

Rebuild New Zealand: retail

Retail in New Zealand: an overview



New Zealand's retail sector has a turnover of

\$57.8bn per annum¹



It comprises

c.27,000
businesses

and employs

c.220,000
New Zealanders



Retailers are one of the largest constituents of commercial tenants, providing a significant source of income to private landlords, real estate syndicates and some of New Zealand's largest pension funds.



The COVID-19 restrictions will mean that the survival of many retail businesses is on a knife-edge. The wage subsidy has effectively kept many people employed in retail, and has helped support consumer spending, but it is likely that we will see reduced consumer spending and redundancies across the sector when that subsidy runs out.

Greg Harford – Chief Executive – Retail NZ²

¹Source: Stats NZ

²5 August 2020.

New Zealand must focus on local retailers as the foundation of a sector recovery strategy

COVID-19 is the most significant challenge in a generation for consumer-facing businesses. In recent months, retailers have worked tirelessly to feed the country, look after their staff and customers and remain solvent. They must now turn to the future and look for ways to embed resilience, capitalise on accelerating consumer trends and integrate different business models.

Retail – a barometer on the wider economy

Individual retailers' experiences during the COVID-19 restrictions and prospects going forward continue to vary substantially. When the country entered Alert Level 4 in late March, supermarket sales were up and panic-buying left many grocery shelves empty. Those with online capabilities and whose products were deemed 'essential' also fared well. For other retailers, including those with a limited online proposition or reliant on international visitors, it remains a different story with growing signs of a 'two-speed' retail environment. These considerations and the risks to the financial viability of New Zealand's retailers have become all the more stark as the country and Auckland (as the largest contributor to GDP), in particular, are forced back into more restrictive levels of lockdown.

As a sector, retail has benefited both directly and indirectly from the Government's Wage Subsidy Scheme. However, with the current scheme due to end on 1 September (and the recently announced extension expiring on 14 September) and our borders remaining closed, the economic outlook is uncertain. We take a look at the numbers that paint a picture of the retail trading environment since the arrival of COVID-19 and consider what recent developments in consumer sentiment may tell us about what lies ahead for the retail sector.

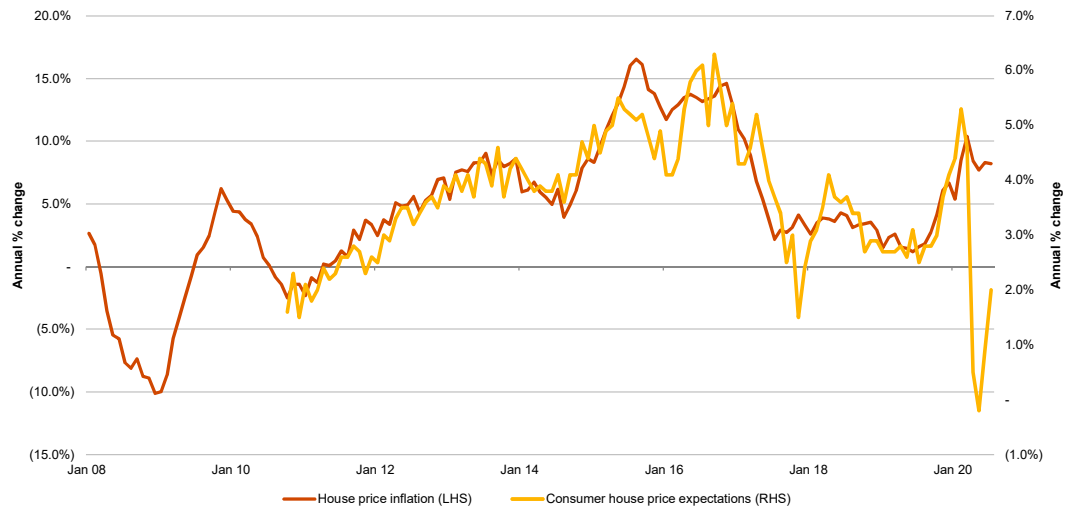
³ Similar scenes were also witnessed when the Auckland region entered Alert Level 3 on 12 August 2020.

