

# Winners and losers

BEAUTY SALES ARE SURGING WHILE FASHION SALES ARE PLUNGING. ROY MORGAN CEO **MICHELE LEVINE** SITS DOWN WITH AUSTRALIAN RETAILERS ASSOCIATION CEO **PAUL ZAHRA** TO DISCUSS THIS CONUNDRUM.

**M**ICHELE LEVINE: A RECENT KPMG RETAIL REPORT SAID RETAILERS SHOULD KNOW WHEN TO QUIT. PAUL, IS THIS A TIME FOR MANY RETAILERS TO QUIT THE INDUSTRY?

**Paul Zahra:** I'm not sure we'd want any retailers to quit. The retail industry has always been competitive. It's always had new entrants. It's always been challenging. And if you speak to any retailer, they'll always say 'this has just been the hardest year I've ever had.' Even in good times, they're complaining.

time to quit, I think if you're in the business of retail just to make money, you're probably an institution. And I think the institutional money will follow the money and some of that might leave. But if you're in the business of retail because you love it, you'll actually find a way and there will be huge opportunities. They'll be different as you say, Paul, and clearly, if we didn't see [global etailers] Shein and Temu coming, we can't tell you what all those opportunities are, but they will be there in this changing environment.

**Paul:** And that's a really good point, Michelle. I might just add to that. There are companies that are just so focused on shareholder return that are now getting exposed and I think that's because the customer is not being looked after. In this industry, there are four key stakeholders: It's the shareholder, it's the supplier and the supplier partners, it's their employees, and it's their customers. I'll use a non-retail example, but if you think about what Qantas has gone through recently, where they've been really focused on the shareholder versus the other elements, that's where you get exposed – in a world now of transparency, where all information is available and people can actually see right through a brand, rather than just the advertising.

**Michele:** Retail in 10, or even five years, could look very different. The emergence of what

I call industry killers - not the category killers of the 1970s, 80s, or 90s - but these industry killers coming mainly from China do threaten to change the entire game. So what do you think retail will look like in the future?

**Paul:** Retail operates in cycles - there's an up-cycle, there's a down-cycle - and the issue right now is we've got this collision of a cost of living crunch and a cost of doing business crunch that's happening at the same time. On top of that, you've got some really major foreign entrants that are coming through. I think [US-born global etailer] Amazon forced Australian retailers to lift their game in many ways. Whoever would have imagined next-day delivery or same-day delivery if it wasn't for Amazon. So you have to put that into perspective.

But now retailers are under pressure as they always have been, and it's because they've got rising costs, and at the moment they've got declining sales, and if I take my department store history [as former CEO of David Jones], you sort of needed to roughly get a 3 per cent sales increase to cover your 3 per cent cost increases. Well, that's completely been blown out of the water recently. It's like five to 10% in some cases, and we're not going to see 10% increases in sales - not even in food. So retailers are forced to batten down the hatches and think how do we do things better? And the solution is all in technology.



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We're always going to be open to new entrants, and it's a changing landscape. And the consumer is changing consistently. So what we're seeing right now is that the consumer is completely under this cost of living crunch around that household dollar. I think it's important to know that the consumer is changing and that they're looking for different things, and not all retailers are giving them what they want.

**Michele:** Can I just add to that? When it comes to whether it's

If you wind forward, there's no doubt artificial intelligence is going to play a huge part in retail, because it does two things. It improves service because technology has a better chance of giving correct information to customers than a sales assistant ever can. And it's also got the ability to reduce costs. So when you look at AI, those retailers that embrace it will actually improve the service experience, and reduce costs, which is a great overall view.

Those of you who are dealing in industrial relations law know that - particularly under the current government - labour costs are going to continue to go up and up and up. We've always said we're happy to pay our people more, but we've got to see productivity improvements, and we're not seeing that. So that's where technology does kick in. But, of course, if you're opening a warehouse tomorrow, you'll be filling it with robotics, and that's the future.

**MICHELE:** GIVEN ALL OF THIS, WE'RE HEARING ABOUT ONLINE AND ROBOTICS IN STORES, SHOULD THE GOVERNMENT INTRODUCE TAX BREAKS FOR PHYSICAL STORE RETAILERS AS AN INCENTIVE TO KEEP GOING?  
**Paul:** Of course, if the government gave us tax cuts we would take them. We would take them anytime. But in the retail community today, we don't think, 'Well, are you a physical store or are you an online store?'

Most of us think of ourselves as being omnichannel. Of course, Amazon is not omnichannel, but many of the best retailers in the world are.

If you think about COVID, everyone at the time saw online trading and digital trading as a major disruption, but today we see it as an insurance plan. Because if you didn't have an online store, you wouldn't be able to trade through the COVID years. When you think about all that from a tax perspective, you'd want to

see tax breaks for innovation and technology investment more than anything else, so then those physical stores can get that insurance plan.

Physical stores are a difficult one because nobody shops in one channel anymore. So you can't protect one channel. That's my point. Most retailers are reducing their physical footprint and they're investing heavily in digital. And that's where we want to get to, but we need to look at Amazon and ask why they've been super successful. We don't know their profit, by the way - that's the other piece of this. We're only seeing revenue. But the most successful profitable retailers are omnichannel retailers.

