



CommBank Retail Business Insights Report FY18.



Overview

The Australian retail sector continues to respond to a range of competitive pressures and a desire to drive efficiencies within their businesses, to maintain or grow their performance. As a result, retailers appear to be increasingly adopting an innovative mindset to ensure they maximise available opportunities, leverage technology and enhance the customer experience. While many retailers are generating a substantial and timely return from investing in significant change within these areas, there are others yet to harness the financial and intangible benefits that innovation can deliver.

About the Retail Business Insights Report

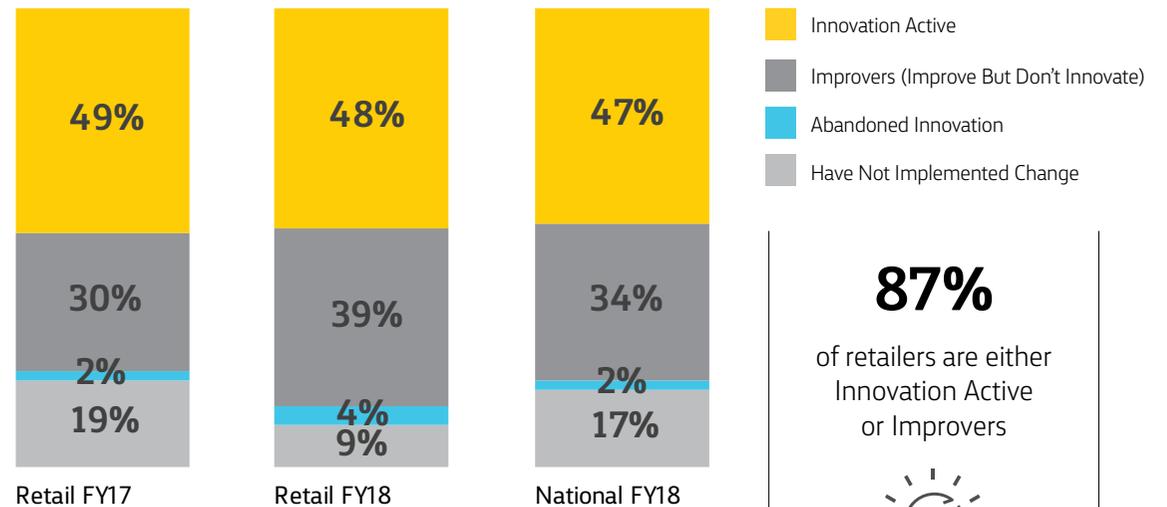
The CommBank Retail Business Insights Report is based on a sub-set of a wide-ranging quantitative survey of 2,473 business owners, decision makers and managers, as well as 16 in-depth qualitative interviews. This sub-set comprises responses from 262 retailers within sectors including homewares and hardware, clothing and footwear, food and liquor, and other retail.

The survey was conducted on behalf of the Commonwealth Bank by DBM Consultants between August and October 2017 and analysis by ACA Research between October and December 2017. Participants were drawn from businesses across Australia with an annual turnover of more than \$500,000 and at least two employees. Additional analysis on this data set was conducted in February 2018.

The CommBank Innovation Index measures 15 core elements of innovation across management capability and entrepreneurial behaviour. The index combines the results into a single numerical indicator to rank businesses on a scale from -100 (innovation restrictive) to +100 (disruptive innovation), creating the concept of an innovation curve or spectrum.

