A perspective on the challenges and outlook for retailers in Australia

The Retail Evolution – Sunshine Coast Business Council

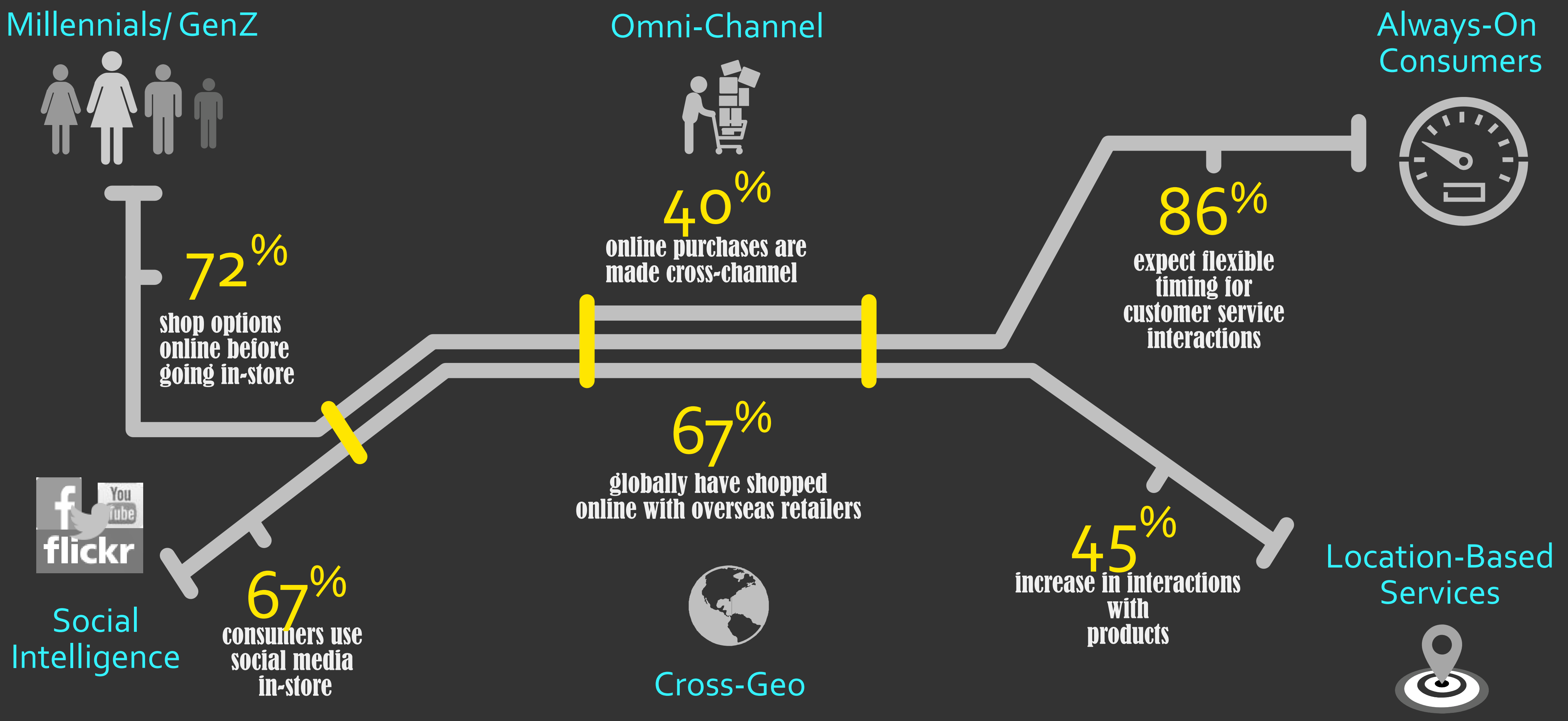
May 2018

The better the question. The better the answer.
The better the world works.

