Retail Sales Index

The way consumers shop is continuing to shift online due to greater access to products, increased convenience (particularly with the rise of mobile shopping including via social media channels) and accelerated delivery options. Retailers are also investing in their online offering and leveraging third party platforms.

Online continues to be a battleground with opportunities for those making the investment. We have seen established retailers with year-on-year growth rates through their e-commerce channels greater than 100%, however we have also noted many smaller retailers still struggling to find the right balance.

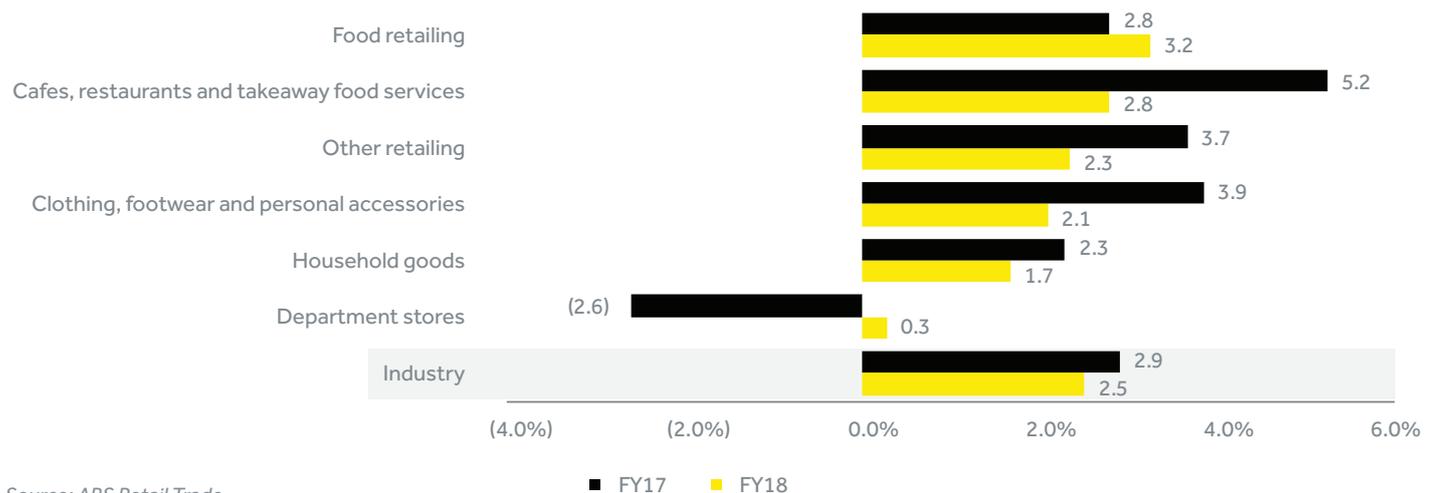
While the initial impact of Amazon entering the Australian market this year has been lower than expected by many, the proposition provides both a threat (competition) and opportunity (additional sales channel) that retailers must remain vigilant to.

### SLOWING DISCRETIONARY SPENDING

Looking at retail sales by category, growth slowed in all but one category. The slow-down was more prominent in discretionary categories which have outperformed in recent years.

The exception to this trend was food retailing which reported accelerating growth of 3.2%, the highest rate of growth of all categories.

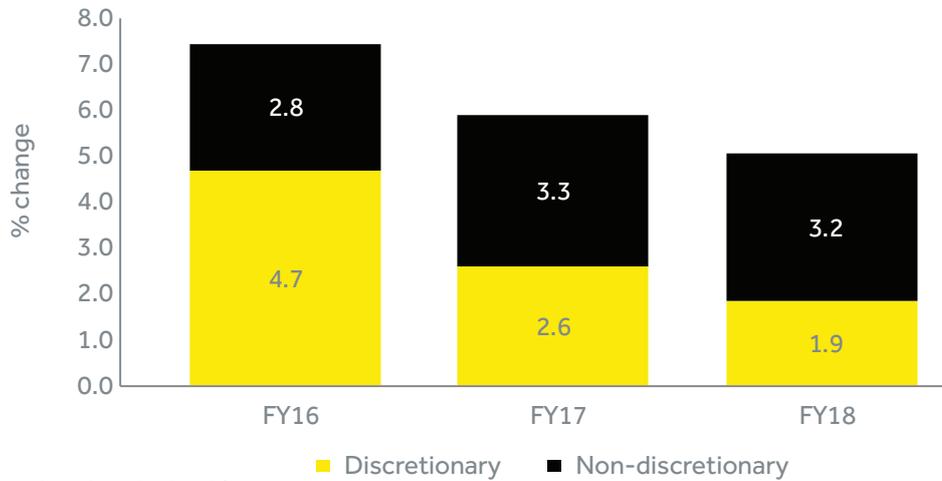
#### Retail sales growth by category FY17 vs FY18



Source: ABS Retail Trade



Discretionary vs non-discretionary



Source: Colliers International retail insights breakfast

Drilling into the subcategories this trend is more evident, with 'supermarkets', 'other specialised food' and 'pharmaceuticals, cosmetics and toiletries' all growing faster than the industry average of 2.5%, whereas 'clothing', 'footwear and personal accessories' and 'recreational goods' are growing at a slower rate than the average and 'department stores' are continuing to struggle.

