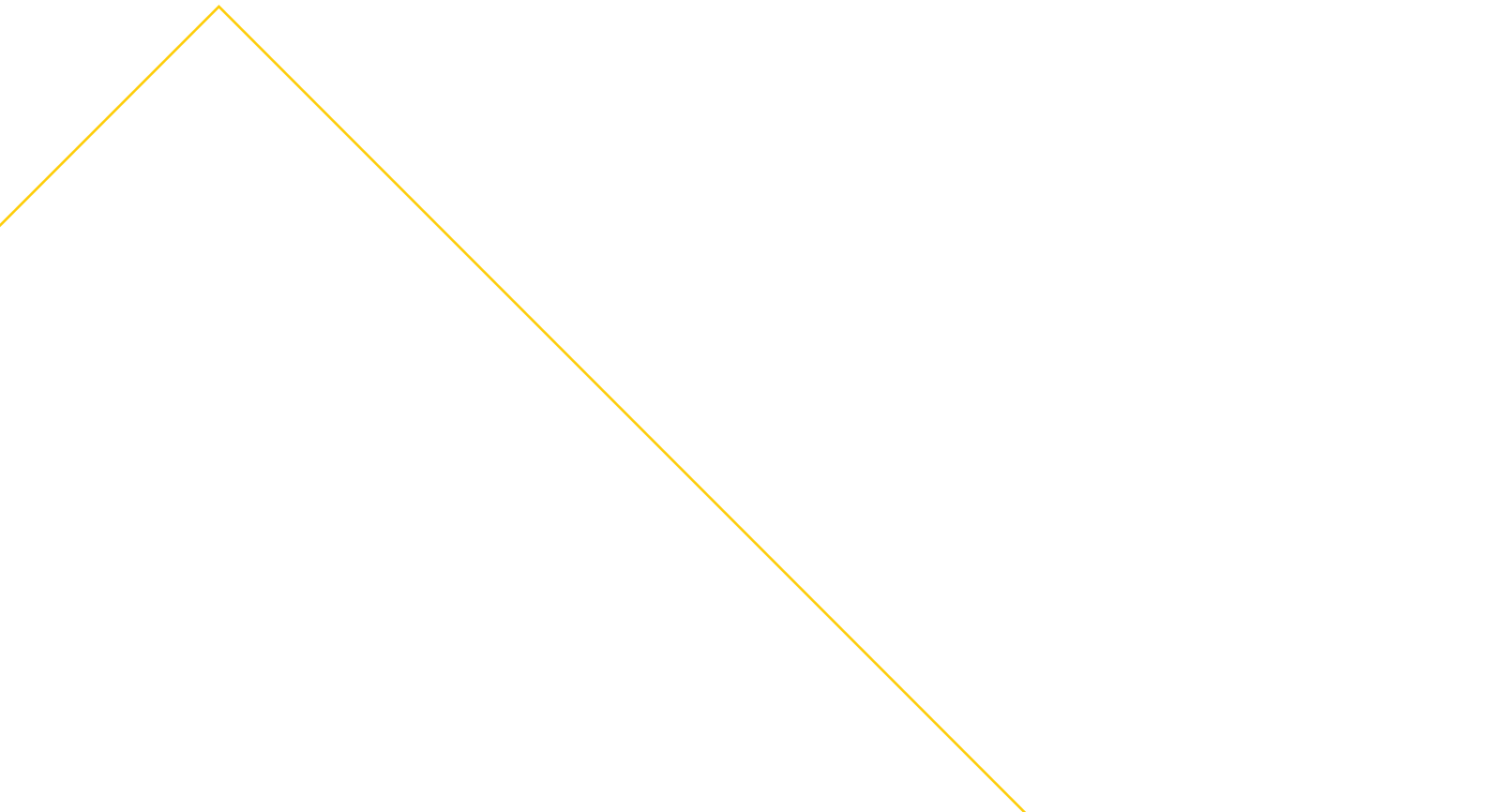




Retail
Pathways:
*Reshape and
recover.*

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CommBank Retail Pathways

Series introduction

In 2015, CommBank launched its inaugural Retail Insights Report, initiating a five year investigation of the trends shaping consumer perception and retailers' strategies. Over that period, there has been mounting speculation that seismic shifts in the market would spell an end to conventional retail. Changing consumer behaviours, innovative business models and new technologies have all factored into the predictions of a cataclysmic shift.

But for agile retailers, no such demise has occurred. Instead, these retailers have long been in a state of constant and rapid reinvention, adjusting their operations to remain in lock step with emerging trends. In many cases, resilience and dynamism have prevailed even in the face of a global pandemic.

In Australia, a great example is the frenzied response to Amazon's local market entry in 2017. At the time, while retailers were evenly divided on the threat that Amazon posed, commentators were stoking concerns that it would envelop the retail market as we knew it. That perception softened in the period following Amazon's on-shore arrival as retailers adapted to a new competitive landscape and many viewed the online marketplace as a new and valuable sales channel.

The impact of the coronavirus pandemic can certainly be categorised among the most significant catalysts for change. The unique impact of widespread store closures and nervous shoppers cannot be ignored and has put many retailers under immense pressure.

However, as with the disruptions before it, many retailers have risen to the challenge of navigating change, armed with the capabilities they had been investing in for years. Moreover, many of the forces they have recently faced were those already in play well before the pandemic. But now they were magnified.

Just before the pandemic broke, we set out to understand what had separated stronger and weaker retailers over the past five years. We spoke to retailers and consumers about their experiences, covering all aspects of retailing that had been the focus of CommBank's Retail Insights research program to date.

At the time, it seemed like coronavirus would change the retail playing field making the insights about five years of retail trends somewhat irrelevant. In many ways, the opposite was proven to be true. The traits of stronger retailers and the expectations of consumers that had evolved over that time were shown to be even more applicable today.

That conclusion was borne out of conversations we had with many retailers across categories, industry experts, and suppliers, to delve into what was really changing and how the sector was responding. The resulting insights and findings formed the basis for the *Retail Pathways* series, a collection of articles designed to support retailers as they navigate the current environment and beyond.

Jerry Macey,
Executive Manager Retail and Diversified Industries



The content in the *Retail Pathways: Reshape and recover* series is based on surveys and interviews conducted by ACA Research on behalf of the Commonwealth Bank, consisting of; an online quantitative survey of Australian retailers in January – February 2020, involving 574 decision-makers from retailers across Australia, an online quantitative survey of 1,509 online shoppers across Australia in February 2020 and 10 in-depth qualitative interviews with retail decision-makers in February 2020.

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Chapter 1 -

Coronavirus: the great accelerator



Rapidly shifting market conditions, including evolving consumer expectations, are not new retail phenomena. They are among the few enduring constants in retail. The ability to deftly navigate these changes has, and will continue to, set strong retailers apart.

As more retailers re-open their doors and lockdown measures ease, adapting to change takes on new meaning. The stakes couldn't be higher. The survival of many retailers and much needed jobs hang in the balance. As we size up the task ahead, are we dealing with long-term structural change or more familiar trends sent into overdrive?

We are embarking on a quest to answer this, and other questions that will determine the fate of retailers during coronavirus. Our Retail Pathways series will assess the implications of major market shifts - from a breakthrough moment for online retail to forced change to the in-store experience.

To do this, and help chart a course for retailers, we will combine our own data and insights with views from leading retailers and experts from across the retail landscape.

The digital future arrives early

CommBank research from the Retail Insights survey conducted in July 2019 showed that online retail sales, relative to omni-channel retailers' total sales, had almost doubled since August 2015.¹ But from 2017, growth had tapered, with some shoppers still concerned about their lack of control over delivery, and the returns process.

With consumers confined to their homes and many retail outlets closed, we have broken through this barrier in spectacular fashion. Australia Post's delivery data shows that Australians have been

shopping online more than ever before. eCommerce grew 39% year-on-year in March and this increased further in April.