Volatile consumer confidence

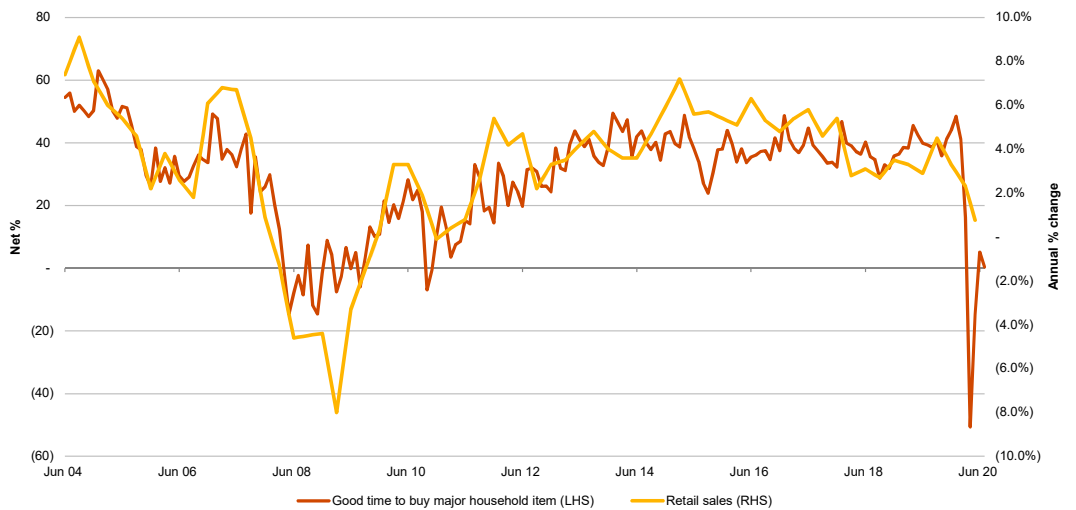
Uncertainty around the economic impact of COVID-19, changes in lockdown restrictions and what that means for employment is affecting confidence in the economy and personal finances. Based on the ANZ-Roy Morgan Consumer Confidence Survey, consumer confidence fell 21 points in April to 84.8

– roughly where it troughed in 2008 following the Global Financial Crisis (GFC). Consumer confidence rebounded 8 and 12 points in May and June respectively, but was basically unchanged in July, remaining well below long-term historical averages (having recovered about half its fall, but still sitting at around 2009 levels).

House price outcomes and expectations



ANZ Consumer Confidence "Good time to buy a major household item" and retail sales



Source: ANZ Research, Roy Morgan – 31 July 2020.



Consumer Confidence was steady in July. It has made back around half its fall, but seems to have run out of puff for now...The global economy is in strife, and our doors are shut to international tourists and students. Our national income is now lower, and while it won't hit people evenly, it will hurt.

ANZ Research, Roy Morgan – 31 July 2020

Trends in household spending

While expenditure on major household items initially recovered strongly after we moved out of Alert Level 4 in June, the net proportion of households who think it's a good time to buy a major household item gave up 5 points in July, falling to 0% (a recessionary level), suggesting the unexpected post-lockdown recovery in retail spending may fade quite rapidly. The concern is that consumer sentiment and spending levels deteriorate as households spend their involuntary lockdown savings (and for some, their international holiday budgets), the novelty of 'supporting local' fades, Government support/subsidies decline, a further period of lockdown restrictions is required and unemployment increases.

New Zealand has delivered a strong health response that has been globally recognised. Unfortunately, our elimination strategy may also prove to be our Achilles' heel as many countries continue to struggle with the virus and the re-opening of our international borders, e.g. the 'Australasian bubble', appears increasingly unlikely. Despite the increase in domestic tourism during the July school holidays, the outlook for tourism remains challenging. Jobs lost in the tourism sector won't be easily replaced, with the impact falling particularly heavily outside the major cities in towns such as Queenstown and Rotorua.