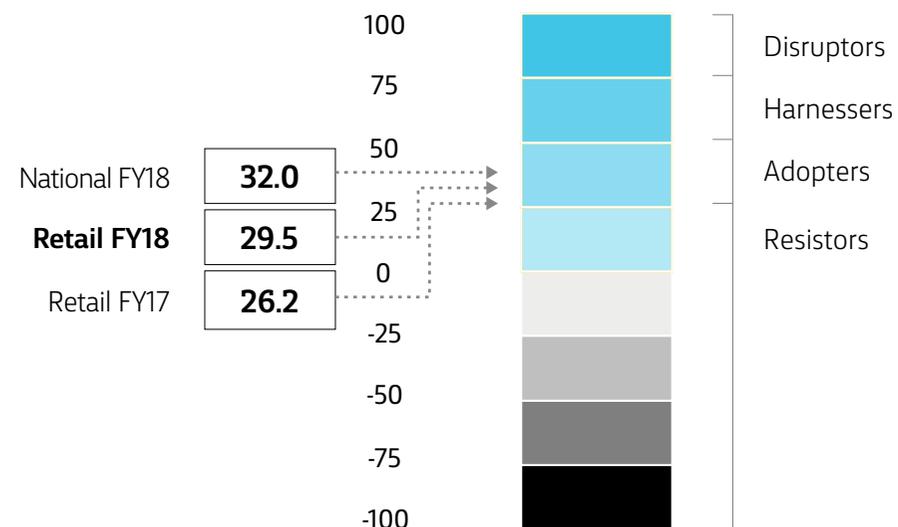
For further information on our tool and methodology see page 7 of the National Business Insights Report FY18 available at commbank.com.au/businessinsights

State of innovation – retail industry vs national average



87%
of retailers are either
Innovation Active
or Improvers

Innovation Index – retail industry vs national average

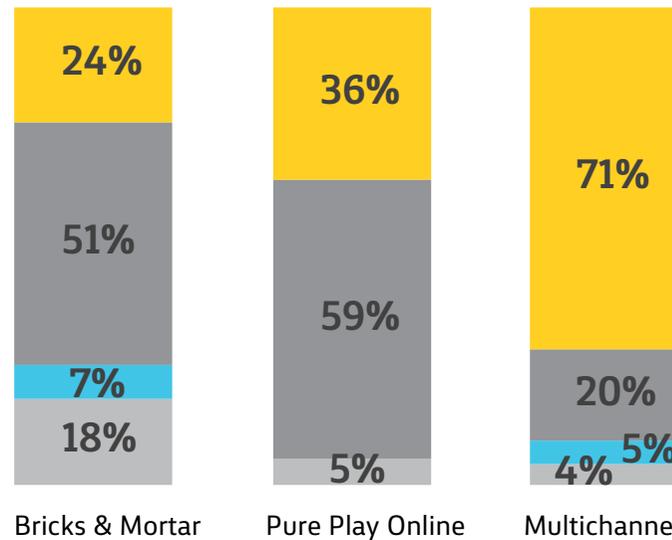


Innovation performance

While the overall rate of innovation within the Australian retail sector has remained steady over the past 12 months, we have seen a moderate uplift in the presence of entrepreneurial behaviours and capabilities that support innovation (as measured by the CommBank Innovation Index).

However, despite maintaining innovation activity, and increasing adoption of many behavioural traits that foster innovation, retailers have now fallen behind the national average according to both indicators. It is clear that innovation activity is at its highest among multi-channel retailers, falling dramatically when you consider pure play online and even more so for bricks and mortar only operators.

