



Retail Wrap 2011

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Property Council of Australia – Retail Outlook 2011

16th February 2011

Online, GFC, natural disasters, new taxes, dollar at parity. These are just some of the challenges we face in retailing today. It seems like the start of a new decade has brought on a retailing revolution! Or is it just retail evolution.

After a decade of good growth in retail sales, at Directional Insights we started to see some noticeable shifts in the way Australians shop.

There have really been four main triggers to this change in behaviour:

- Casualisation of work wear
- The GFC
- Natural disasters
- Popularisation of online shopping

And this has impacted Australian shoppers in three ways

- Changes to some shopping behaviour
- Changes to what we wear
- Changes to online shopping participation

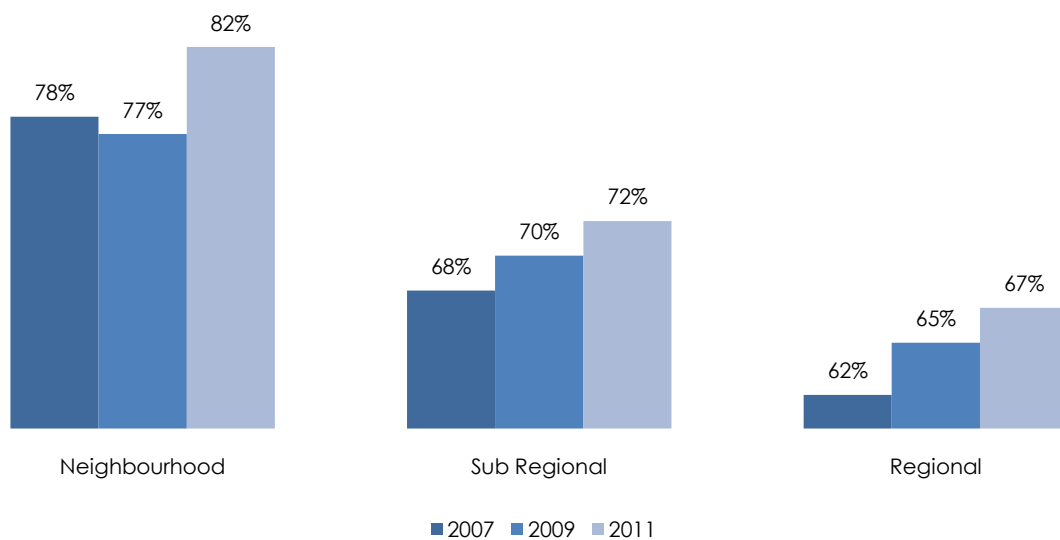
Qualitative research tells us that customers have become more cautious since the GFC – many catching frugal fever. They started bargain shopping, researching online the best deals available in store versus online, going in store and negotiating the best price and being more reluctant to impulse shop.

These qualitative results have been supported by the results of our quantitative research, showing real perceptible changes in shopping behaviour in our shopping centres. The results in the March release of our 2011 Directional Insights Consumer Shopping Benchmarks will surprise some, but confirm the view of many, of the changes we are seeing in how Australians are now shopping in neighbourhood, sub-regional and regional shopping centres.

This year we have produced benchmarks for eight different shopping centre categories and it is fascinating how shopping behaviour in centres has changed with consumer attitudes.

Physically **frugal fever** has translated into more **mission shopping** by consumers. We have always defined shopping between mission and leisure shopping with mission shoppers going to a centre for a specific purpose, purchasing and then leaving. By comparison **leisure shoppers** take their time and enjoy the experience.