**Michele:** I would hate to see a world without shops, and I would hate to see a world that didn't employ people. So I'm for reducing the tax or removing tax.

**Paul:** I am too. Take the physical store for a moment - and small business, particularly; if we wind back to those COVID years, it was only those shopfronts that played a major part in the community for people to connect. They were often the only people that we would see during the day if we were to race out and get a loaf of bread. They play a huge part. The thing about the retail industry is it's such a visual statement; when we're doing well, it visually advertises when you walk past a store. But when we're not doing so well you see the for-lease signs. It's a very strong statement around what's happening in the economy.

**MICHELE: FINAL QUESTION FROM ME: IS THIS THE WORST TIME EVER TO BE A RETAILER?**

**Paul:** I'm not sure there's ever a really good time to be a retailer. Let's take a look at the poor supermarkets who have done really, really well... Coles and Woolworths right now are really hurting reputationally. Particularly Woolworths. If you look back about 12 months ago, everyone lauded over the results

of Coles and Woolworths. But now that the tide has turned, different government, different political settings, and different context - there's a backlash there that's happened.

It's always tough to be a retailer. I often think of it in a slightly different way: Would you encourage your own child to open up a shop tomorrow as part of their future plan? Highly unlikely.

**AUDIENCE QUESTION: OUR FIGURES SUGGEST RETAIL SALES WILL GO UP 1 PER CENT NEXT YEAR. BUT IF YOU TAKE INTO ACCOUNT INFLATION AND POPULATION GROWTH, ARE YOU WORRIED THAT IN REAL TERMS PER HEAD, RETAIL SALES ARE GOING TO DECLINE NEXT YEAR?**

**Paul:** We don't see any relief this year at all full stop. But there's lots still to be positive about. The tax cuts are coming through, we're seeing housing prices going up, and we're all in jobs, near full employment. So there's a lot of positives. But it's a cultural piece around people looking for value just generally that will be slightly embedded for the rest of this year. We'll see some relief when we get to Christmas, but if you're a retailer right now - and it doesn't matter whether you are David Jones or the Reject Shop - it's all about value.

You can see how even our premium department stores are being impacted. Even the rich want to save because it's what everybody says we should do. They're still spending, but they're also looking looking for value. I'm hoping that 1 per cent does translate, and the key piece in there is it's what's up for grabs. That's the way I would describe it.

There'll also probably be a move to doing more service-related things - possibly travel, possibly other things that people have been holding off for - and that's what we need to see play out. That whole circular



economy piece has generated a big shift in consumer attitude that retailers need to be aware of. For those of you who have been to Selfridges in London, they've actually opened up a whole shop around customers being able to return goods, get them mended, and to sell secondhand goods. Who would have ever thought a department store would sell secondhand goods like this, but that's what's happening. And we're seeing that now coming to Australia.

The beauty about running a premium department store previously is that I'm seeing a lot of the trends in the GFC (global financial crisis) replay today. Department stores sit across so many categories, and in the history of a downturn in spending, 75 per cent of discretionary spending is done by women. And the trend generally is that women will stop shopping for the home first. And that's what we saw, the home category just plummeted immediately. Now, on top of that, during COVID, that's where we spent our money because we had nothing else to do with it. Then the next category that fell over was men's fashion. So women stopped buying for their husband. And then the next category was kids, and then the last category was the women's category. But what you've seen is, in fact, the cosmetic department is going gangbusters. The reality is it's easier to get a new lipstick and that way you update your wardrobe immediately without having to spend a lot of money. Those categories in some ways are recession-proof. And they continue.

So there are categories that are still winners. And even in the luxury-end, in my experience, that customer has no care about what's going on in the economy, and they just continue to spend, too.

**Michele:** The group of people that have been most hard-hit in

this economy are young families, particularly with children.

And they're young, low-income families with children. What's really important about that is if we look at the way that the wealth is distributed in Australia, and always has been, it's the young families with kids that are negative. So people living at home are fine, everything's taken care of more or less. You go out and you have a job, but you don't have too much responsibility. Then, along come the children, and you then know what expenses are. You've possibly bought a house, in which case you've got a mortgage, or maybe you haven't bought a house, in which case you've got rent. And then you've got these little monkeys that need clothes, they need stuff, you can't go to work as much, you've got to worry about this. It goes negative. So these people have got a double, triple, quadruple whammy.

**Paul:** I don't have children, but I'm guessing there's this emotional stress too because they always want something and it's hard to say no. That's the pressure around what families have to go through.

**Michele:** It is also incredibly important to realise that not everyone's poor; not everyone's feeling the cost of living crunch. There's another thing that [Australian social scientist] Ross Honeywell talks about quite often: narrative economics. The narrative today is the cost of living crisis. Even if you've got two incomes and are doing really well, you're still surrounded by the conversation about the cost of living crisis and the impact it is having. We have to remember that we are not all needing to support the bottom-end. And in fact, government policy is doing a lot of work to support those lower-income families with children. And retail doesn't have to stop because that group is in real strife. ●