

Peak 2024, an inflection point for Aussie retail?

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Cyber week 2024: To be significant this year in more ways than one...

We believe FY25E could be an inflection point in Australian retail, whereby retailer focus shifts to share of eyeballs, online penetration re-accelerates, CAPEX priorities shift and retail bi-furcation accelerates. The result; the approach to customer lifetime value changes and gap between winners and losers increases. In the first of our three-part series addressing this, we look at the growing importance of digital in Australia, via a case study on November cyber events, noting the growing significance of these events, in both de-risking Christmas but also winning customer share-of-mind and adversely impacting store traffic. For our second report, we will look at the *CAPEX Conundrum*, and shifting retailer priorities (store vs. supply chain), and finally *How to maximise customer lifetime value* (CLV) and listed implications. Within this report, we deep dive into cyber events and conclude: i) Events drive higher digital engagement: Both in the lead up and during, with digital impressions up brands investing more; ii) Consumer behaviors impacted: Researching more online, deferring purchases in anticipation, blurring traditional category boundaries, store conversions higher and sharing more data; iii) Opportunity to lift margin: Prime Day in the US saw 41% of sales on full price, retailers increasingly using AI to target promotions and maximise GP%; and iv) Service key: Post-purchase expectations are lifting, with 50% of shoppers saying would not return to a brand after a poor delivery experience. Despite this, Shippit found only 9% of Aussie retailers offer same-day shipping, at a time Amazon is launching same-day in Sydney (report), and 60% of consumers would pay for it. We continue to believe more investment in the post-purchase experience is needed. Overall, we expect this year's cyber events to be a record event, with apparel to benefit most followed by electronics (Figure 7).

The growing importance of digital engagement for broader retail...

Consumers are engaging at more touch points than ever before, and retailers have responded via engaging further up the funnel to win share of wallet and monetise the messy middle. The aim being to maximise customer lifetime value. In contrast to 10 years ago, retailers now have multiple touch points to monetise the journey via: i) Conversion; ii) Promotional effectiveness; iii) Units per basket; iv) Frequency; v) Post-purchase; vi) Media; vii) Loyalty; and; viii) Adjacencies, to name a few. Importantly, by understanding the purchasing journey, retailers can improve the experience, build trust and lift loyalty. We believe Australia in many ways is behind global leaders but are now seeing more retailers acknowledging this opportunity via marketplaces (i.e. JBH), media (report), loyalty and supply chain. With the above in mind, gaining share of eyeballs at key events is key, with this year's Cyber Week a focus.

Cyber Week - Why is it more important than ever in 2024?

We expect November retail sales growth to accelerate, after being relatively muted through July/August (WBC report) in the context of tax cuts. Consumers are increasingly value focused but the value weighting is shifting to beyond just price, via increasing importance of the post-purchase experience (Shippit report) and waiting for key events, with 60% of Australians delaying purchases until key cyber events (report). The above means getting not only the product but also the service element will be increasingly important, particularly as Amazon moves to same-day. We believe retailers are acknowledging this risk, via growing reference to Amazon, media, AI, data and marketplaces through FY24 results, as well as CAPEX allocation. Furthermore, Cyber Monday in 2024 falls into December, closer to Christmas, meaning increased likelihood promotions bridge this key period. We do, however, see an opportunity for incumbents to capitalise on an extended promotional cycle via targeted / phased promotions, lifting media revenue, promoting adjacencies and pushing full priced product, as Amazon and WMT have done in the US. Ultimately the need for scale is building, with post-purchase key.

Our view: Market is evolving, and we are nearing an inflection point

Incumbent behaviour is evolving, CAPEX and OPEX priorities are shifting and a significant investment is being put behind supply chain, range, loyalty and driving share of wallet. We believe Australia is 1-4 years behind offshore but a shift could be coming - we will address the implications re CAPEX and ROIC in part 2. Increasingly, we see WMT as an aspiration for the likes of WES/WOW/COL.

Listed implications: We continue to favour companies building longer term sustainable moats, at scale with differentiated offerings - notably WOW, TPW, FLT and TWE, while WES has a material opportunity.