EY
Building a better working world

The changing nature of the Australian Consumer

Global trends in consumer activity…



Source: EY Global Surveys, 2016

EY's recent Australian Digital State of the Nation Report also shows that Consumers are better informed and more empowered than ever before

88%
One of the highest levels of smartphone usage in the world

6.8hrs
On average, online for 6.8 hours a day and on their mobile for 2 hours a day

30%
given feedback to a company on social media in the past 12 months

58%
placed an item in a cart whilst shopping online, but did not complete the purchase

94%
research a product or service whilst in store

90%
are currently on at least one social media network

51%
looked at someone's social media page to find out information about them

33%
consider themselves to be early adopters of technology

Source: EY Australian Digital State of the Nation Report 2017

Understanding Millennials and Gen Z

Digital natives

- Research online while instore twice as high as for Baby Boomers and Gen X
- 1 in 3 prefer to communicate with organisations online/social media rather than in person (vs 1 in 7 for boomers/Gen X)
- 7 in 10 trust digital companies as much as traditional brands

Disconnected connection

- Always on: checking their phone 221 a day (3 hours 16 mins)
- F.O.M.O. and social media anxiety
- More connected than ever but two thirds report feeling lonely on a weekly basis

Responsibility

- Over 8 in 10 give to charity and 75% think it's important to give back to charity
- 2 in 3 want to start their own business
- 6 in 10 want to work for a company that gives them a purpose

Information overload

- Multi-screen and multi-task is the new normal
- Undivided attention is a thing of the past…
  8 second filter

How to succeed with the new generation of consumers and shoppers

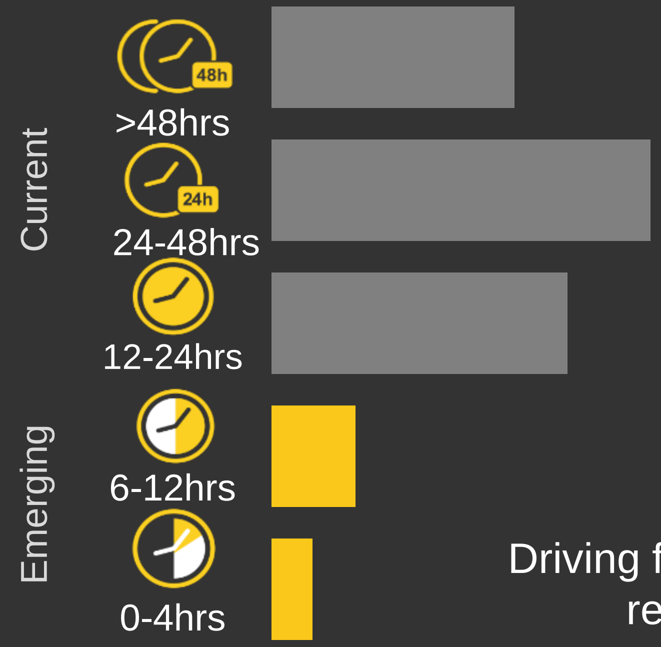
Engagement:	LATTE*	Value for money	Personalisation
Shopping:	Anytime, anywhere, anyhow	Channel loyalty disappearing	Experience
Interaction:	Social	Informed engagement	Trust

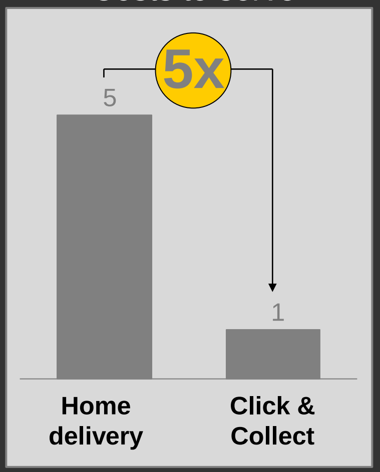
*Local Authentic Traceable Transparent Ethical“

Retail sector challenges, progress and opportunities

Service promises & customer approaches are significantly driving costs up. The death of stores is unfounded, it is more about their changing role

Link Between Service Promise and Channel and Cost to Serve





Driving foot traffic in-store will remain important

Setting the retail value chain up for multiple levels of customer fulfilment

1. Local Store
2. Hub Store
3. Dark Store
4. Distribution Centre
5. Supplier Drop Ship

Click and Collect

Drive Thru' Collect

Partner or Own in-Store Lockers

Home Delivery/ Deliver to Door

It is becoming clearer that the prosperity of brick & mortar retailers lies in cost effective customer experience and service options rather than single channel or price

Such change is driving major new demands on retail workforces requiring a new level of staffing capability and responsiveness

