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Retail to e-Tail – the changing landscape

Online shopping has swept across the retail landscape like a tidal wave in recent years, forcing traditional retailers to innovate or risk being swamped. Many ASX listed retailers have been slow to react as local consumers take to the internet to bag a deal. This has opened up opportunities for a new breed of retailer. ASX listed retailers such as Harvey Norman, JB Hi Fi, Myer, and David Jones are consequently redefining their offering to stay in the game.

Australia's online retail spending grew 10.6 per cent to \$14.4 billion in the year to October 2013, from a standing start less than a decade ago. While this is still just 6.4 per cent of the amount spent via traditional channels, it is a wake-up call for bricks and mortar retailers.

Yet a recent report by Deloitte found not everyone is heeding the call. Australian retailers expected less than 2 per cent of their 2013 Christmas sales would be done online, with one in four retailers expecting to make no online sales at all.

The innovators

The e-Tail revolution is being fanned globally by the rapid uptake of smartphones, faster internet speeds and secure online payment solutions. Changing consumer trends are also fueling the success of online retail as buyers are increasingly enjoying being able to shop from the comfort of their couch. Innovation is being led not by the big end of town but by tech-savvy entrepreneurs. The emerging winners are online retailers, providers of e-commerce platforms and traditional stores with a clear online strategy.

One local success story, Surfstitch, is reportedly the largest online action sports and fashion retailer in the world. Founded in 2007, the company expects turnover to reach \$80 million this financial year and is considering a stock market listing or trade sale.

But it is in China where the online cash registers are ringing loudest. Online retailer Alibaba.com made headlines when it generated sales of US\$3 billion in one day. While Chinese retailers have the advantage of the biggest online market of 531 million plugged-in consumers, online shopping has no geographic boundaries. This is why it poses a threat to Australian retailers and, more broadly, to the Australian economy.



A key sector

Australia has 140,000 retail businesses representing 4.1 per cent of GDP. What's more, the sector employs 1.2 million people – or more than one in 10 Australian workers.

Not surprisingly, Australia's traditional retailers are beginning to fight back to retain market share. One recent example is Rebel Sport which was forced to improve its online strategy in the face of competition from online retailers such as CatchoftheDay. Rebel is also opening small stores in busy retail strips to augment its larger outlets in shopping malls.

The first Rebel FIT store opened in Sydney's Balmain in November 2013 with a restricted range of sporting apparel and in-store kiosks where big ticket items can be ordered online and delivered or collected.

The big retailers are also fighting a rearguard action on the price front, urging the government to level the playing field by lowering the \$1000 threshold at which GST is charged on goods bought online from overseas retailers. The Federal Government has promised an announcement in early 2014.

But adding 10 per cent GST to the price of overseas goods is not necessarily the solution when Australians pay over 50 per cent more for computer games, for example, than their US counterparts.

The currency factor

Domestic retailers account for the lion's share of online sales in Australia at around 73 per cent and actually increased their share last year.



Whether this is due to a fall in the Australian dollar or better online offerings from local retailers is difficult to say.

The main contributors to growth in online sales last year were department and variety stores, groceries and liquor, and media (movies, books and music). Homeware and appliances are also popular online purchases.

The 35-44 age-group account for the biggest online spenders with average purchases 34 per cent above the national average. The under 25s spend comparatively more on fashion, media and toys and computer games while the over 65s spend more on groceries and liquor.

Buying online is a trend that is likely to accelerate along with advances in technology and only the most nimble retailers will survive.

If you would like to discuss retail investments in the context of your investment portfolio, don't hesitate to contact us.



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