The situation in recent months has also further separated the shopping experience from making mere purchases. For example, the rush on essential items as availability became an issue for the first time. Shoppers may move to ensure they have a secure supply in future and be more inclined to sign up for subscription services to basic goods from toilet paper to groceries. The big question now is will consumers return to their pre-pandemic behaviours or have new habits become entrenched?

Either way, there is the potential for consumers to be more demanding of their online shopping experience and retailers will need to step up. This also has wide-reaching implications for bricks and mortar retailing as behaviours change. We outline the key opportunities over coming articles, but here's just some of the topics we will examine.

Consumer choice and the last mile: According to Australia Post, delivery is a defining part of the online shopping experience and for some customers, the perceived lack of control over delivery and, if necessary returns, has been a barrier when making the switch to online. With many people now working from home, some of these concerns may have been alleviated in the short term, but this is something retailers need to be thinking about as people slowly return to the physical workplace.

Australia Post General Manager, Parcels and Express Services, Ben Franzi said retailers need to remember that the last mile experience begins at the checkout.

“Customers want choice and control over how and when they receive their items, and so retailers need to present them with options upfront.”

“To determine these options, the big questions include; do shoppers want items the next business day or are they happy to wait? Do they want it sent to their home? Are they happy for it to be left in a safe place? Or would they prefer to have the item sent to a 24/7 Parcel locker the Post Office?”

“Retailers need to work closely with their fulfilment and logistics partners to make it as easy as possible for customers to receive their items, and return them should they need to,” Ben continued.”

Online marketplaces fill the void: As of January 2019, 97% of digital shoppers surveyed used online marketplaces but only 50% of retailers did and just 9% saw them as their greatest growth opportunity.² Meanwhile, as retailers ran out of stock for popular items as we prepared our homes for lockdown, shoppers turned to digital channels and online marketplaces in search of coveted items. Retailers may have inadvertently introduced a competitor and stand to lose loyal customers.

Has the in-store experience changed forever?

The shape and configuration of stores will continue to change as social distancing measures demand less clutter and larger spaces. Many retailers were already offering or building an in-store experience that made it worth visiting in person. Shoppers' health and safety will now be central to the ongoing success of these efforts.

Timely practical help

These are just some of the changes we have seen accelerate due to coronavirus. Of course, we can't ignore the post-pandemic economic realities of elevated unemployment rates and associated weak income growth. However, our research has previously found that the most successful retailers tend to focus on the factors within their control.³

And retailers have been adapting to many of the current trends for some time. That means we have the beginnings of a playbook. CommBank's Retail Insights reports have identified the winning strategies and defining traits of the most successful retailers. The Retail Pathways series will explore these strategies and share expert advice from across the sector to help you make sense of a future that is as uncertain as it ever has been.



¹ CommBank Retail Insights Report 9, November 2019

² CommBank Retail Insights Report 8, June 2019 - page 5

³ CommBank Retail Insights Report 7, December 2018 - page 12

Chapter 2 -

Adjusting to online retail in overdrive – part 1



According to CommBank research, omni-channel retailers' online sales growth – as a proportion of all sales – had flatlined¹ between the beginning of 2017 and mid-2019. Inertia had set in, defying retailers' predictions of an uplift in online shopping as seen in other countries. Since then, online shopping had lifted but in March 2020, the retail sector turned a sharp corner as coronavirus induced trading restrictions saw online retail sales rapidly accelerate.

From the consumers' perspective, some were forced to shop online for the first time and the scarcity of certain items – like staples then fitness equipment – meant online marketplaces became a natural place for shoppers to explore.

And online marketplaces globally have grown as a result. Already in the US, 49% of shoppers start their search for a product on Amazon², which in March announced the hiring of 175,000³ seasonal workers and in May stated they would convert 125,000 of these into permanent jobs⁴ in order to meet worldwide customer demand.

Locally, CommBank research from 2019⁵ showed almost all (97%) surveyed Australian digital shoppers buy from marketplaces, but only half of retailers sold through marketplaces and were grappling with the channel.⁵ That has clearly persisted. In early 2020, retailers ranked the growth of online marketplaces as their second biggest challenge of the past five years.

So, with shoppers gravitating to marketplaces, it's an opportune time for retailers to establish or strengthen their channel strategy to boost sales. We speak to industry experts about where retailers should focus.

The arrival of new shoppers

Online shopping has rapidly accelerated, but it isn't new. However, there are some recent changes to online retail likely to have a lasting impact and support increased use of marketplaces.

Matt Newell, Chief Executive Officer at the General Store, says while forecasts for change in the retail sector are generally overdone, one major change has been first-time digital shoppers entering the market.

"On a consumer level, the most important change is the arrival of new customer groups, like baby boomers, to online shopping" Matt says. "There is good upside for retailers who can bed in those new customers. Probably more so than focussing on existing online shoppers who were forced to ramp up because of isolation, as their online shopping will likely return to somewhere close to their original behaviour."

Since lockdown measures were introduced, Jethro Marks, Co-founder and Director of online retailer, The Nile, experienced first-hand an increase in "buyers who have never thought of buying online before." These sat alongside existing customers now shopping far more frequently.

Convenience takes centre stage

But Jethro says it's not just the expectations of new and unknown customers that retailers need to understand. There is a renewed customer focus on convenience following a period "where people couldn't go anywhere or didn't want to. If there is going to be one distinguishing factor for retailers, it will be who can make it as easy as possible for the customer to get what they want, in the timeframe they want it."

And online marketplaces are often synonymous with convenience. The 2019 CommBank research found that consumers were most attracted to online marketplaces' value, product range and ease of use.⁵

"Online marketplaces are a one-stop-shop for consumers," says Alana Fennessy, Manager Account Services APAC and China for ChannelAdvisor. "Their appeal comes from not just product selection and pricing, but a streamlined experience from the product research stage all the way through to post-sale support."

The online marketplace proposition

When developing an online marketplaces sales strategy, retailers need to tailor their approach. Having operated The Nile as an online marketplace for 17 years, and currently trading through eBay and Amazon, Jethro says that marketplaces are "very different from running your own store".

"On a marketplace, it's very different. A marketplace is a product-by-product, listing-level interaction with the customer, and the retailer's brand proposition is not as relevant."

"Retailers can have multiple products and they only need to focus on the individual product. That means having a good feedback rating, an attractive price and quick delivery."

"The system also manages our inventory," Jethro added. "One of the core advantages over bricks and mortar is that on the marketplace, we are quite fluid. You can range what sells rather than having to range what's part of the proposition to the customer."

Optimising the marketplace experience

Given the recent disruption to operations, Alana says retailers with scalable operations and flexible supply chains were able to adapt.

Another element that's vital is the link between customer service and overall marketplace success. "One thing to know about marketplaces is that if you provide poor customer service, your seller rating will decline," Alana explains. "For example, getting

your orders processed and delivered quickly leads to customer satisfaction. A poor delivery experience will result in your listing status deteriorating and ultimately impact your success on each marketplace."

"The value of data cannot be overstated," Alana says. "The right data is what should inform marketplace strategy including fulfilment and your understanding of consumer preferences. In this environment, it's no surprise that shoppers are more likely to buy an item when they are confident that they will be able to return it if something is wrong. So, ensuring you offer an easy returns process is important," Alana adds.

Using marketplaces to move stock

For retailers whose doors remain closed, are decluttering their stores or that sell seasonal products, online marketplaces can help move unsold inventory. As Jethro says, if you are an apparel retailer and you have a build-up of out of season stock, marketplaces in the northern hemisphere could be an attractive sales channel.

"You can as easily list products on Amazon in the US as you can in Australia. There is a massive market up there and it might mean some locally focused retailers become first-time exporters."