From Relatively Basic	To Significantly More Sophisticated
► Filling shelves ► Conducting store operations ► Checking receipts/ managing stock ► Serving customers/ orders/ demand ► Closing sales with some upselling ► Visual merchandising ► Updating POS ► Managing staff/ rostering/ T&A ► Administration/ banking ► Housekeeping	All of the things opposite, plus critically: ► Differentiating on service/ satisfaction/ creating interest ► Creating an environment that excites customers to want to return/ constantly engage frequently ► Checking out social media views and improvements ► Becoming deep information providers/ product experts ► Capturing sales, up/ cross selling, quick online stock lookup ► Managing distributed order management systems ► Managing online orders/ click and collect/ lockers ► Managing picking, packing, administration of orders ► Managing couriers, truck routing, home delivery ► Managing perpetual inventory/ stock accuracy ► Planning for/ responding to surge demand

New front of store customer experience, online back of store operations handling, and in-store availability robustness needs to be a major feature in new workforce plans

Similarly, the role of Shopping Centre needs to (and will) morph significantly

From:

Shopping, Services & Fast Food Centric

To:

Shopping, Services, Restaurants, Entertainment, Experiences & Logistics Centric

Shopping

+

Experiences

+

Entertainment

+

Fast Food & Fine Dining

+

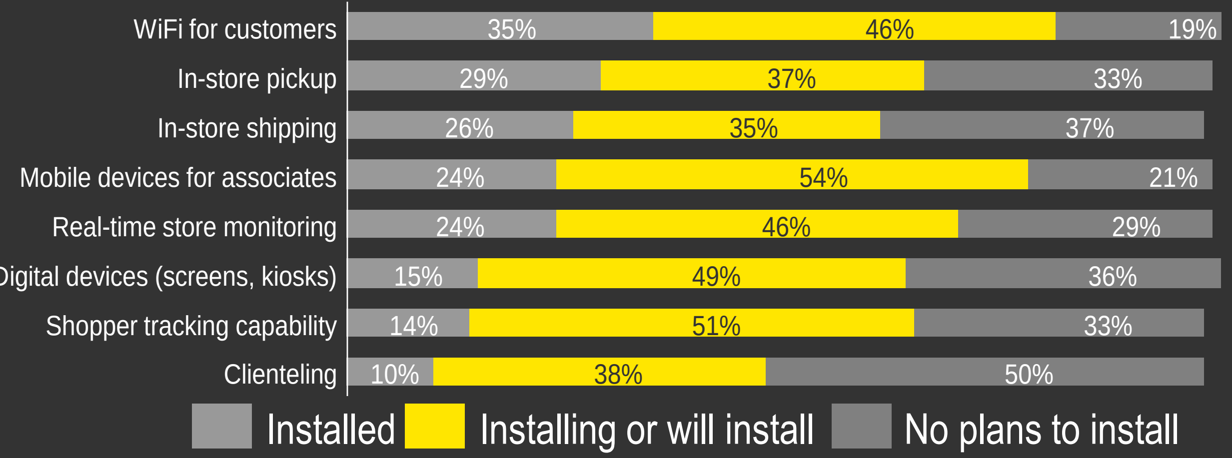
Exercise

+

Click & Collect Hubs and Consolidated Home Delivery Hubs

Horizon I – Next 5 Years – Already being used and increasingly rolled out

New Store Enabling Technologies Being Implemented



Traditional Store Systems Being Upgraded

- Point of Sale with omni channel capabilities
- VR informing product positions/ store layouts

Self Help Devices and Virtual Shop Assistants Being Trialled

- Beacon Analytics
- Self Help Kiosks (eg: Debenhams, Tesco)
- Artificial Intelligence Virtual Shop Assistants (Pepper)

New Customer Interaction Approaches being trialled

- Uniqlo Umood   Endless Aisle - Rail Stations

Predictive Marketing Platforms being implemented

- Population density modelling per customer personas (Online vs click and collect vs traditional shopper)
- Predictive analytics per customer persona
- Personalisation & Predictive Campaign Management
- Price and offer optimisation

Key Omni Channel Technologies being implemented

- Advanced omni-channel capable WMS/ TMS/ DOM
- Machine Learning for Forecast algorithm refinement
- Cost to Serve and Control Towers
- New IoT/ Blockchain Track/Trace Devices
- Drones (inside 4 walls - not for Pizza's!)