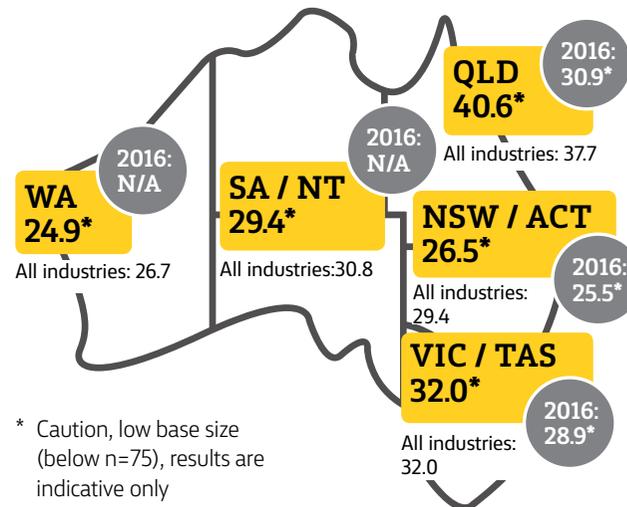
State of innovation - retail channel



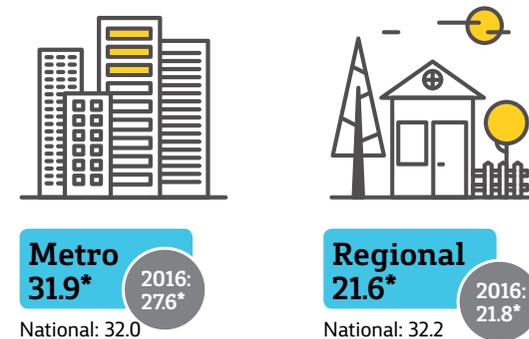
- Innovation Active
- Improvers (Improve But Don't Innovate)
- Abandoned Innovation
- Have Not Implemented Change

71%
of multichannel
retailers are
Innovation Active

Innovation Index – retailers by location



* Caution, low base size (below n=75), results are indicative only



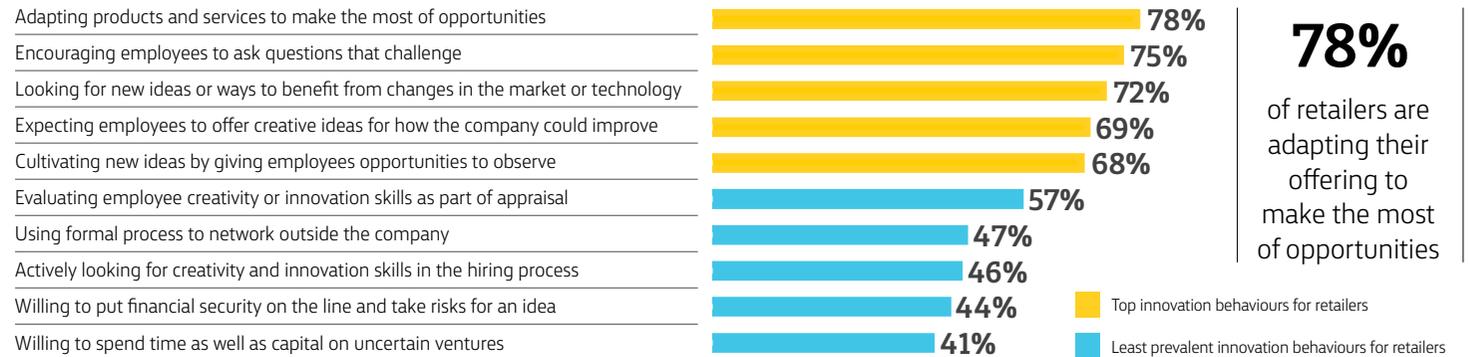
Regional retailers tend to be smaller, are more risk averse and have less of a focus on networking.

The dynamics of innovation

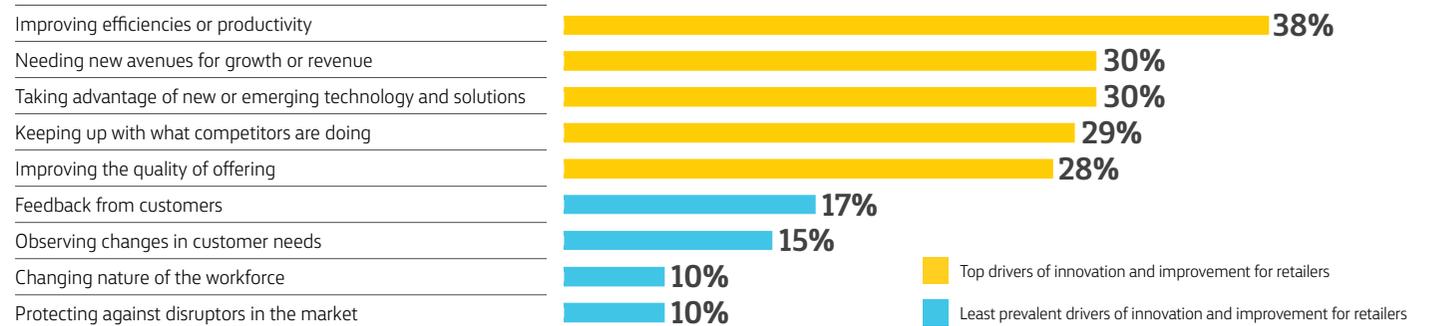
While retailers have further embedded a range of behaviours and capabilities that enable innovation over the past year, they are less inclined than the average of all industries to look for and respond to opportunities, incorporate innovation into their staff hiring and evaluation processes, or be willing to take risks on uncertain ventures.