Alana adds that "with marketplaces, you can be creative with how you move products. There are marketplaces specifically designed to appeal to discount shoppers, which can be a great resource for brands and retailers looking to move out-of-season or end-of-life stock."

Developing a fit-for-purpose strategy

With online marketplaces firmly established as the search engine of retail, here are some important considerations for retailers looking to develop their sales strategy derived from the CommBank Retail Insights Report published in January 2019.⁵

- Apparent differences in online marketplace spending patterns exist across generations, genders, and shopper types, be they motivated by trust, brand, value or impulse. Retailers must, therefore, consider their customers' behaviours when matching their use of online marketplaces with their target market
- Each online marketplace has its unique strengths and challenges. It is critical retailers understand their position in the market and their objectives for incorporating online marketplaces in their channel strategy. Then retailers can map these to the online marketplaces that their target customers are using

- Many Australian online shoppers use both Asian and Western online marketplaces. They stood out for purchasing across more categories, buying double the number of products and spending almost twice as much online each month as consumers who only use Western marketplaces

As Alana points out, the primary goal for sellers is to make sure their products are available wherever and whenever their customer wants to shop. It's about being visible. And with more people now likely to use online marketplaces, having a strategy in place for each channel is critical.



¹ CommBank Retail Insights 9, November 2019.

² Search in 2020: How Consumer Search Behavior Is Adapting to Mobile, Voice and Visual Channels - eMarketer

³ <https://blog.aboutamazon.com/company-news/amazon-hiring-for-additional-75-000-jobs>

⁴ <https://blog.aboutamazon.com/company-news/amazons-actions-to-help-employees-communities-and-customers-affected-by-covid-19>

⁵ CommBank Retail Insights 8, January 2019.

Chapter 3 –

Adjusting to online retail in overdrive – part 2 (The Last Mile)



As online shopping surged during the coronavirus lockdowns, retailers' delivery partners stepped up their operations to get parcels out to consumers. Australia Post data shows just how busy freight companies were. During April, Australia Post saw a 95% increase in eCommerce purchases when compared to the same month last year.¹

Despite grappling with capacity and processing constraints due to social distancing and grounded aircraft, logistics providers were up to the task. As Matt Newell, Chief Executive Officer and Partner, The General Store, said, "last mile delivery was already a high growth sector so was able to ramp up quickly to meet demand. Delivery partners worked hard but it wasn't a shock to the system."

But as the economy opens up and people are less likely to be in their homes, shoppers will start demanding greater flexibility in how, when and where they receive their goods.

CommBank research from mid-2019 already showed a tepid response from consumers when it comes to their delivery experience. At that time, 47% of shoppers indicated they were only somewhat or not satisfied.² With more online shopping and a renewed focus on flexibility, our latest instalment of Retail Pathways looks at optimising Last Mile deliveries.

What do consumers now expect

Even as physical stores re-open, online shopping remains elevated. But it's not just volume retailers need to contend with. Many people have recently shopped online for the first time and others have changed the way they shop and receive items. Both have a bearing on consumers' expectation of the delivery experience.

Australia Post data shows more than 200,000 households bought something online in April for the first time and more than 35% of these purchased more than once. But with everyone at home, new digital shoppers weren't demanding the same flexibility and control over their deliveries that consumers were calling for pre-pandemic.

That's changing as people return to work. Australia Post data shows the recent shift in how consumers want to receive their items. In April, 91% of all deliveries went to homes, a 9% share increase compared to the whole of 2019. Alternate delivery options like 24/7 Parcel Lockers and PO Box usage was up 30% YOY as people looked for contactless delivery options close to home. Options like this will become even more in demand as people seek to plan their deliveries around where they'll be on a given day.

This is confirmed by CommBank research from mid-2019 that showed retailers were focused on getting parcels to shoppers as quickly as possible, while shoppers placed more value on choice around when, where and how they receive their packages.²

Mounting a response

Australia Post General Manager, Parcel and Express Services, Ben Franzi, explains the last mile experience begins at the checkout. Ben says that means being upfront about postage costs, setting the right free shipping thresholds, and clearly communicating delivery times and returns policies to set expectations.

"While speed is important for today's shoppers, their focus has sharpened on predictability of delivery," said Ben.

"If they place an order on Monday, they're happy to wait for the delivery until Thursday if they're told that when they make the order. This is information is critical because it allows shoppers to decide where they want that parcel sent based on where they'll be on Thursday."

"Australia Post does provide options to redirect the delivery once the item is sent, but this inevitably lengthens the delivery time, so it's much better for shoppers if they're afforded that control upfront," he continued.

Jethro Marks, Co-founder and Director of online marketplace, The Nile, said that he is now focused on providing more delivery options in the cart for shoppers, but reliability is crucial.

"In the earlier stages of the pandemic, even if we had more delivery options in the cart, we would have switched them off to increase reliability. We saw a lot of retailers remove their express shipping options, because if it takes two days for an item to leave the warehouse that's not express, and you risk failing the customer and they may not return

"Our aspiration now is to give customers more flexibility with the delivery options and we have started monitoring the performance of our delivery partners at a suburb level to ensure consistency."

Optimising the Last Mile experience

CommBank research in mid-2019 showed that at the time, more than half of retailers outsourced some or all of their delivery service functions, and one third of them outsourced fulfilment. Those that did were more likely to offer greater choice such as tracking and the ability to select delivery windows.²

The same research found that only one in four retailers focused on the relationship with their suppliers to optimise delivery services. Ben Franz

says that working closely with logistics and fulfilment partners is more important than ever, noting that transparent communication and data sharing can help retailers.

"For the customer if they're expecting a parcel they don't see the retailer and delivery providers as two separate entities, they're just two sides of the same coin. This is why it is so important that retailers are working closely with their logistics and delivery partners."

"The ultimate goal is for the customer experience to be seamless and hassle free regardless of how many companies are involved in getting the item from the virtual shopping cart and into the customer's hands," said Ben.

The importance of a collaborative approach was echoed by James Alt-Graham, Director of GRA Supply Chain Consultants when he spoke to CommBank in mid-2019.²

"In shoppers' minds, logistics suppliers are an extension of the retailer and part of the customer experience, so it is an important relationship." James said.

"Formal quarterly reviews with a logistics partner to discuss what is working and changes on the horizon, such as an expectation for variations in basket sizes, are critical yet often insufficient effort goes into them."

So, many retailers have stepped up to meet surging demand for online shopping to give house-bound consumers an improved last mile delivery experience. From here, shoppers will start demanding more control over delivery times, locations and speed. That presents an opportunity for retailers to work with delivery partners and align with customer preferences, if they don't, they risk losing hard-fought customer loyalty created during the coronavirus crisis.



¹ All Australia Post data is from <https://auspost.com.au/einsights>.

² CommBank Retail Insights 9, July 2019.

Chapter 4 -

Bricks and mortar retail is back, but not as we know it.



Shoppers are now cautiously returning as retail stores re-open their doors, but there are stark differences to bricks and mortar retailing in the wake of coronavirus. Not only are retailers introducing social distancing and hygiene measures, but the recent shift to online-only operations means many are rethinking their physical footprint altogether.

Once again, the onset of coronavirus appears to have accelerated pre-existing trends. CommBank research shows only around a third of retailers reported a rise in shoppers visiting their stores over the past five years, and many have been busy right-sizing their store footprints and networks as a result.

In the coronavirus era, getting shoppers into retail stores and providing an experience that keeps them coming back has a new dimension. According to retail experts we spoke to, having less stock on display, clarity and consistency around hygiene and distancing policies, and better integration of digital and physical channels are now central to delivering a positive in-store experience.

A premium on safe spaces

One of the most important aspects of the in-store experience in the coronavirus era is ensuring a safe environment for retail customers and staff. We are already seeing retailers restrict store capacity and implement queuing. Store layouts are also being re-imagined.