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1. Online penetration is rising, again... but at the pre-COVID rate

Online penetration in Australia remains below developed peers such as the US, UK and Korea. This, in large part, reflects higher cost-to-serve but also a more consolidated local industry less impacted by global players such as Amazon, Temu and SHEIN.

This is, however, changing. Post-purchase expectations have lifted and (global) competitors are investing more in the value offer (range, service and price). The result is changing consumer expectations, notably around education (price, range, quality) and post-purchase.

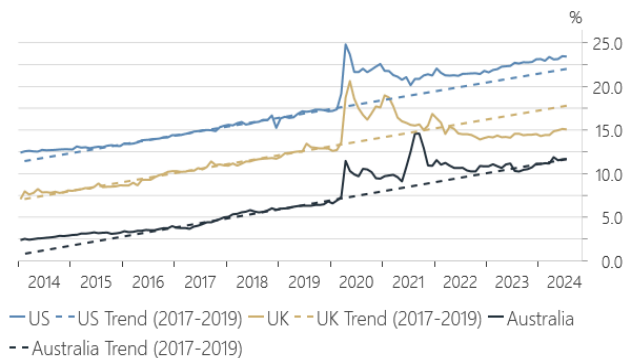
We believe this will have two major implications for Australian retailers:

- **Growing focus on data:** An opportunity to convert consumers at different levels of the funnel that, in our view, should see online penetration re-accelerate to above the post-COVID trend, as we have seen since June. It also provides more opportunities for retailers to monetise consumers, through loyalty, media and share of wallet.
- **Investment in omni-channel:** We will explore in detail in our second report of this series, with a focus on CAPEX and if we are approaching a point where retailers will need to reallocate CAPEX or lift it in order to expand supply chain and marketplace capabilities as WMT is doing in the US.

We believe the catalyst for the above is a re-acceleration in online penetration, growth of global players and a blurring of the lines across historically traditionally defined channels such as grocery.

Figure 1: Australian online penetration continues to lag global leaders...

Online retail sales as a % of total retail sales



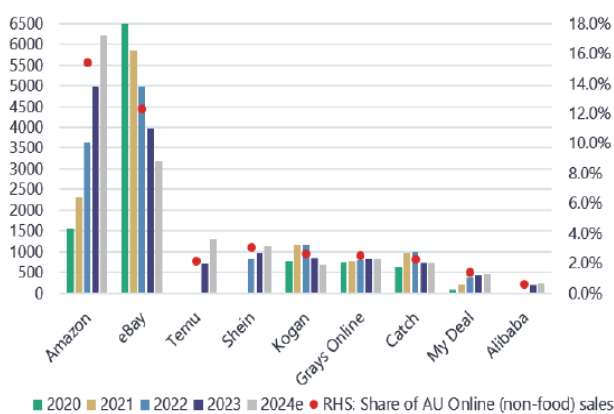
Source: ABS, US Census Bureau, UK ONS

Figure 2: ...but has begun to re-accelerate (% of total AU non-food retail spend)...



Source: ABS

Figure 3: ...led by Amazon, Temu and SHEIN (GMV \$bn)



Source: Company data, Jarden estimates

Figure 4: Lines increasingly blurred across channels as traditional channels such as grocery lose to online (AU Market share trends by channel)



Source: ABS

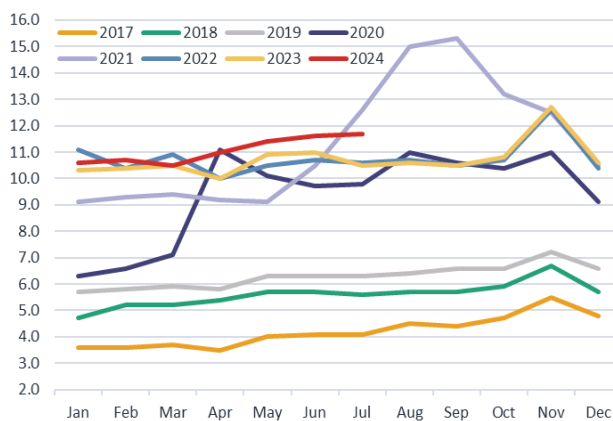
Online penetration - a recap

Identifying trends in recent years has been challenging, in part owing to a robust consumer (stimulus and migration) and distorted trends through COVID. We do, however, believe the past 24 months have been a more normal environment that provides a clearer picture into channel trends, with average online penetration YTD up c40bp to 11.1%, and up 40bps vs 2023.