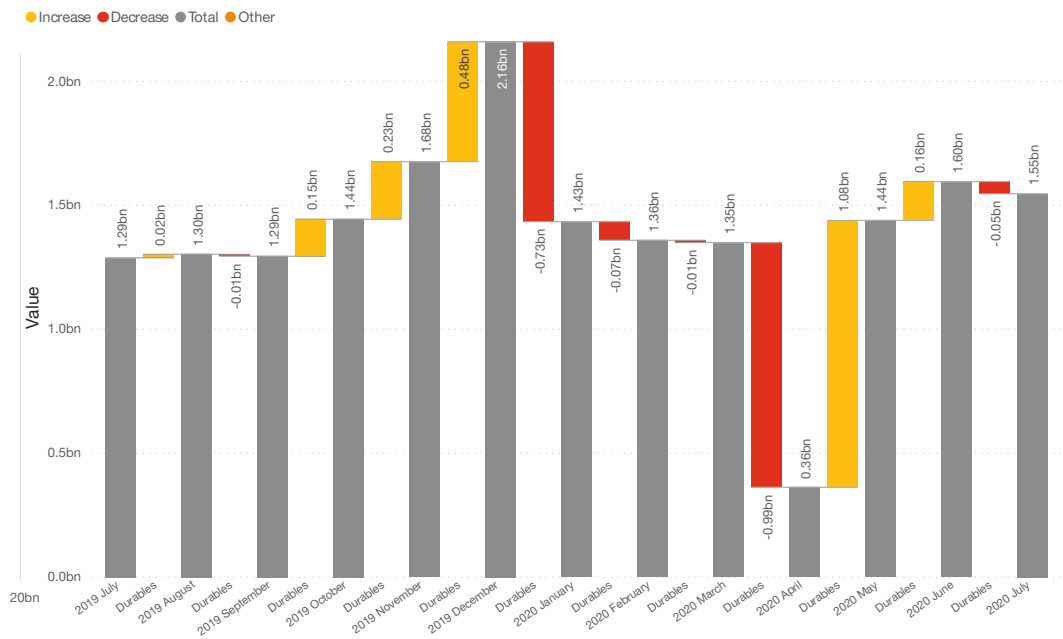
The volatility in consumer spending habits can be seen in the Stats NZ electronic card transactions series data that includes all debit, credit, and charge card transactions with New Zealand-based merchants. Through our analysis and data visualisation dashboards (and commented elsewhere), it is readily apparent that year on year consumer spend on durables⁴ now exceeds pre-COVID-19 levels, e.g. durables spending for July 2020 was up \$259 million or 20% (compared to July 2019). Interestingly, the recovery in hospitality⁵ continues with spending on food and beverage services for the month of July increasing \$92 million (+11%) year on year, while accommodation services continue to suffer due to the border restrictions with spending down \$30 million (-16%) for the same period. While some of the year on year figures are encouraging, year to date spending highlights the economic impact of lockdown, e.g. year to date electronic spending in the hospitality and apparel sectors is down -22.3% and -18.7%, respectively.

From a retail sector perspective, the concern remains that more challenges lie ahead as consumer confidence stalls, unemployment increases, household incomes decline, contact fear becomes more widespread (in the event of further evidence of community transfer) and the true impact of COVID-19 works its way through the New Zealand economy.

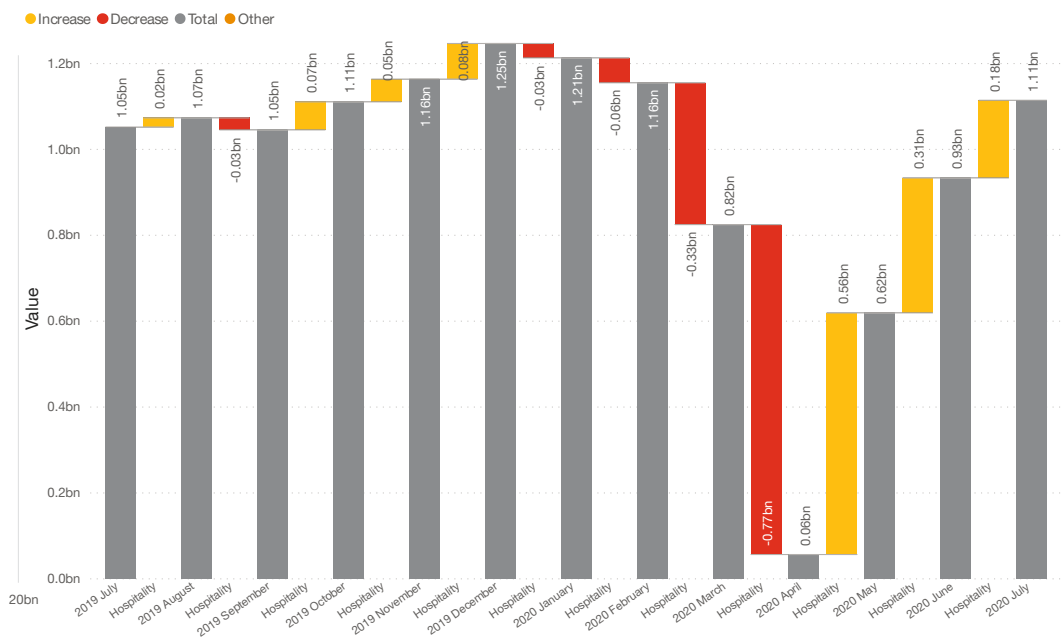
⁴ Furniture, electrical, and hardware, recreational goods, department stores, pharmaceutical, cosmetic, toiletry goods and other store-based retailing.