As Jemma Caprioli, Chief Customer Officer at Dashing Group, says, "I think coronavirus will accelerate the need for less clutter in stores which could lead to more spacious store environments in the longer term."

"Retailers need to think about how much stock they have on the floor and how this impacts the customer experience. Having too much can hinder the decision-making or buying process for consumers, so less is more in that respect."

"Because retailers often have limitations around back of house space and managing the frequency of stock coming through the store, the current demand for more space is likely to lead to fewer items on display and improved inventory systems," Jemma added.

Applying the new rules

The in-store experience now encapsulates a new set of rules for how customers enter and move around the store. Matt Newell, Partner and Chief Executive Officer at The General Store says that retailers need to be clear and consistent in their application of new measures and be aware of the impact that customers can have on one another.

"If a retailer sets a certain standard at the entry by having customers use hand sanitiser, then a customer needs to touch a door handle in a changing room, that could be viewed as inconsistent if the customer has high personal hygiene standards. Retailers need clarity around the rules and consistency in their standards. If you get either one wrong, it can create friction in the store."

Bridging the in-store and online experience

During the lockdown period, shoppers increased their reliance on digital channels. Jemma believes that this will have an impact on how shoppers interact with physical stores as they return and presents an opportunity for retailers.

"Bridging the gap between in-store and online is so important. A digital shopping experience is all-being and all-knowing. It knows which items you are viewing and provides suggestions for other things that match, and we are missing that in the in-store experience right now."

"We are already seeing luxury brands leveraging technology in-store to create more engaging experiences and other retailers will lose customers if they don't connect their online and offline channels."

"For example, there is a new technology that allows shoppers online to connect to a staff member in-store and they use an iPad to video chat as they walk around the store, picking up and describing items. They can then tell the customer about other complementary items and it's a great way of connecting the online and in-store experience."

"I went on a tour of Asia before the pandemic hit and saw these technology-enabled experiences first-hand. You don't enter a physical store in Tokyo, Shanghai or Singapore without some form of digitalisation. It's very different here. So, there is an opportunity for Australian retailers to use technology as an inspirational motivator that gets shoppers to that decision point more quickly."

An inflection point for store networks

Emerging from a period of online-only shopping has also forced many retailers to examine the performance of their store networks. Matt says that "many established retailers became pure play online retailers for six weeks and they liked it."

"Prior to coronavirus, a lot of established retailers would chase growth by opening new stores. Their like-for-like growth might not be great, but their underlying growth was propped up by new stores. After running simplified online businesses without the complexity of store networks, many retailers will now think more carefully."

"We are already seeing retailers take a staged approach to re-opening their store networks. The best performing stores will open first, and, in many cases, we may not see the worst performers open again. It's likely to be the biggest flushing out of underperforming stores we have ever seen," Matt added.

Prior to coronavirus, creating in-store experiences that strengthened the connection between shoppers and retail brands was already important to drive customer loyalty and sales. Yet according to CommBank research, only 37% of shoppers said that 'highly engaging in-store experiences' were more prevalent than five years ago. Meanwhile, 61% of retailers said they were. Reconciling this gap in perception now has an added dimension and the future of many stores may be on the line.



Chapter 5 -

What sets strong retailers apart?



With various parts of Australia at different stages of dealing with coronavirus-related restrictions and lockdowns, retailers are being tested in new and profound ways. For many, the steps they take now will determine their survival. As the sector starts thinking about the future, some of the time-tested traits of strong retailers are reasserting themselves.

Just before the onset of coronavirus in Australia, we spoke to retailers and consumers about their experiences over the past five years to understand what sets strong retailers apart. Among the 56% of retailers that claimed to be stronger than five years ago, investment in people, technology and their brand differentiated them from their weaker peers.

In our Retail Pathways series to date, we have primarily examined the acceleration of pre-existing retail trends that have been a feature of the coronavirus era. Evaluating the traits of stronger retailers before the pandemic is no exception, as many are proving crucial now.

However, coronavirus has brought about one notable change that wouldn't have otherwise occurred. It has shifted the competitive landscape, at least momentarily, offering a rare opportunity for retailers with the right strategy to gain ground on their peers.

The traits of strong retailers

In the current environment it is constructive to compare the investment focus among retailers that were significantly stronger than five years ago with those that were weaker. According to CommBank research, significantly stronger retailers were far more likely to be investing in their people, technology and brands.

Investment in these areas equipped them with

crucial capabilities to quickly respond during the beginning stages of the coronavirus crisis and remains essential to navigate the retail sector's ongoing recovery.

Namely, the investment in learning and development initiatives and employee engagement helped stronger retailers develop a culture that supported agility and mobilise the collective creativity within their workforce to rapidly innovate. Having more knowledgeable staff that are willing to go the extra mile is also important as the changing retail experience has increased shoppers' reliance on good customer service.

In qualitative interviews, retailers confirmed that having the right technology, systems and processes helps deliver a better overall customer experience. And this remains relevant given the recent accelerated shift to online shopping discussed in previous Retail Pathways articles. Specifically, having strong digital capabilities, a responsive supply chain, and excellent last mile delivery capability aligned to the needs of customers, is crucial to compete.

The investment in their brands was also a notable hallmark of the stronger retailers which helped them excel in related areas such as brand purpose and reputation compared to others. And it's this part of a retailer's strategy that Matt Newell, Partner and Chief Executive Officer, The General Store, considers to be of particular importance in an environment that has brought stronger and weaker retailers closer together.

Levelling the playing field

According to Matt, the coronavirus lockdown has “bunched up the pack” for retailers. From here, he believes it will be retailers who make bold moves that will get ahead.

“What we have seen during the coronavirus process is that many retailers with strong momentum have lost it, and those that were falling behind were given some breathing room to improve their performance. Now that the playing field is more level, the next question is who will accelerate the fastest and how will they create strong momentum.”

Matt argues that this presents a unique opportunity. He says that most retailers are preoccupied with the question of what the consumer of the future wants. However, he thinks that’s the wrong question to be asking right now.

“The top question should be what do retailers want to be famous for? During the course of the

lockdown, shopping may not have been at the top of consumers’ agendas, and that’s created a blank canvas in people’s minds. I think this moment in time is opportune in terms of making an imprint on customers.”

“From here, retailers that make bold moves are the ones that will set the agenda moving forward. If you think about the opposite approach of following the lead of other retailers or consumers, then you have to be super agile, and that’s not a winning strategy.”

For many retailers, their survival depends on the strategy they adopt in coming months. Of course, there are other challenges to contend with given the unknown path of COVID-19 which makes the nature of the economic recovery highly uncertain. However, those traits that supported strong retailers over the past five years may now be more important than ever. Moreover, the events of recent months may have altered the competitive landscape, presenting an opportunity for a new set of strong retailers to emerge.



Chapter 6 –

The benefits of having a laser-like focus.



During the first phase of coronavirus lockdowns, shoppers had a seemingly insatiable appetite for retail items that would help them work remotely, keep themselves occupied and remain fit and healthy. Discretionary spending on consumer electronics, gaming, books, music and recreational goods (what we collectively term ‘other retail’¹) surged and remained elevated as the initial lockdown measures eased.

Even before the pandemic supercharged online shopping, the ‘other retail’ category had experienced one of the most significant online shifts of any retail sector. CommBank research conducted in January 2020 shows that for ‘other retailers’, online sales as a proportion of multi-channel retailers’ total sales had almost doubled between 2015 and 2020.

However, the same research suggests that in the five years leading up to the pandemic, retailers in this category ranked changing consumer behaviours and online marketplaces among their biggest challenges. These have been brought into sharper relief in recent months.

To better understand how retailers can adapt to ongoing change, we spoke to Matt Turner, Founder and Chief Executive Officer of Australia’s largest bicycle company, Pedal Group, that operates the 99 Bikes and Advance Traders businesses.