Looking back, the biggest lift in online has been through November; owing to cyber events such as Black Friday, with penetration for 2023 up c140bps for total online (Figure 5) and 190bps up for non-food (Figure 6), and up ~270bps in the past two years.

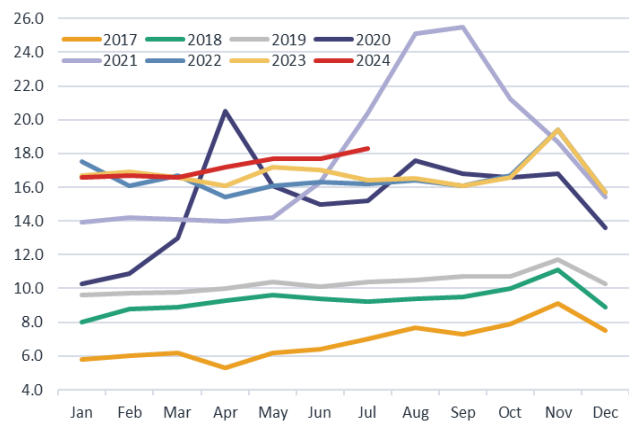
- Online sales accounted for 68.2% of all Black Friday purchases according to marketing consultancy Crom Salvatera ([link](#)), which represented a 15.4% increase from 2022 and 31.1% growth vs 2019.

Figure 5: Online penetration (%)



Source: ABS

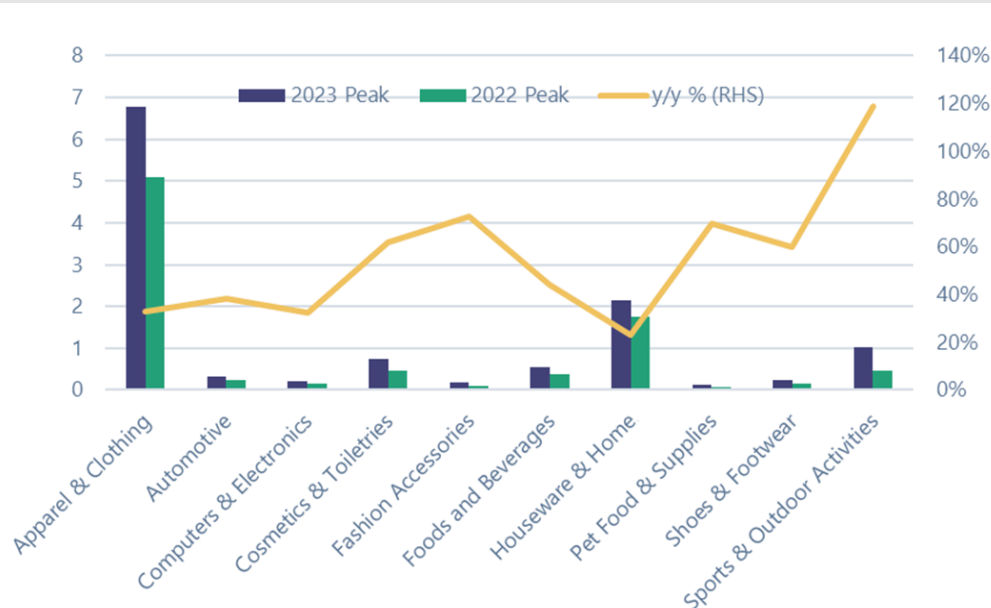
Figure 6: Online penetration (%) - Non-Food



Source: ABS

By category, by units fashion and homewares remain the largest online purchased products through the peak sales events of November, with sport / outdoor and fashion accessories recording the largest growth, albeit off a lower base.