● **Mission shoppers over the years**

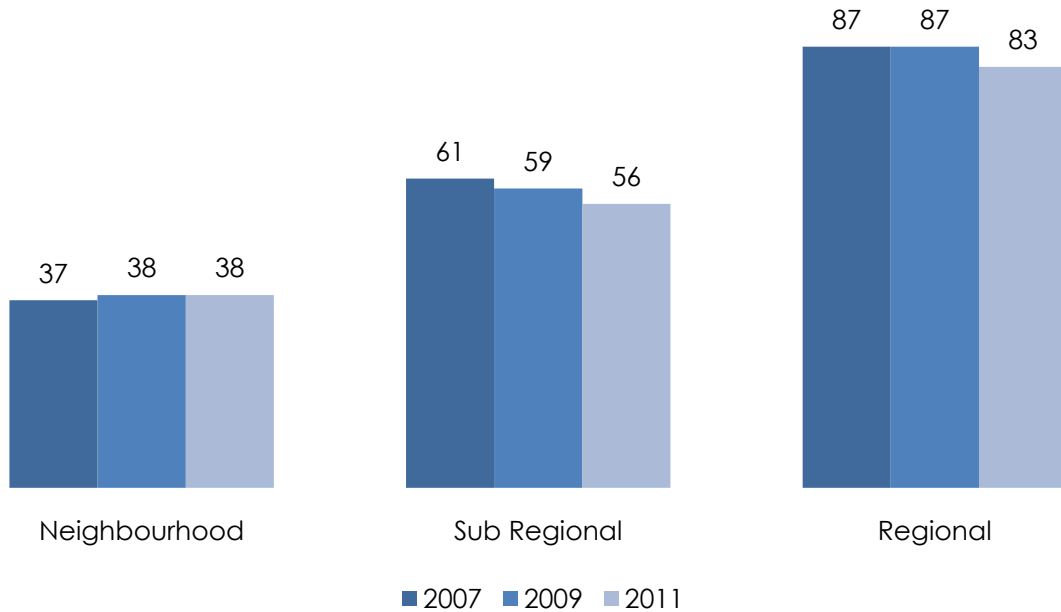


[Directional Insights Consumer Shopping Benchmarks 2007, 2009, 2011]

You can see the change from 2007 to 2011 in the increase in mission shoppers across the main centre types and therefore a corresponding drop in the number of leisure shoppers. At regional centres leisure shoppers have dropped from 38% to 33% from 2007 to 2011, a total drop of 5%. On average leisure shoppers spend \$4 more than mission shoppers.

There are around 70 regional centres in Australia with customer traffic of 805 million people. Some simple maths is all that is necessary to assess what that does to the industry’s bottomline for regional centres. In the loss of leisure shoppers, it has the industry missing out on about \$160 million in sales, apply a cap rate and the opportunity cost to centre value runs at around \$6 million per centre. Clearly knowing how customers are shopping matters!

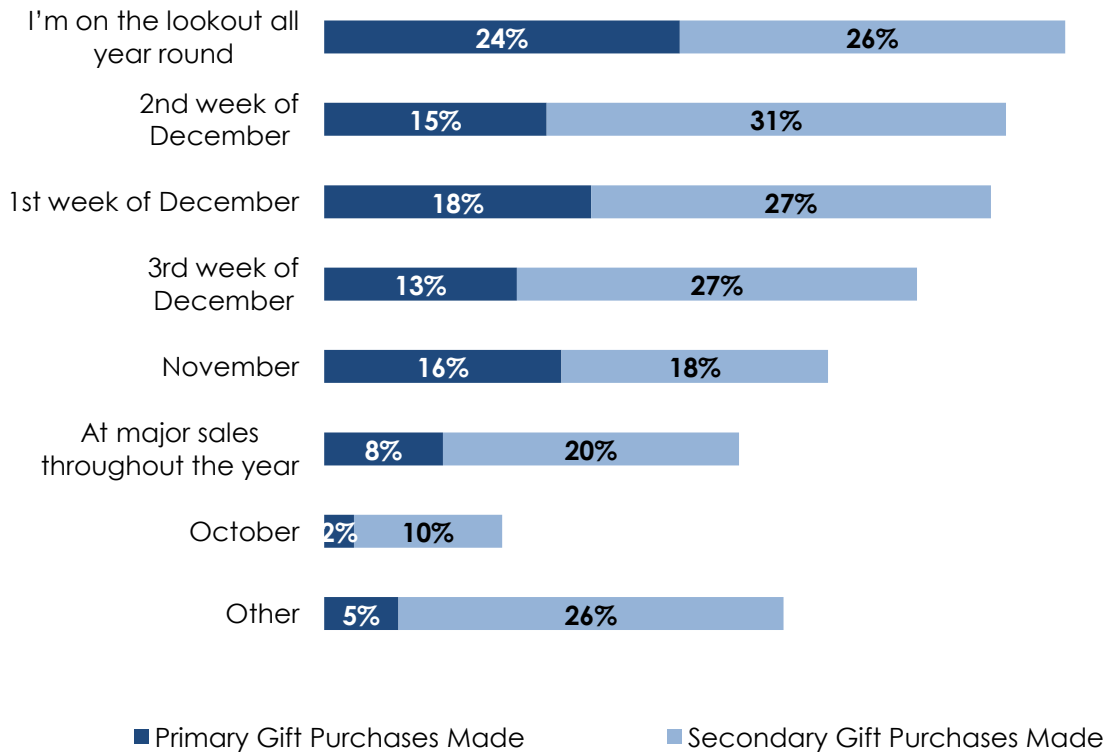
● **Time spent in centre**



[Directional Insights Consumer Shopping Benchmarks 2007, 2009, 2011]