Despite this, people are willing to spend in 'lifestyle' categories, this is seen in consumable categories where there is more immediate benefit to the consumer such as 'liquor' and 'cafes, restaurants and catering services' and around food more generally. Interestingly, while 'cafes, restaurants and catering services' grew faster than last year, 'takeaway food' grew at only 1/10th of the rate it did in FY17 suggesting a growing preference for experience rather than simply utility but also perhaps the rise of food delivery services delivering restaurant food to home.

Sales by category



Source: ABS Retail Trade



## RETAILERS THE SINGLE BIGGEST THREAT TO THEMSELVES

While there has been a significant amount of talk throughout 2018 about specific threats to retailers with a host of headlines around the sustainability of the franchise model, Amazon and the ongoing rise on online sales channels, and (more recently) the impact of housing price declines, in reality these specific threats have had less impact than expected.

In what is perhaps the most rapidly changing retail environment ever seen, the biggest threat to retailers is complacency.

The current environment, including the pace of technological change, means it is very difficult for retailers to hold on to their competitive position. If not going on the offensive to protect their turf, the best retailers can hope for is to survive, albeit battered and bruised.

There is a growing divide between the best and the worst performers. Those not actively flexing their business models and adapting will struggle and we are seeing that play out in the Australian market. Many of the listed retailers are stepping it up and we have seen the likes of Super Retail Group, Woolworths and Kogan.com announce positive results. We have also continued to see high profile failures (e.g. Toys "R" Us) and significant restructures (e.g. Oroton).

Retailers have to get smarter about how they are doing business with pressure on margin and profits from:

- a low sales growth environment/confidence;
- increased priced based competition (both online and in-store) with customers expecting more before parting with their cash; and
- cost pressure coming from rents and wages.

The most successful retailers are:

- keeping their finger on the pulse – in increasingly more sophisticated ways;
- continually challenging their own strategy – and pivoting to respond to their competitors' actions; and
- investing in innovation.

There is no doubt these are challenging times, however, they are also exciting times and there are plenty of opportunities to surprise and delight the consumer.

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**RECENT RETAIL ENGAGEMENTS (since July 2017)**

<b>Engagement name</b>	<b>Category</b>	<b>Engagement type</b>	<b>Location</b>
<b>Project Jordan</b>	Tyre and mechanical retailing	Business / strategy review	WA
<b>Project Marlin</b>	Online retailing	Sell side advice / services	VIC
<b>Project July</b>	Tyre and mechanical retailing	Restructuring	QLD
<b>Project Weatherford</b>	Musical retailing	Restructuring	VIC
<b>Project Mountain</b>	Outdoor apparel	Technology / data analytics	QLD
<b>Project Maple</b>	Drinks retailing	Sell side advice / services	NSW
<b>Project Kodiak</b>	Wholesale, food retailing	Sell side advice / services	NSW
<b>Project Mystic</b>	Toys and baby products retailing	Restructuring	NSW
<b>Project Noosa</b>	Women's apparel	Restructuring	VIC
<b>Project Matter</b>	Online retailing	Buy side advice / services	VIC
<b>Project Express</b>	General retailing	Business / strategy review	VIC
<b>Project Remedy</b>	Drinks and beverage retailing	Sell side advice / services	VIC
<b>Project Rotana</b>	Food and groceries retailing	Business / strategy review	VIC
<b>Project Olga</b>	Household goods, general retailing	Restructuring	NSW
<b>Project Phone</b>	IT wholesaler, retailing	Buy side advice / services	NSW
<b>Project Seminole</b>	Coffee retailing	Buy side advice / services	VIC
<b>Project Cyber</b>	Women's apparel	Technology / data analytics	VIC
<b>Project Eddie</b>	Online food retailing	Buy side advice / services	VIC
<b>Project Judge</b>	Wholesale, IT retailing	Sell side advice / services	NSW
<b>Project Pippi</b>	Food service, franchising	Restructuring	NSW
<b>Project Hops</b>	Drinks retailing	Buy side advice / services	VIC
<b>Project Esquire</b>	Men's apparel	Restructuring	VIC



<b>Engagement name</b>	<b>Category</b>	<b>Engagement type</b>	<b>Location</b>
<b>Project Kurraba</b>	Women's apparel	Business / strategy review	NSW
<b>Project Coolant</b>	Automotive retailing	Buy side advice / services	VIC
<b>Project Meal</b>	Food retailing	Buy side advice / services	VIC
<b>Project Bardot</b>	Hardware wholesale, retailing	Technology / data analytics	NSW
<b>Project Epic</b>	Movie and entertainment retailing	Business / strategy review	VIC
<b>Project Horizon</b>	Wholesale, games retailing	Buy side advice / services	NSW
<b>Bioflow Magnotherapy Aust</b>	Wholesale, health retailing	Restructuring	WA
<b>Shoes in the Attic</b>	Footwear retailing	Restructuring	NSW
<b>Toys "R" Us (Australia)</b>	Toys and baby products retailing	Restructuring	NSW
<b>Westmount Holdings</b>	Motor retailing	Restructuring	WA
<b>Security Eyes Info Tech</b>	Security services and retailing	Restructuring	NSW
<b>Red Lea Chickens</b>	Food service, franchising	Restructuring	NSW
<b>Max Brenner</b>	Food retailing	Restructuring	NSW