The top drivers of innovation and improvement for retailers – productivity, leveraging technology and growth – align with expected benefits, with retailers focused on enhancing outcomes for customers, raising competitiveness and internal processes. However, with only a fraction of retailers looking to innovate in response to their customer’s direct feedback or observed behavioural changes, and an even smaller number innovating to stave off industry disruptors, there appears to be unrealised opportunities for retailers to leverage innovation to better adapt to change.

Innovation behaviours of retailers



Drivers of innovation and improvement for retailers



Perceived benefits of innovation and improvement for retailers



Challenges of innovation and improvement for retailers

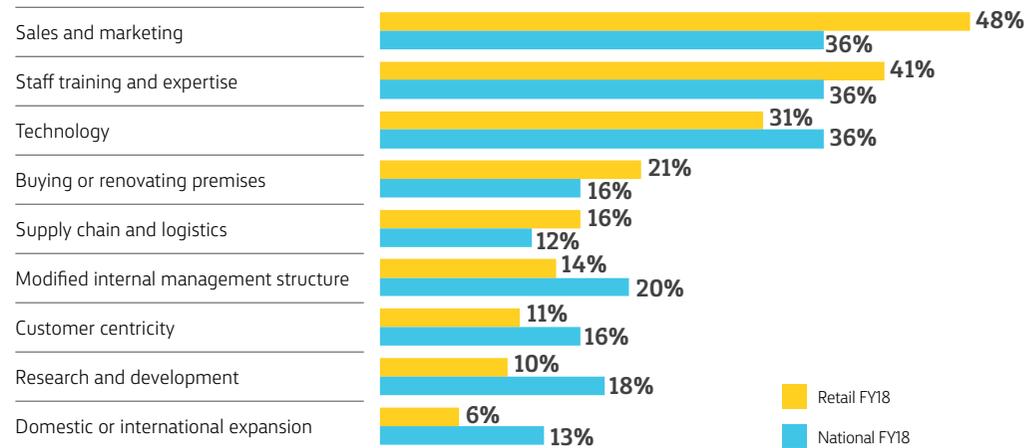


Investment in innovation

In line with high levels of marketing activity occurring within the industry, retailers are most likely to invest in innovative sales and marketing approaches. Staff training, store renovations and supply chain enhancements are also high priorities while investment in technology, research & development and customer centricity lags behind the national average.

For those retailers that are investing in technology, it is not surprising that the top priority is their website or digital presence and payment systems. Investment in the Internet of Things is also well above the national average while investment in cloud technology and service through chat apps is significantly below.