⁵ Accommodation, food and beverage services.

Durables - Change in spending last 12 months



Hospitality - Change in spending last 12 months



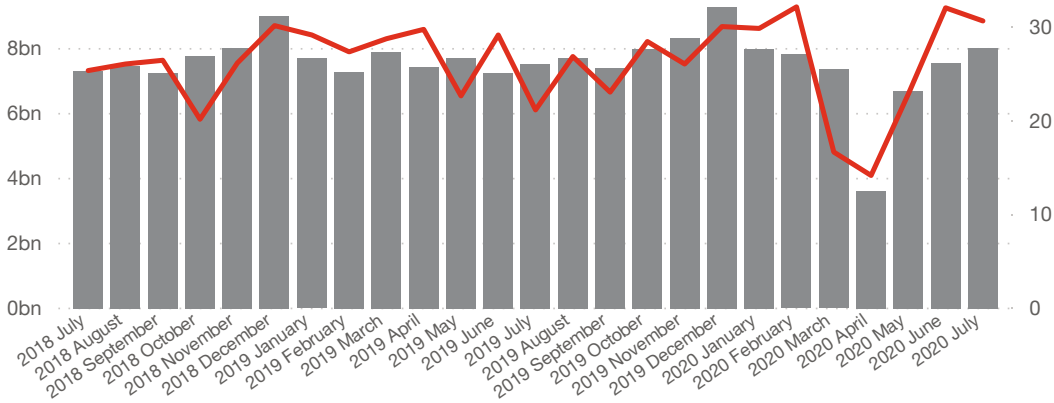
Source: Stats NZ, PwC New Zealand

In terms of what to look out for, our dashboard highlights a strong correlation between:

1. Consumer expectations of economic conditions in the next 12 months (Q3. ANZ Research, Roy Morgan Survey) and total electronic spending (as measured monthly by Stats NZ); and
2. Consumer attitudes towards buying a major household item (Q5. ANZ Research, Roy Morgan Survey) and electronic spending on durables (as measured monthly by Stats NZ).

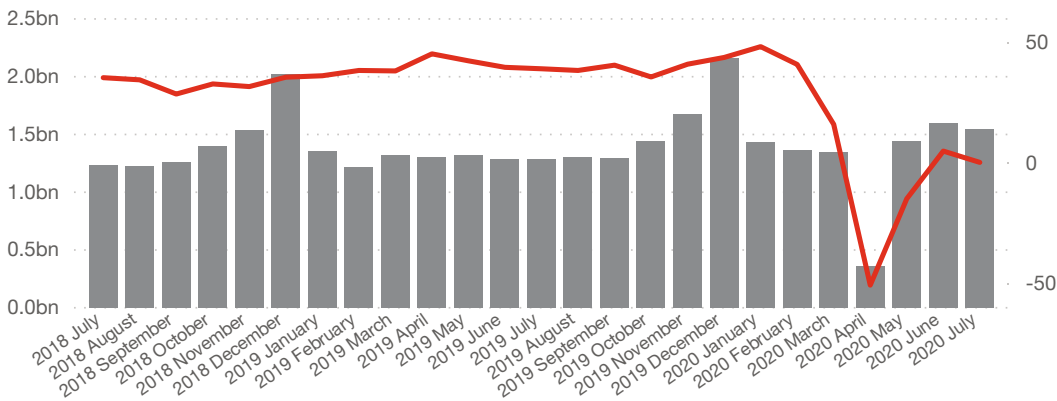
Consumer Economic Expectations

● Actual electronic spending ● Household sentiment - next 12 months



Attitude Towards Major Household Spend

● Actual spending on household durables ● Sentiment toward major household item purchases



Source: ANZ Research – Roy Morgan, Stats NZ and PwC New Zealand

The ANZ Research-Roy Morgan Consumer Confidence Survey is likely to be closely watched by industry participants in coming months, e.g. the correlation between July’s decline in attitudes towards major household spend and electronic spending on durables, providing

early insights in relation to the longer-term consequences of declining Government support, our borders remaining closed, community transfer concerns, growing unemployment and declining household incomes.