Australians have also started to **stay in shopping centres for a shorter period** of time. At Regional Centres customers stayed 87 minutes in 2007 which has dropped to 83 minutes in the 2011 benchmarks. You may think that 4 minutes is neither here nor there in a regional shopping centre but as shoppers spend around 73 cents a minute and you apply that to the estimated total annual traffic of Australia’s regional shopping centres then that is potentially millions of dollar collectively regional centres are missing out on. Combine that with the reduced number of shoppers spending in a leisure mode and it starts to add up as a lost opportunity.

● **Christmas gift purchases**



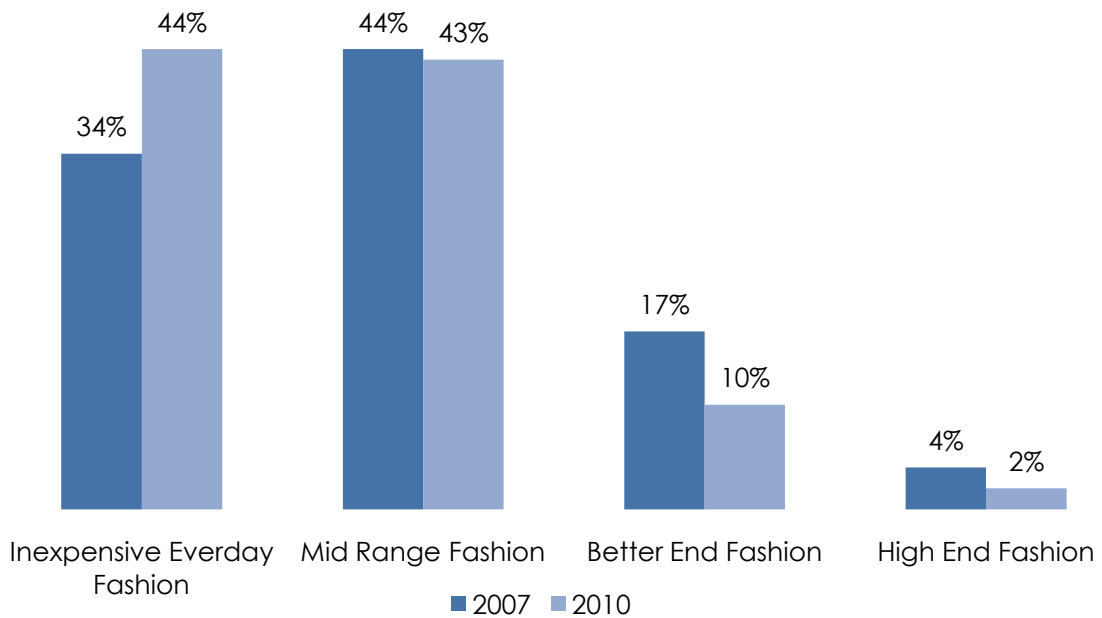
[Directional Insights Christmas Report 2010]

Our annual **Christmas survey** also showed some changes including a move for more customers purchasing Christmas gifts all year round, a theme continuing on from 2009. Whilst December remains the major gift buying season, in 2009 41% of customers purchased Christmas gifts all year round this increased to 50% in 2010! With 1 in 4 Australians primarily buying Christmas gifts all year round now, this is a contributing factor to the flat December sales we see.

● **Preferences of fashion**

The most commonly worn style of fashion has changed in recent times, with the GFC and the casualisation of work wear having a strong impact on fashion preferences. We define **fashion** into four main categories

- Inexpensive Everyday Fashion - Lower priced work or casual wear including Lowes, Millers, Suzanne Grae, Payless Shoes and Supre.
- Mid Range Fashion - Affordable work or casual wear including Sussan, Portman’s, Mathers and Just Jeans.
- Better End Fashion – More expensive, branded work or casual wear such as Cue, Rodney Clark, Nine West and Country Road.
- High End Fashion – Expensive and exclusive designer label wear such as Polo Ralph Lauren, Saba and Lisa Ho.