Learnings from the first lockdown

Looking back to Pedal Group’s experiences in March as the first lockdown loomed highlights the range of factors that multi-channel retailers must consider. For Matt, after cutting through the “noise” surrounding coronavirus, the immediate goal was to find a way to responsibly keep the 99 Bikes retail

stores open. After contacting the government, he implemented the recommended measures for keeping staff and customers safe in-store.

“We initially wondered how we would handle the shutdown of stores, but our focus quickly switched to managing a dramatic uplift in demand”, says Matt.

With more people exercising outdoors and avoiding public transport, that presented its own challenges and put pressure on Pedal Group’s suppliers. China figures prominently in Pedal Group’s supply chain, and even before the spike in demand, Matt realised that relying on Chinese suppliers could present a challenge. However, he would rather face supply shortages than a lack of demand and moved quickly to diversify.

“We felt empowered we could work with our suppliers to address demand”, Matt says. “Our product sourcing team tracked products around the world, and with Europe in hard lockdown, many stores had excess stock. Having our team move quickly and proactively was a big win for us.”

Putting people first

The CommBank research undertaken in January 2020 revealed retailers that felt stronger than they were in 2015 were more likely to focus on developing a positive culture with a strongly connected workforce.

While many retailers are facing hardship due to coronavirus including having to reduce staff numbers, for Pedal Group, a surge in demand highlighted the importance of the business’ strong cultural foundations in helping motivate staff to go “above and beyond”.

"We have a system that collects customer feedback which we act on to provide a better customer experience," Matt explains. "But as demand surged, we received feedback that indicated we weren't operating to our normal standards and we attributed that to having a lack of staff on the front line which impacted customer service."

"At the time, staff numbers were down 10 to 20 per cent due to coronavirus, so we set out to recruit more staff and increased engagement with the existing team."

"To maintain strong customer service levels, we rely on having motivated staff on the front line, and we appreciated that their job was becoming harder. Approximately 70 employees own around 13 per cent of the company's shares, so our core model of incentives and communication helped motivate people so that we could all benefit from any upside."

"But it's not just financial factors that motivate people. It's also about purpose. Everyone in the team is passionate about cycling and environmental sustainability, so it was uplifting to see so many new customers sharing in what they love."

Mindset matters

Matt is a strong advocate for focusing on the factors he can control, a trait that previous CommBank research showed was common among successful retailers². Matt says that hasn't changed during the coronavirus era, despite having to completely re-think some areas of Pedal Group's operations.

"We normally prioritise bike repairs over adding newly built bikes to in-store inventory," Matt says. "Now, so many people want new bikes and, given we had limited resources, we had to turn away business on the repair side."

The CommBank research conducted pre-pandemic² also highlighted that many 'other retailers' were grappling with online marketplaces, while consumers said that they were the single most significant contributor to the changing experience when shopping for 'other retail' items.

However, for Matt, he says that Pedal Group is purposefully prioritising its own website which not only does it control but is also a valuable source of information for customers and a "massive" part of the business.

"We view our own website as our most important marketing tool, helping customers to shop and choose items, see our range and locate stores. That's our priority rather than increasing online sales through marketplaces as it delivers more value to customers."

Matt's view is consistent with previous CommBank research on online marketplaces that found only 11 per cent of 'other retail' respondents consider online marketplaces to be their priority sales channel, with 35% focusing on their own website.³

So, while Pedal Group has been in the fortunate position to have experienced strong demand from customers since coronavirus took hold, its approach hasn't wavered. As Matt says, "For retailers, it's all about people." And when combined with a focus on factors within the business' control like their online presence, Pedal Group was able to move in closer step with changing customer behaviours.



¹ As part of the CommBank Retail Insights research series, 'Other retail' is a category that sits alongside Food & Beverage, Clothing & Footwear, Homewares & Hardware and Take-away/Fast Food for the purposes of analysing the findings at a sector level.

² CommBank Retail Insights Report 7, December 2018

³ CommBank Retail Insights Report 8, June 2019 Page 29

Chapter 7 -

Developing the foundations to support rapid change.



The homewares and hardware sector continues to experience a prolonged period of elevated demand. CommBank research conducted in January 2020 shows that over the past five years, consumers were more likely to have increased their shopping in the category than any other.¹

More recently, the pandemic has led to 'cocooning' and a rush on items that could help consumers improve their work and living spaces as they spend more time at home. This has supported a sharp uplift in spending within the category since [March] 2020, which was sustained even as the first round of lockdown measures eased.

CommBank research from January 2020 also showed that as both online and in-store shopping increased over the past five years, homewares and hardware retailers had been investing heavily in their product offering, technology, systems and processes, and customer experience.

While this investment helped the sector manage the recent surge in demand, we spoke to Philip MacGregor, Managing Director of leading independent hardware retailer Hardware & General, about other crucial steps the retailer is taking to navigate a changing market.

Meeting demand

For Hardware & General, Sydney's housing construction boom in recent years had skewed the business towards supplying tradespeople with heavy building materials. But with the onset of coronavirus, retail customers emerged alongside strong ongoing demand from building sites which put pressure on the supply chain.

"People were turning to us to supply everything you could possibly put into your home," Philip says. "Given our focus on serving our customers, we wanted to make sure people knew it was safe to trade with us, but we also needed to manage our supply chain to meet stronger demand."

"Many retailers have sacrificed resilience in their supply chain for price and speed, but we weren't too badly caught out. We began asking our supply chain partners about possible coronavirus disruption in February before the pandemic was declared. We also sourced new suppliers of products like toilet paper and sanitiser."

Systems to support change

CommBank research conducted in January 2020 found that for homewares and hardware retailers, technology, systems and processes was the third largest investment area over the past five years.

Hardware & General's General Manager of Operations, Kevin Baker, believes this investment, which includes a quality management system of continuous improvement, has made Hardware & General nimble, agile and innovative. This helped the business remain more responsive to changing customer needs.

Hardware & General's promise of free next-day delivery of heavy building materials to building sites has been a barrier to online competitors. Hence, its most significant operational change following coronavirus was responding to the sudden demand for "online everything" from commercial and retail customers, and making a further move from in-store to online sales channels.

"With people more home-based and ecommerce a firmly embedded part of the way of life in Australia, we needed to be customer-centric and responsive to changes to our customers' needs. More people were looking for home offices, home entertainment and home gyms."

"Within two weeks, we had online product lists, an ordering capability and launched ecommerce for retail customers. We had already done some of the groundwork and accelerated from that."

People and customers

According to the CommBank Research, consumers say that homewares and hardware retailers have captured their attention through their product range and prices, as well as customer service, something they rate significantly better than in other categories.

Hardware & General's customers say they choose to shop there due to service levels and staff's willingness to help. This reflects its "journey to transformation" over the past two years to become "a great place to work and a great place to shop," explains Philip.

Amid the spike in orders, staff worked until each delivery for the day was done, expended considerable time and effort finding new suppliers for basics, and volunteered to work at other stores as part of contingency planning if any store had to temporarily close.

"We have learned a lot about ourselves and that will have a long-lasting impact on the quality of our customer service," Kevin says. "Particularly, the trust we have in each other, coming together to meet our mission, and learning that we have deeper capabilities."

Responding to market changes

With digital clearly cemented, Philip sees an opportunity to do more online with smaller retail products. He expects households will continue to purchase more homewares and hardware while the scope for travel and holidays remains limited.

However, Linda Lamb, Hardware & General's Financial Controller, says that the retailer's investment plans need to be constantly re-assessed and that successful retailers need to remain entrepreneurial.

"A nimble company has to be constantly reviewing where cash is directed and keep capital on hand to pivot quickly," Linda says.

Kevin reiterates that Hardware & General's investment in technology, systems and processes has given it the "apparatus to change as our market changes" from tradesmen on building sites to homeowners undertaking renovations and home improvements. But having an engaged team focused on delivering good customer service when it was needed most was just as crucial.