Consumer behaviour

A new generation of cautious consumers

Household debt, financial hardship and 'contact fear' will dictate consumer behaviour and test trust during the recovery phase. During lockdown, consumers have learnt new shopping habits and will be more cautious, digitally aware and likely to change their spending patterns to reflect their new economic reality.

Pivoting back to savings

When faced with economic uncertainty, households tend to increase savings. This, in turn, slows the recovery rate for businesses in the short-to-medium term. The GFC saw savings increased by 10% of disposable income and consumption drastically decreased. Significantly, the increase in the savings rate was not just a short-term spike – it persisted for almost five years before starting to tail off. In the wake of the COVID-19 crisis, we can expect a similarly prolonged precautionary savings increase, across large segments of the community. Pervasive uncertainty regarding how long the global pandemic will last, the extent of community spread, the effectiveness of contact tracing and the quest for a vaccine will drive households to save more.

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Building trust

Tried and trusted brands, and companies (particularly New Zealand-owned) with a strong social licence and values-driven narrative will have a competitive advantage. For those looking to build trust, New Zealand consumers are receptive to progressive, empathetic, community-focused businesses right now, while agility is highly valued too.

Consumers are subjecting organisations to an unprecedented level of scrutiny about their ethical behaviour. Now is the time when brand reputations will be transformed – some for the better, but many for the worse. Then, as we make progress in the COVID-19 environment, and national borders are re-opened, visibility of the supply chain will become increasingly important. Internationally-owned corporations, and those registered in offshore tax havens, will face lower levels of trust, and we can expect that Government support will not be forthcoming for these reasons.

Digital transformation

Online shopping has boomed during the crisis, testing the reliability of digital platforms and their supply chains. Companies that don't have a compelling online shopping experience, or that lag behind competitors in their online proposition, have suffered.

Retail businesses that rely on physical channels, and fail to invest in a broader omni-channel approach, do so at their peril. The challenge here is the ability of retailers to be agile, i.e. physical supply chains, including warehouse locations and layouts, are significant investments and typically set-up for the longer term.

Consumer trends

Overnight, demand profiles have changed dramatically, e.g. from foodservice to retail, from shop yourself to shop online. The winners will be those businesses that respond well to these challenges, doing so efficiently and maintaining appropriate service levels with their customers. Globally, Amazon shares had recovered by early April and have out-performed the S&P 500 Index by 66% year to date⁶. In Australia, Myer's online sales were up 800% over the Easter weekend, with beauty purchases skyrocketing 7000% for their one day-only sale on Easter Saturday.⁷ Closer to home, the Warehouse Group recently reported that year-to-date online sales were up nearly 55%, making up 11.8% of its total sales compared with 7.8% a year ago.⁸

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⁶ Source: Bloomberg – as at 16 August 2020.

⁷ Myer Chief Customer Officer, Geoff Ikin – <https://insideretail.com.au/news/easter-weekend-drives-strong-online-sales-at-myer-202004>

⁸ 9 July 2020 – <https://www.stuff.co.nz/business/122080002/retail-therapy-boosts-the-warehouse-sales-after-lockdown>

A virtual future

While online shopping in New Zealand has seen reasonable growth in recent years, the lockdown has encouraged consumers to embrace the digital retail experience like never before. This acceleration of online shopping will compel retailers to reassess their long-term store/real estate requirements, resulting in further store closures, which may prove unpopular with local communities (as seen previously with the demise of retail bank branches).

As consumers become increasingly concerned about the state of their local high street, landlords may also be forced to realise that the alternative use value for some of their property may be limited. Changes in consumer spending patterns, including the continued shift towards online, will also have an impact on footfall, with the super-regional shopping malls expected to continue to draw consumers at the expense of the local high street and smaller shopping centres.

These changes in consumer shopping patterns will also cause larger, multi-store and international retailers to reassess their store by store/“four wall” profitability with further store closures (or market exit) inevitable. As COVID-19 continues to take its toll on certain sectors, particularly hospitality and tourism, competition for the remaining domestic spend will increase with a variety of B2B businesses already using digital marketing and an enhanced online proposition to engage with and sell directly to consumers.

Reliable infrastructure

Businesses will have to adapt to the increased demand for online goods and services to remain competitive, while warehousing, fulfilment and logistics operators will have to expand their capabilities in order to improve reliability and productivity (anecdotal evidence suggests that many consumers experienced frustration and delay in the fulfillment of their online orders over the lockdown period). Improved digital infrastructure, industry ‘last mile’ collaboration, advanced data and analytics, sourcing and supply chain efficiencies are essential.