Horizon II – 5 to 10 Years Horizon – Trials underway but a long way to go

Dynamic Pricing

- Medium term priority with a few retailers
- Time of day, channel or other type pricing
- Has challenges but is potential next wave

Augmented Reality

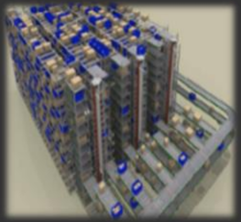
- Microsoft HoloLens early trails, Pokemon
- Likely a feature for in-store entertainment
- Full use cases unclear but possible match of digital shopping lists to planograms via AR glasses for easy in store navigation

Contactless Payment

- Amazon Go trials – use smart phones in store to check in monitors products handled and picked up and charges on store exit without person interaction

Store Drive Throughs

- Increasing needs for shopping centres to cater for quick access for shoppers and pick-up/ delivery drivers (gig economy/ ride sharing)



Redefining Retailer distribution networks/ approaches

- Collapsing onshore DC footprint via offshore consolidation to drive store ready deliveries from many manufacturers
- Automated DC's – bespoke aisle position ready delivery
- Automated dark stores - customer merged orders
- Night time drop and drive deliveries to combat congestion

Redefining Manufacturer distribution networks/ approaches

- Create direct consumer capabilities via Amazon/ others
- Use of automation for unit picking/ assembly

New industry-wide multi-user digital freight solutions

- Onshore Port Automation
- Freight Approach - Uber/ ride sharing/ Employee delivery
- New marketplaces e.g.: freight exchange/ Uber freight

Supply Chain Technology Upgrades In Progress

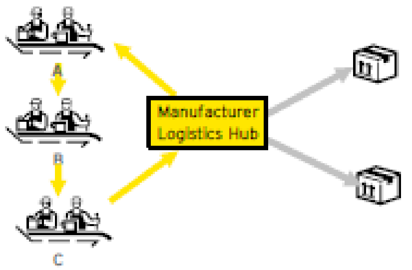
- Collaborative Data Sharing Platforms
- End-to-End Cost to Serve Systems
- Supply Chain Control Towers
- 3D Printing

Horizon III: 10+ Years

Implementing Manufacturers Logistics Hubs –
Multiple manufacturers or suppliers share warehouse and logistics to optimise overheads, inventory, and maximise delivery frequency and vehicle utilisation due to high product mix

Implementing Retail Logistics Consolidation Centres –
Multiple retailers share DC's in collaboration with suppliers for effective order fulfilment, to optimise overheads, inventory and maximise delivery frequency and vehicle utilisation

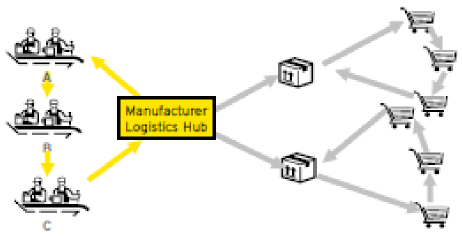
Manufacturer to Retailer DC delivery through Manufacturer Logistics Hub



30% cost reduction, 56% vehicle fill rate increase and low emissions

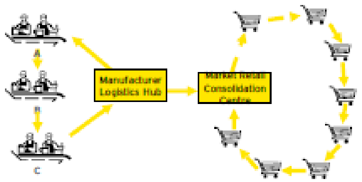
Can be used for slow movers in a low cost location

Manufacturer to Store delivery through Manufacturer Logistics Hub



23% cost reduction, 50% vehicle fill rate increase and low emissions

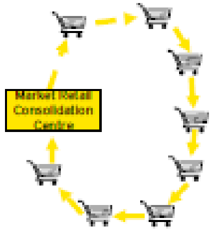
Manufacturer to Store delivery through Manufacturer Logistics Hub & Market Retail Consolidation Centre



39% cost reduction, 61% vehicle fill rate increase and low emissions

Maximises the milk round opportunity for multiple retailers and stores delivery

Market Retail Consolidation Centre to Store delivery



54% cost reduction, 72% vehicle fill rate increase and low emissions

Milk round deliveries from market retail consolidation centre to store


Thank You
Questions and
Discussion