¹ As part of the CommBank Retail Insights research series, 'Homewares and Hardware' is a category that sits alongside Food & Beverage, Clothing & Footwear, Other retail and Take-away/Fast Food for the purposes of analysing the findings at a sector level.

Chapter 8 –

Getting the basics right key to fast food innovation.



CommBank research conducted just before the coronavirus pandemic revealed that most Australians surveyed considered the quality of fast food and take-away retailing to have remained unchanged over the past five years.

Similarly, in January 2020, just over two in five fast-food retailers surveyed said that they felt neither stronger nor weaker than they did in 2015, a significantly higher proportion than any other retail category¹.

With the advent of coronavirus and the first hard lockdown that followed, and the ever-changing government guidelines, the fast food and take-away sector has become more dynamic than ever. And many in the sector are innovating at pace.

Amid the first lockdown, some of Australia's top restaurants joined existing fast-food businesses in offering take-away and home delivery for the first time. The number of 'dark kitchens' increased, marketplaces like Uber Eats introduced contactless delivery, and McDonald's now sells essential groceries to consumers via drive-thru.

However, adapting to such a fluid operating environment where your basic operations are subject to day-to-day change poses an ongoing challenge. Fast food and take-away retailers are tasked with addressing changing customer expectations online and navigating safety, hygiene and social distancing measures that have reshaped the dining experience.

Ready for anything

Steven Marks, Founder and Global CEO of Guzman y Gomez, says that the business that seeks to "reinvent fast food" remains ready for "whatever coronavirus could throw at it". Guzman y Gomez has opened seven restaurants during the pandemic,

taking the total restaurants in Australia to 124, along with outlets in Singapore, Japan and the United States.

Steven explains that Guzman y Gomez's ability to adapt quickly to the changing environment is due to his focus on supporting his team and clear communication throughout the process. He says that not only is that a driver of operational innovation, but it has a direct impact on customer service.

"Everyone is integral, and we really care about our team, our franchisees and our guests, and we want them to feel part of a bigger cause," Steven says. "It has an obvious impact on your people, your sales, and your brand presence."

"Every single morning, I have 100 of my 'all essential' staff on a call. The only way to grow revenues is to have people fall in love with what you do, so everyone plays a role in making sure our crew are supported from marketing and supply chain to operations."

"Businesses that succeed have a clear vision which is communicated to the team. They all know our revenue, profitability, and every day there is a sales target. I am completely transparent, so everyone is on the same page, and we can move quickly."

"For instance, right away, we knew we had to feed people. We charged \$11.90 for a burrito, and we dropped our prices to \$9.90 in our app. We launched \$3 tacos to give value to our customers. It was one thing after another. And we were prepared because the team was committed to our guests and ensuring our revenue remains strong."

New dimensions to the customer experience

CommBank research undertaken in January 2020 showed that people were less likely to order online for fast food and take-away than in any other retail category. Keeping up with changing consumer behaviours was already one of fast food and take-away retailers' top challenges, and the onset of coronavirus meant considering new ways to reach customers.

"We are lucky that when the guidelines change, we can shut our dining areas because take-away and delivery is part of our DNA," Steven says. "Contactless pick-up through drive-thru also just makes sense. We have 36 drive-thrus, and they are exploding."

However, Steven says that while coronavirus has led to elevated expectations from the fast food and take-away experience, it has mostly emphasised trends already underway.

"Even before the pandemic, I think traditional fast-food retailers took advantage of people's need for value and convenience. It was basically to offer food as cheaply as possible, and they forgot about people and food quality. But people are more knowledgeable about what they are eating than ever before."

"For Guzman y Gomez we went the other way. We are obsessed with good, clean food and then we figured out speed. Isn't it your job as a food company to give people something good for their children? That is especially so for the growing number of people that need value, speed and convenience."

As dining areas reopened in some locations, safety and hygiene also came under the spotlight as many consumers cautiously returned. But Steven says these issues were always a crucial part of the fast food and take-away sector.

"What coronavirus has done is brought more attention to restaurant cleanliness and hygiene, and that's a significant part of our business. Our team washes their hands every hour, changes gloves every hour and guests check-in via QR code."

"But one of the big things I am questioning right now is people talking about how value is important, hygiene is important, restaurant cleanliness is important. When weren't those things important?"

Steven adds that for Guzman y Gomez, coronavirus has accelerated a vision that was already in place pre-pandemic. Despite the evolving external environment, it has been a focus on people across the business that has allowed him to keep pace. And maintaining the organisational culture remains central to the ongoing growth of the business.

"For retailers with weak foundations, coronavirus exposed you," Steven says. "But if you had strong foundations, you took your business to a different level."



¹ As part of the CommBank Retail Insights research series, 'Fast food and take-away is a category that sits alongside Homewares & Hardware, Food & Beverage, Clothing & Footwear, Other Retail and Take-away/Fast Food for the purposes of analysing the findings at a sector level.

Chapter 9 –

Coronavirus shines a light on relevance and purpose.



Looking back to before the pandemic, Australian clothing and footwear retailers appeared well-placed to face the opportunities and challenges that have since occurred.

CommBank research conducted in January 2020 showed that over the past five years, clothing and footwear retailers were more likely than other retailers to have invested in technology and ecommerce capabilities to accommodate strong demand from digital shoppers. This has put many in good stead amid the acceleration of online shopping that coronavirus has brought.

Reflecting that, many clothing and footwear retailers were also already right-sizing their store networks and footprints before coronavirus took hold. This has become a more important consideration as retailers navigate social restrictions and hygiene-conscious shoppers.

Despite taking these steps, many clothing and footwear retailers remain under immense pressure. While many existing trends have intensified, coronavirus has also introduced new and persistent challenges. Ongoing trading restrictions, subdued foot traffic, and fluctuating demand are just a few.

However, the CommBank research showed that in January 2020, around two-thirds of clothing and footwear retailers felt stronger than they did in 2015, more than any other category. A focus on understanding customers and market trends, along with investing in brand purpose, were some of the key characteristics that set them apart from weaker retailers.

As coronavirus tests the resilience of many clothing and footwear retailers, we spoke to one brand that stood out for its performance during coronavirus.

And Jonathan Salfield, co-founder and marketing director at sustainable streetwear brand Afends, believes the traits of strong retailers before the pandemic now having an even stronger application.

Managing uncertainty

According to Jonathan, Afends already had comprehensive ecommerce infrastructure in place to accommodate the uplift in demand from online shoppers. As a predominantly direct-to-consumer business, Jonathan says the more significant changes to the way Afends operates relate to keeping pace with changing market trends and minimising uncertainty.

"You can plan in detail internally," Jonathan says. "But if a market is in lockdown and you can't get orders out, you encounter revenue and stock issues, so we have made a lot of changes."

"The biggest change is to increase the number of seasonal collections from four to six. This allows us to be closer to our market, better predict trends and make tighter and more compelling product selections. This decision was to support planning, rather than a 'fast fashion' approach – by planning every two months, rather than quarterly, this reduces our inventory and cash-flow requirements. Also, we're getting the collections out faster which means we aren't looking as far into the future and that is resonating well with customers."

"Seasonality is a huge challenge for most fashion retailers, but the positive for Afends is that people buy us more for our summer products than our winter products and we remain focused on what we do well. We have a presence in multiple global locations so can follow the demand as seasons change."

While 70% of Afends' business is direct-to-consumer through its websites and five flagship stores, the remaining 30% is via wholesale channels through local and international stockists. Jonathan says that to further reduce the uncertainty through these channels, Afends moved to a cash-on-delivery (COD) model for its wholesale partners and introduced Zip Business as an alternative to provide interest-free payment options, so Afends' focus could remain on products and services rather than financing.