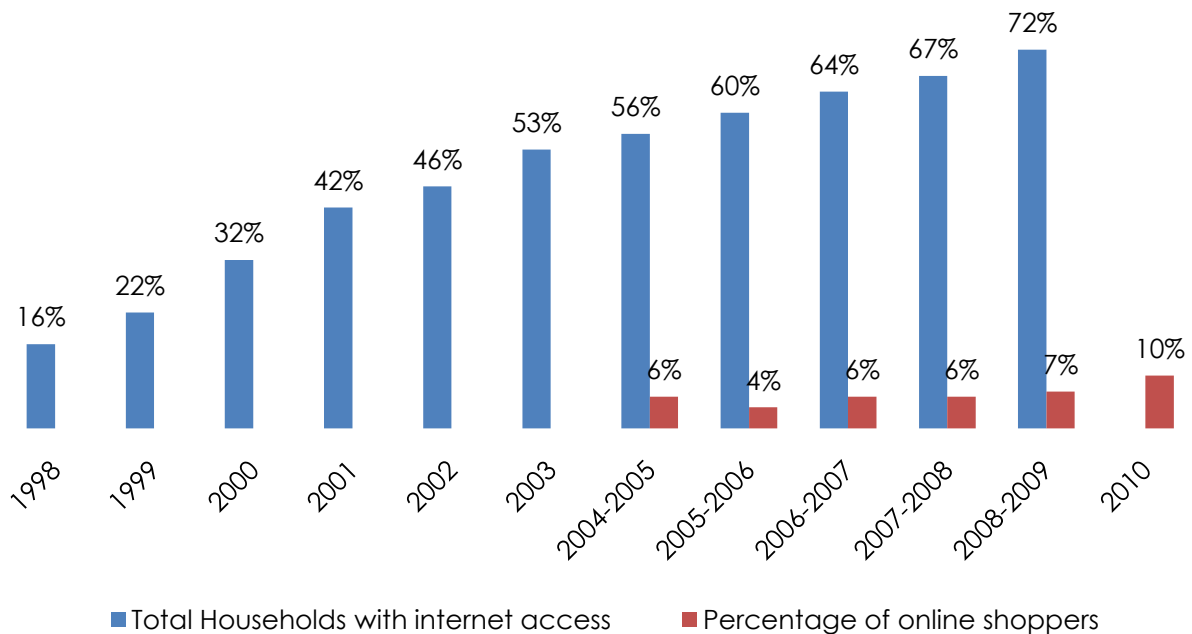
[Directional Insights Fashion Study 2007, 2010]

In 2007 the dominant fashion category purchased by Australian was Mid Range Fashion at 44%. In 2010 we saw inexpensive everyday fashion take over at the expense of better end fashion and high end fashion. This has also placed added pressure on department stores and some fashion brands. Interestingly customer preferences change the further from a capital city we live.

● **Internet access to growth of online shopping**

Having covered changes to shopping behaviour, Christmas and fashion trends, it is now time to move onto the hottest topic of them all, **Online Shopping**.

Industry experts are reasonably consistent that around 5% of retail \$ is now online. I always find it amazing and encouraging that the Reserve Bank can put out a statement about internet shopping and using completely different customer data we come up with the same answer. Last week the RBA announced that online spending accounts for about 10% of domestic card payments. When we examine the 2011 benchmarks, we find that of all customers interviewed in shopping centres in 2010, 10% made a purchase online in the last six months. And the numbers of online shoppers just keeps on growing.



[Directional Insights Consumer Shopping Benchmarks 2007, 2009, 2011, ABS Household Use of Information Technology 2008-2009]

Looking at the trend from 2005 we can see a 60% increase in regular online shoppers from 4% to 10% in 5 years. This is an online growth rate of around 12% per annum, similar to the RBA rate of 15% over the same period.

So why are people shopping online? In conversations we have had with devoted online shoppers we know the main drivers are:

- Price
- Convenience 24/7 and door to door
- Access to exclusive and unique products not available in Australia
- To avoid congestion at the local shopping centre

In addition, the online shopper is treated to a bit of excitement and anticipation as they wait for their goods to be delivered. Bit like opening a present to yourself.

However it is important to say, whilst it is becoming more main stream – it is not for everyone. Over the last nine years we have interviewed thousands of Australians on how they shop in shopping centres and online and we find that it really is heavily influenced by demography.

Compared to the average shopping centre customers, online shoppers are:

- Younger
- Married with children so live in larger households
- Work full time especially in professional or managerial positions
- 35% have an average household income of over \$100,000

When in shopping centres online shoppers are more mission focussed staying a shorter time in centres. They are also less loyal to their local centre especially for non-food shopping. But when in centre – driven by their income they have an above average spend at \$82 compared to the average of \$62.