Accelerated digitalisation and data reliance

As the economy recovers, increased digitisation levels will place higher expectations on New Zealand’s digital infrastructure and cybersecurity capabilities. Businesses that can rapidly adapt to e-commerce and e-services demand will be in an enviable position.

International online platforms with their substantial resources and broad product range will inevitably seek to take advantage of the increasing shift online and actively target New Zealand consumers. This will put increasing pressure on local retailers who must enhance their multichannel proposition and invest in their digital capabilities, including marketing, infrastructure and fulfilment, in order to compete effectively and build a loyal customer base.

The future is here

At PwC, we believe that with the right tools and talent, companies can meet market disruption head-on and ‘reinvent the future’ for their own particular organisation. For companies that cater to the end consumer, the future is arriving more quickly than anyone imagined just a few short months ago, accelerating digital trends that had already been transforming consumer behaviour. Businesses need to understand how this new world affects all their touch points with the customer if they are to actively reinvent their own future and not be at the mercy of external events.

The pandemic has accelerated the pace of behavioural changes around the world — how people work, eat, communicate, play and learn. And this extends to consumption patterns, too, in every category, including groceries, entertainment, healthcare and even data. It’s important for B2C companies of all kinds to understand the degree to which the current customer journey has already changed, and just how different it might still become.

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PwC Global Consumer Insights Survey 2020

PwC's global research across consumers (who were surveyed both before and after the COVID-19 outbreak) provides the following key insights:

International insights

1. Spending outlook shifts as job losses mount:

Following the outbreak of COVID-19, 40% of respondents reported a decrease in income as a result of job loss or redundancy. In addition, the percentage of those who said they were going to spend less in the next few months almost doubled, and the number who said they were going to spend more dropped by more than 10 percentage points.

2. Consumers are spending less on non-food categories:

Since the outbreak, people are spending the most on groceries, in-home entertainment and DIY projects. For food items, they're making fewer shopping trips – 45% say they are shopping less often for groceries – but filling up bigger baskets. For most non-food items, consumers are buying online and, with the exception of entertainment, media and DIY, spending significantly less.

3. Contact fear: For consumers to feel confident enough to return to a semblance of normal physical interaction with retailers, hotels and other consumer-facing businesses, the first thing they'll need is solid assurance that places of business have a plan to make their customer experience as safe as possible. However, no matter how safe consumer-facing companies make their products, supply chains and stores, the reality is that many of us have gotten used to doing more at home – 36% of respondents said their household spending had increased in the area of entertainment and media, and 26% said their household spending had increased in the combined areas of DIY, home improvement and gardening.

4. Acceleration of online adoption: Not only has the impact of the pandemic reinforced the growing trend for online shopping, it's encouraged experimentation, coaxing consumers to explore different ways to access products and services and accelerating certain behaviours that have long been brewing. Previously, online grocery shopping was well behind online shopping for non-food items. But what was unthinkable to many just a few months ago – buying fresh produce online, for example – has become commonplace.

Most consumers who've increased online shopping for groceries will continue current behaviour

Online grocery shopping activity before COVID-19

9% shopped for groceries exclusively online

Online grocery shopping activity after the COVID-19 outbreak

63% 86%

are buying more groceries online/by phone than before social distancing

are likely to continue to shop online/by phone when social distancing measures are removed

5. Consumers focused on healthy living:

Prior to the pandemic, almost half of respondents indicated they were making dietary changes (taking supplements, implementing plant-based food options or restricting certain food groups) in an effort to adopt a healthier lifestyle. More recently, PwC has found a huge, renewed focus not only on diet, but on the holistic concept of healthy living. However, customers don't just want businesses to care about them – today they also expect companies to care about the planet.

Implications and action items

1. Consumer spending: To adjust to recent changes in consumer behaviour and spending, companies should:

- understand what shoppers really value to determine the minimum viable basket — the ‘anchor’ products or services that must be available at all times and prioritised through the supply chain;
- ensure that the supply chain has been recalibrated to maintain delivery of products for this core basket;
- make an effort to understand how customers’ general priorities are changing to put more weight on price and value, and use this opportunity to re-evaluate their relationship with their customers; and
- consider new pricing strategies and loyalty programmes in the digital ecosystem to drive and maintain customer engagement.

2. Safety concerns: To be responsive to safety concerns and at-home interests, businesses should:

- have adequate stocks and provide their employees (if necessary, e.g. following Government advice or a change in Alert Level) appropriate personal protective equipment;
- communicate frequently with consumers about safety policies, including which trusted sources they are relying on for guidance; and
- improve employees’ digital fitness so they can meet consumers where they are for now: online.