"To manage the risk of shipping a wholesale order to a retailer that may not be able to open its doors or be in a position to pay, we saw moving to a COD model as important. We compensated by offering a payment option, and overall, the response has been positive."

Living by the brand purpose

Even before the pandemic, CommBank research from January 2020 showed that consumers saw room for improvement when it came to having a relevant and meaningful brand purpose, something which is a focus among stronger retailers.

Against a backdrop of changing consumer attitudes, many in the industry have also predicted a watershed moment for fast, disposable fashion as coronavirus prompted consumers to reassess what they actually need.

Jonathan agrees, saying that "successful retailers within the clothing and footwear industry will make better quality, more sustainable products so that customers will potentially consume less but have better quality things."

"We decided about five years ago that we needed to take responsibility for our actions in every facet of the brand from the raw materials to how staff and factory workers are treated. We truly believe in sustainable and ethical practices, and the research shows that's what customers want."

"We combine this focus on sustainability with a commitment to producing a high-quality product using free-thinking designers. Everything we do we try to do it our own way, and I think that mindset is contagious. Once our products go into partner stores, we have a higher sell-through rate than other brands and we have seen a flight to quality during coronavirus that is supporting sales."

Good experiences rely on transparency

Jonathan explains that transparency in the way that retailers engage with customers is also now even more important. He says that it is both critical to delivering on Afends' purpose, but also extends to every customer touchpoint.

"We believe in end-to-end transparency from discovering the brand all the way to when the product is ready to be recycled or biodegraded," Jonathan says. "This is crucial to delivering a positive experience for customers, and it relies on clear communication at every step."

"This includes simple steps like being very clear around our returns policy. However, in an ecommerce world where you are only seeing a photo of an item before you buy it, we need to provide a comprehensive and accurate digital experience."

"We try to represent the product in as much detail as possible through photography and our written descriptions. We showcase where the product was made, which factory, and provide information about that factory including the age of the youngest worker. We are trying to be as transparent as possible and empower our customers and we believe everyone should do that."

So, years of investment in technology and e-commerce equipped the sector for the turbo-booster shift to digital shopping during the coronavirus pandemic. For retailers operating physical stores, moving beyond government restrictions and regaining the confidence of shoppers are likely to be top priorities.

For all clothing and footwear retailers, remaining close to market trends and increasing relevance among customers is harder amid lower visibility of the future. But as Jonathan highlights, having a meaningful purpose and understanding what customers want is likely to remain crucial to the strength of retailers well beyond coronavirus.



Chapter 10 –

Turning the basics into an advantage.



In the earliest stages of the coronavirus pandemic, and again more recently in Victoria, shoppers descended on food and liquor stores in a frenzy of panic buying. While sales have since settled from their peaks, the scarcity of everyday items during those periods is likely etched in consumers' memories.

Unlike other retail categories, food and liquor stores were deemed essential and traded through the various restrictions. And while more consumers used online delivery services, online shopping in the food and liquor category has trailed other sectors. According to CommBank research in January 2020¹, just over one in two shoppers had purchased from a food and liquor retailer online, the lowest of any category.

With many consumers continuing to shop in-store, food and liquor retailers needed to adjust their operations to protect the health and safety of shoppers and staff. The introduction of guidelines, protective screens, store routing and hand sanitiser followed.

The January 2020 research¹ also showed that food and liquor retailers were more likely to have invested in people and the customer experience than any other category over the past five years. This proved vital during the pandemic, where engaged and well-trained staff could help guide cautious shoppers.

For Antoine Rizk, Owner and Director of Mint Fresh IGA, it was a focus on people and the customer experience that allowed his five supermarkets to thrive in recent months. He was able to intimately understand the changing needs of shoppers and service those to a high standard. A focus on understanding customers was also shown by CommBank January 2020 research¹ to be common

among stronger retailers, and likely to provide prevailing advantages in the face of ever-changing preferences.

Addressing the basics

As consumers clamoured to buy the staples that would see them through the pandemic and spent less time eating out, basic items were highly sought after. This tested the supply chains of the major food retailers, with some even imposing purchasing limits to ensure stock remained available.

Upon polling retailers in January 2020¹, the findings revealed that product-related factors, including range and differentiation, were among the key focus areas separating stronger and weaker retailers. And Antoine says that amid a surge in demand for affordable staples, having diversity and flexibility in IGA Mint Fresh's supply chain became a competitive advantage and helped capture new customers.

"While the majors were dealing with out-of-stock items, we had already moved to a model where we could source staples like flour and rice from multiple suppliers. It wasn't a challenge to diversify our supply chain, in fact, our ability to seek independent suppliers was a huge advantage."

"We also increased our range dramatically, introducing second- and third-tier brands across key product lines which were turning over much faster than we expected. As a result of our focus on making stock available and enhancing our range, we noticed a substantial uplift in new customers during coronavirus."

Staying ahead of shopper demand

Ensuring customers were confident in the availability of IGA Mint Fresh's range remained a focus for Antoine during the pandemic. But it was also having the systems and processes in place to make well-informed decisions that helped satisfy rapidly changing consumer demand and keep new shoppers coming back.

"As we saw new customers during coronavirus, we were tracking buying behaviour at an SKU (stock-keeping unit) level. We assessed the buying habits of new customers, which triggered certain product selections that kept them coming back. We are always reviewing customer data to make sure we are meeting their needs."

Antoine explains that effective analysis of data relies on combining multiple sources, and is crucial to making swift changes to the operating environment.

"We collect and analyse information from three key sources," Antoine says. "The first is our point-of-sale data, which can deliver specific details around customers' product preferences. The second is our store managers, who are speaking directly to customers and feeding back information about what they need and want. Then we look at holistic data that was provided by Metcash and CommBank around consumer habits at a national-, state- and suburb-level."

Building shopper confidence

The research undertaken in January 2020 showed that 54 per cent of food and liquor retailers considered that their in-store experience had improved over the past five years. However, only 37 per cent of shoppers in the category agreed. Given that many consumers continued to shop in-store during the coronavirus pandemic, creating a positive experience required food and liquor retailers to foster greater confidence and trust.

"We operate in New South Wales and while it isn't as severe as Victoria, we needed to provide our customers with a heightened sense of comfort and hygiene when they shopped in our stores. We had a seamstress prepare branded re-usable masks for staff, we have a coronavirus marshal in every store, and re-trained our staff in line with our coronavirus safe action plan. We rolled that out well before anyone else."

"That had a big impact in the community where our staff live, as they spoke to family and friends about the health and safety measures we were taking. That helped build shoppers' confidence."

Antoine adds that no matter the external environment, customer service is at the forefront of a good experience and a personable approach helped during coronavirus.

"When a new customer comes in the store, we will greet them, and a store manager may even give them a store tour. We have what we call the '3m' rule where if a customer comes within three metres of a staff member, they have to stop and say hello. It's these personal interactions which help build trust."

So, as food and liquor retailers continued to welcome shoppers into stores during the pandemic, it was meeting shoppers' basic needs that took initial priority, including making staples available and providing a safe environment to shop. In an environment where that has become more challenging, understanding and adapting to customer needs has come to the fore.



Chapter 11 -

Time-tested strategies prevail in a new world.



We have spoken to dozens of retailers and industry experts about the implications of coronavirus for the sector with consistent themes emerging. In our final *Retail Pathways* article, we look at the consensus views across categories that can help position retailers for the recovery.

In terms of market drivers, our series highlights that coronavirus sent well established retail trends into overdrive, with new levels of intensity proving highly persistent. Most notably, the acceleration of online retail, the focus on adapting the in-store experience to changing shopper needs, and the right-sizing of store footprints and networks.

Despite the significant challenges facing the sector, many retailers have done a tremendous job at adapting. Looking at the shared characteristics and behaviours of stronger retailers irrespective of their category, provides a window into crucial aspects of resilience.

These include adapting effectively to new customer behaviours, combining the right systems with an energised workforce to mobilise quickly, and using purpose as a competitive advantage.