Clearly many customers still have a foot in both camps, online and inside the centre. But those who have embraced online with enthusiasm, readily acknowledge what the online environment lacks:

- Doesn't facilitate the face to face social dynamic
- No instant gratification
- Generally online has an element of risk, the unknown of what the product will look like or when it will be delivered and if it will arrive.

Conversely one criticism that retailers often use about online is that there is no experience online. The research we have been doing doesn't necessarily reflect that, with some consumers feeling they got more recognition from their patronage online than they do in store. *"At least the website knows my name and what I like"*. This was reinforced by a strong disillusionment with in-store service.

- Untrained staff - Little knowledge of the product they were trying to sell
- Young and inexperienced
- Non-existent

All this makes online, with its blogs and real time chat rooms, providing information and assistance an attractive alternative to going in-store.

The recent 'Old Spice' campaign that became an international phenomenon proves that online can really interact with the customers at a community and personal level. After the initial success of the advertisement, 'Old Spice' recorded approximately 180 videos over three days responding to comments made online, he even included a marriage proposal to a fan's girlfriend.

In our online Christmas report we also find that the strength of the dollar continues to influence online shoppers. In October when the dollar was at \$0.97, 25% of Australians (interviewed online – said they would be buying gifts online). When the dollar hit parity it increased to 28%.

Not only has online participation increased, but the number of categories being purchased has also increased, with the top six categories having all shown growth since 2007 including:

- Travel
- Second hand items
- Leisure
- Entertainment
- Clothing
- Homewares, household goods and appliances

Leisure items include books, music, toys, etc. Clearly, along with clothing and homewares, household goods and appliances these are commodity groups in shopping centres to watch.

With the changes in shopping behaviour, increases in online shopping, changes to Christmas shopping patterns and fashion purchase preferences it is easy to think that we are in a shopping revolution.

So are we in a **retail evolution? Or retail revolution?**

The truth is that the answer is both. Along any evolutionary path there are revolutionary moments. In our market place there are lots of changes and adaptations all the time, and then occasionally there are some revolutionary moments along the way.

But retailing in Australia is built on some excellent foundations that we must not lose sight of. At Directional Insights we define the following ten items as constants that have remained in place for decades.

1. The majority of customers are women
2. Customers shop closest to where they live – even online shoppers
3. Customers mainly use cars to travel to shopping centres
4. The more a household earns the more they shop
5. The longer a customer stays in a shopping centre the more they spend
6. Customers shopping for leisure spend more on average than those on a mission
7. Younger customers shop in bigger groups
8. 40-49 year olds are the biggest spenders in shopping centres
9. But their children are very big influencers of what gets purchased
10. The more the customer likes a shopping centre and its look and feel, the more they spend
- (11). And if we were to add an eleventh, it would be that customers will always complain about the parking and say they want a hardware store in the centre

Online shopping will continue to grow influenced by dollar parity and the bargains available, as well as the relative lack of inspiration in-store.

Fashion needs to reinspire people and not just be a rehash of what we wore in the 1980s! Perhaps as an industry we should return to formal work wear to help the fashion industry along – our own fashion levy if you like.

For the time being customers will remain cautious about their spending behaviour, by being more functional in their shopping approach, continuing to seek out bargains and negotiate on price.

Gift purchasing will also continue to happen year round leading up to Christmas.

Retailers offering the best price, a unique product or excellent customer service will be the heroes of 2011.

Great customer service in the minds of consumers can still trump price, even for some online shoppers. Providing a unique experience or unique product is still seen as the great last hope of all shopaholics (11%).

As retailers and shopping centres owners the key in 2011 is to play to our strengths, providing amazing shopping experiences with energetic and enthusiastic retailer in desirable locations.

We must bring change as we always have rather than wait for it. Retailers and shopping centres need to reinspire Australians to shop, play and socialise at a local centre near you.

● Who is Directional Insights?

Directional Insights is Australia's leading consumer research consultancy with a reputation for innovation, knowledge and excellence. We specialise in the design and delivery of cutting-edge research for shopping centres, retailers and other property facilities, including residential, leisure and recreational complexes across Australia and New Zealand.

With over 15 years experience in the consumer research and property industries, we are in the enviable position of having worked on some highly significant projects. Our client base is both varied and impressive.

By exploring and analysing the latest shifts in consumer behaviours, attitudes and values *Directional Insights* is relentlessly inventive in identifying emerging market opportunities and tailoring solutions to optimise clients' competitive advantage.



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