There are also growing signs of a two-speed retail environment as some categories experience record sales, while other retailers appear increasingly pessimistic about their prospects going forward. Focusing on customer needs with a differentiated retail proposition and genuine omni-channel offer will be crucial in the coming months.

3. Multi-channel convergence:

The pandemic has clearly highlighted the benefits of mobile shopping – its ease, portability and immediacy. However, the overarching trend will be towards a multi-channel experience, with consumer-facing companies needing to seamlessly integrate their offline and online experiences. As tools such as digital sizing in fashion, virtual shoppers, consumer collaboration platforms and augmented reality are introduced and begin to converge, companies should:

- invest in data and customer relationship management technology to drive frictionless commerce and engagement, including more sophisticated customer segmentation and loyalty programs; and
- reskill service staff so they can build content-rich experiences and better understand the end-to-end customer journey.

4. Healthy living:

In order to improve customer wellbeing and foster a culture of innovation, companies can:

- invest in the talent, research capabilities and digital tools to address consumer concerns;
- develop new, sustainable products and services;
- establish greater inclusivity and transparency across supply chains;
- find new supply chain partners that suit shifting consumer demands;
- increase R&D investments into the future of food and nutrition; and
- train staff to provide a consistent service in line with their brand/offer.

There's no escaping the fact that the retail sector is experiencing unprecedented challenges and will continue to do so for some time. There are also growing signs of a two-speed retail environment as some categories experience record sales, while other retailers appear increasingly pessimistic about their prospects going forward. Focusing on customer needs with a differentiated retail proposition and genuine omni-channel offer will be crucial in the coming months.

These considerations and the risks to the financial viability of New Zealand's retailers have become all the more stark as the country now considers the economic implications of more restrictive lockdown levels. It will be important for retailers to stay ahead of changes in consumer trends and shifts in the market, considering the customer experience at all stages (and across all channels) of the purchasing journey. For most, this will require a reappraisal of their existing and future physical footprint, digital strategy, supply chain, distribution and fulfillment capabilities.

Contact us

PwC has advised many of New Zealand's largest listed and privately-owned retailers across a wide variety of projects and roles, including assurance, tax, capital solutions, transactions services, M&A, restructuring, real estate, supply chain and digital consulting services.

We have a comprehensive understanding of the rapidly evolving retail environment (offline and online) and are uniquely placed to combine strategy with technical, industry and execution expertise. We pride ourselves on a focused partnership approach to our work in the sector, based on principles of trust, independence and challenging insight, using specialist teams tailored to specific client needs.