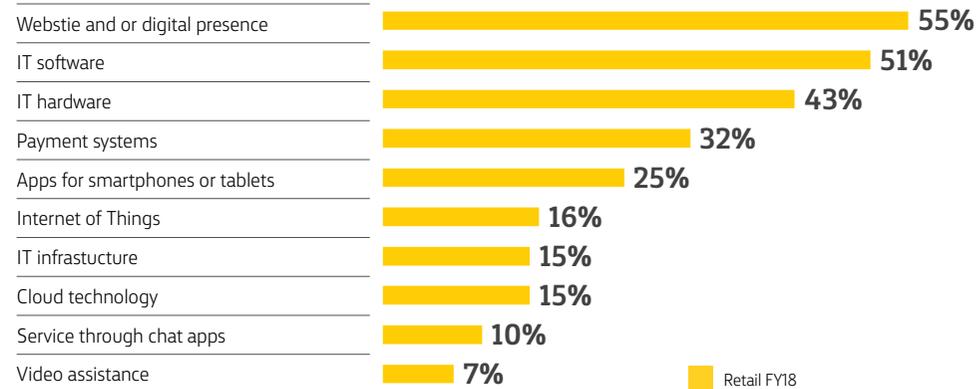
Areas of investment



48%
of retailers invest in sales and marketing



Areas of investment for retailers investing in technology



55%
of retailers invest in their website or digital presence



Impact of investment in technology



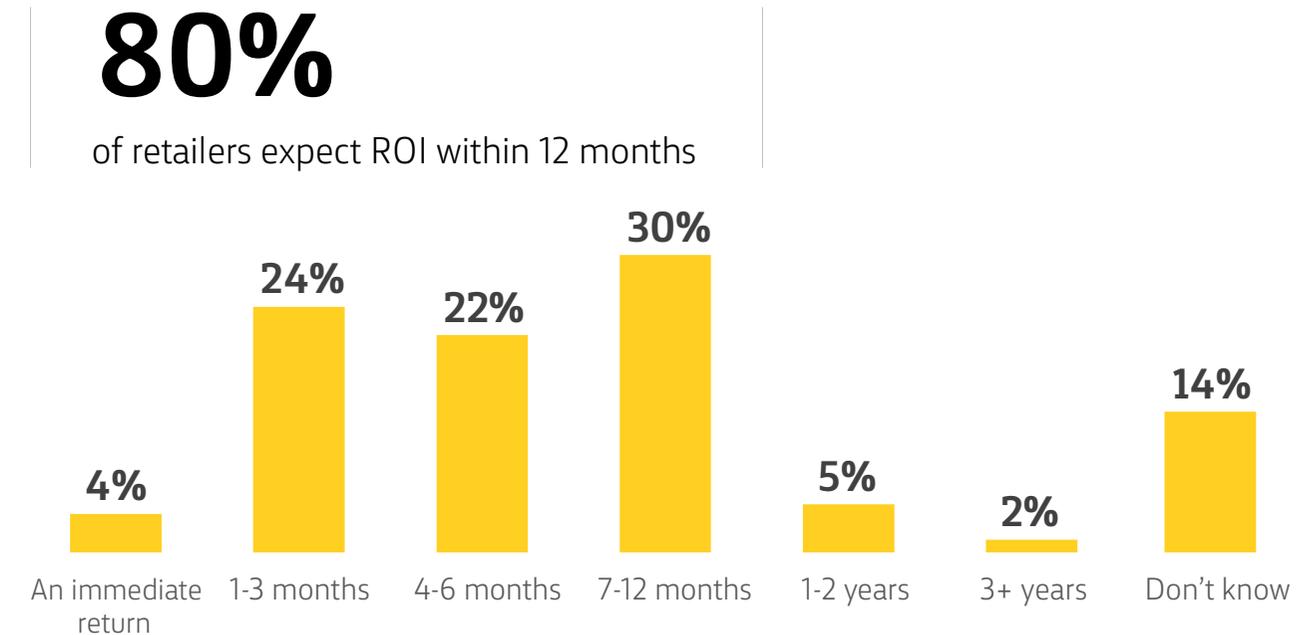
Returns from innovation

While retailers appear to be spending approximately a third of the average investment into innovation compared to the national average of all industries, the estimated return on this investment is almost identical. Retailers are receiving almost two dollars for every dollar invested in innovation, suggesting that they don't need to have significant budgets to generate a substantial return on their innovation activities. In most cases, retailers expect to realise a short-term return from investing in innovation, with one in two anticipating a pay-back period of less than six months.

Estimated investment and returns from innovation

	Investment 	Additional Earnings 	Return on Investment 
Retail FY18	\$101K	\$198K	1.96
National FY18	\$300K	\$592K	1.97

Timeframe for return on investment from implemented innovations for retailers



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