While these factors have new dimensions in the coronavirus era, CommBank research in January 2020¹ showed these same traits to be crucial in separating stronger and weaker retailers before the pandemic. With retailers now faced with accelerating trends, they are likely to remain crucial into the future.

Adapting to shopper behaviours

After the pandemic took hold, consumers stepped up their online shopping and many tried it for the first time. A surge in online demand tested many

retailers, as others sought to establish or strengthen their online presence to capture sales.

With new shoppers, and rapidly changing spending patterns among existing ones, many retailers mounted a response. As Hardware & General's General Manager of Operations, Kevin Baker, put it, "we needed to be customer-centric and responsive to changes to our customers' needs".

To achieve this, retailers across categories deployed a range of strategies. Many had diversified their supply chains early in the pandemic and continue to work closely with suppliers to satisfy changing consumer tastes. Others were harnessing payments data to better identify, and cater to, new customers and fluctuating demand.

A premium on flexibility and agility

The ability to swiftly respond to change, and reshape the businesses' operations in line with the external environment, proved to be a hallmark of resilient retailers. In some cases, this required retailers to reimagine the way they engage shoppers.

Many retailers we spoke to had invested in technology, systems and processes which provided the foundation for them to move quickly when the situation required it. Whether that was to speed up the launch of new products, manage stock and deliveries, or keep pace with market changes, retailers across categories relied on their infrastructure.

Every retailer we talked to also agreed that having engaged and motivated people was now more important than ever to underpin the businesses' flexibility. Moving quickly requires the support of the team, and as Steven Marks, Founder and Global CEO

of Guzman y Gomez says, taking care of your team “has an obvious impact on your people, your sales, and your brand presence.”

Mitigating uncertainty

The need for clarity has broad ranging applications in an uncertain market environment. Most retailers that were effectively navigating the post-coronavirus landscape are clearly communicating across all aspect of their business.

For bricks and mortar retailers, clarity around new coronavirus measures has become a pre-requisite for a positive in-store experience. As Matt Newell, Partner and Chief Executive Officer at The General Store, says, “retailers need clarity around the rules and consistency in their standards. If you get either one wrong, it can create friction in the store.”

Managing online shoppers’ expectations has been equally important, particularly given the potential for supply chain disruptions. Australia Post General Manager, Parcel and Express Services, Ben Franzi, says that means being upfront about postage costs, setting the right free shipping thresholds, and clearly communicating delivery times and returns policies to set expectations.

Moving ahead with purpose

The events that have unfolded since March have also led some shoppers to re-evaluate their pre-existing shopping habits. During lockdown, clothing and footwear sales came under pressure as people questioned the need for a new wardrobe amid fewer social events and remote working. As this occurred, speculation grew that consumers would favour quality products over more disposable items over the long term.

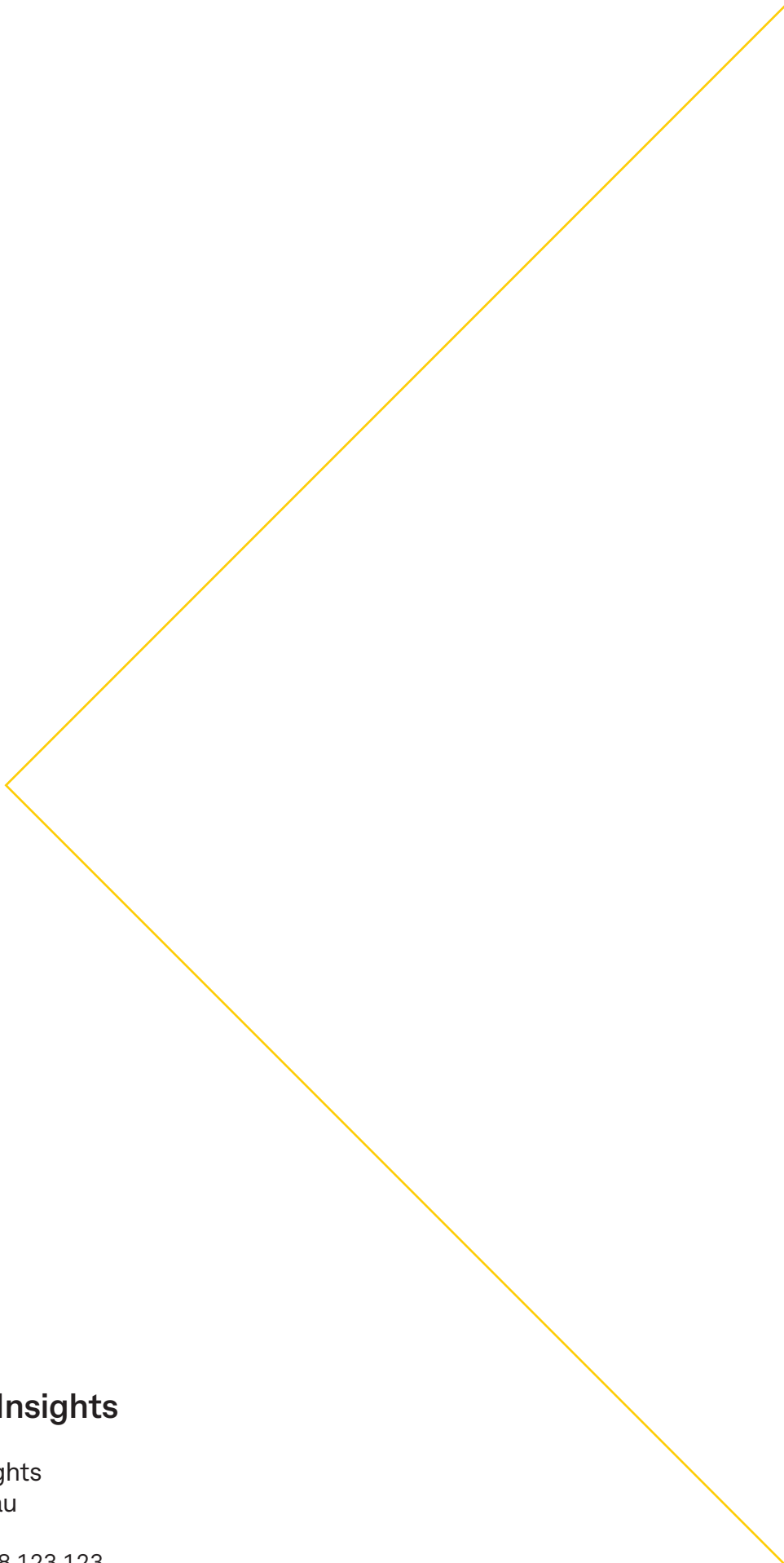
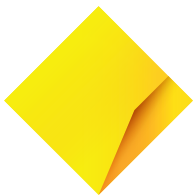
This sentiment was echoed by Jono Salfield, co-founder and marketing director of Afends, who says, “successful retailers within the clothing and footwear industry will make better quality, more sustainable products so that customers will potentially consume less but have better quality things.”

Matt Turner, Founder and Chief Executive Officer of Australia’s largest bicycle company, Pedal Group, added that motivating his team also came down to a shared passion for environmental sustainability.

Matt Newell summed it up well when he said that, “the top question should be what do retailers want to be famous for? During the course of the lockdown, shopping may not have been at the top of consumers’ agendas, and that’s created a blank canvas in people’s minds. I think this moment in time is opportune in terms of making an imprint on customers.”

So, the perennial traits of strong retailers have been those that have elevated the leaders in the sector during the coronavirus pandemic. They can also equip retailers to capture opportunities and manage the challenges that lie ahead, many of which relate to responding quickly to changing consumer behaviours. To help provide a deeper understanding of the factor driving consumer attitudes into the future, we are making that the focus of our next research report. We encourage you to look out for its release in 2021.





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