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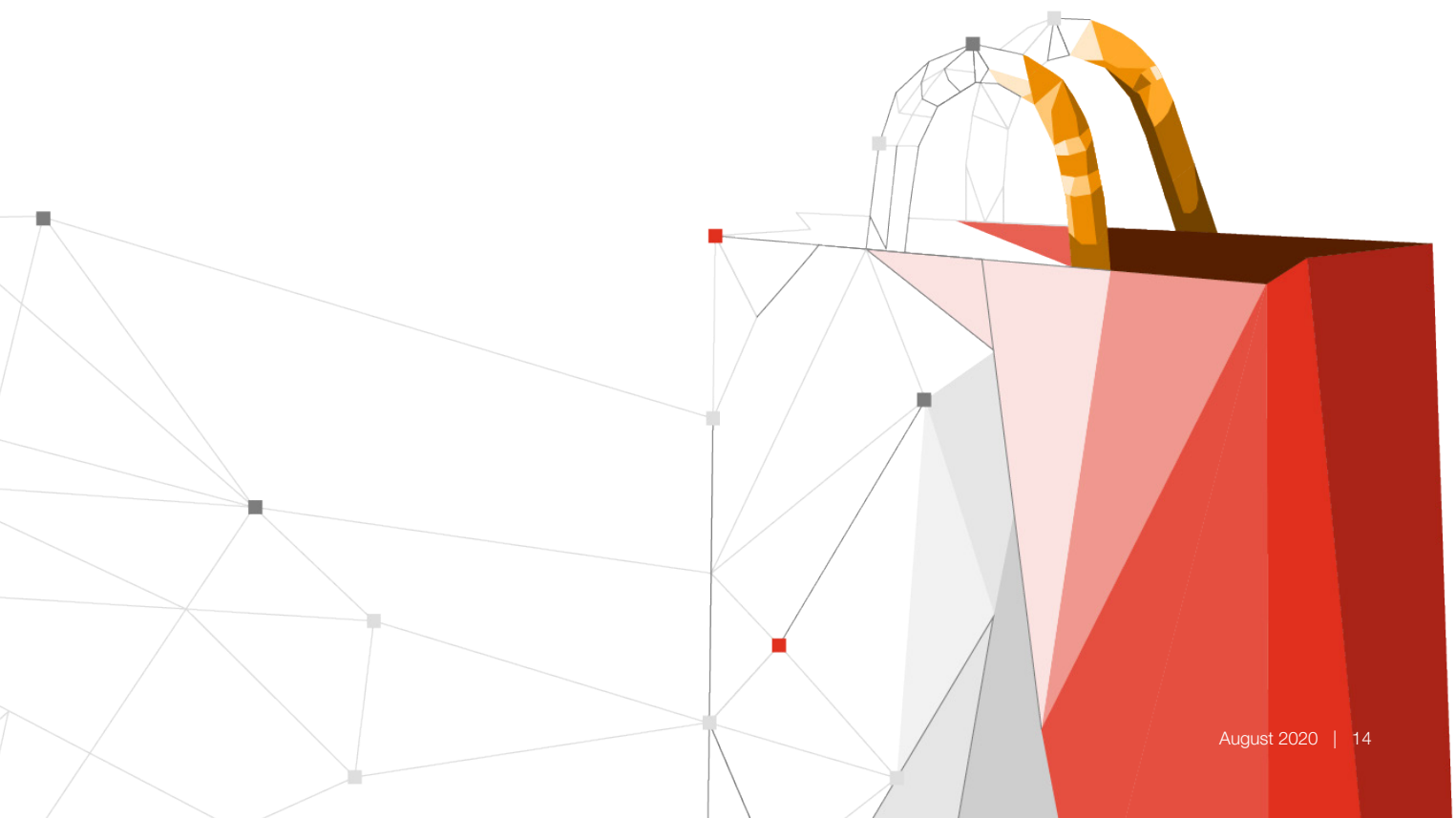
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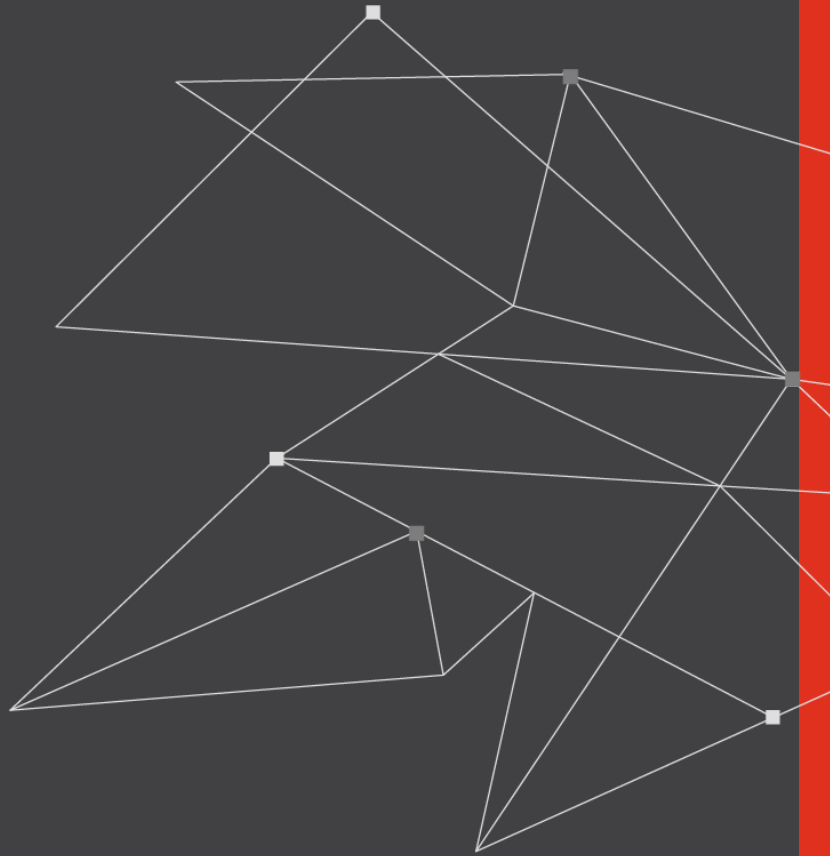
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