Figure 7: Shippit peak period volumes by category (indexed) for 2023 vs. 2022

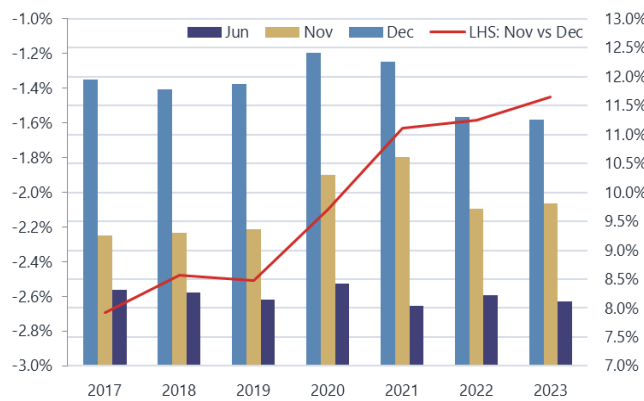


Source: Shippit, data compiled by Jarden

2. November peak - Can increasingly distort read on October trade

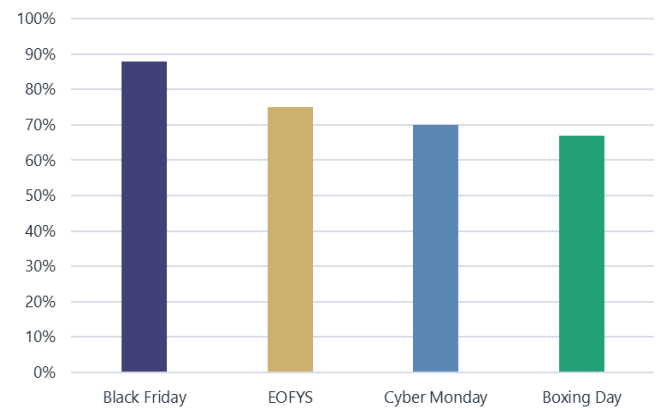
Parcel volumes reached c100m in 2023 through Nov/Dec in 2023 according to Australia Post, with Black Friday and Cyber Monday seeing 88% and 70% growth, respectively, in sales vs. 2019.

Figure 8: Share of annual retail sales (lhs - Nov % minus Dec %); Nov closing on Dec...



Source: ABS, Data compiled by Jarden

Figure 9: ...with a material lift in sales vs. 2019



Source: Australia Post

Importantly, consumers have been educated to wait to shop these events, which may make retail sales figures for Sep/Oct less reflective of reality for 1H FY, a period that can represent upwards of 70% of many (non-food) retailers' profits. CouriersPlease study last year ([link](#)) found:

- 65% of shoppers slow down on purchases in the weeks to Black Friday and Cyber Monday
- 37% of under-30s hold out purchases two weeks in the lead up to the sales
- 61% of shoppers hold off on fashion purchases before the sales

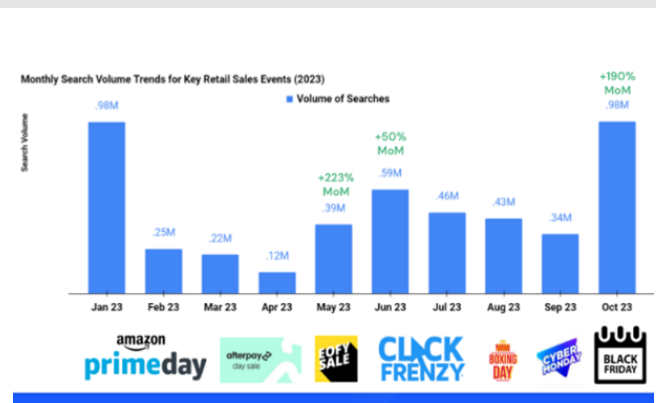
This is reflective of more consumers actively seeking value, whereby they wait for key sales events. Importantly, it does not slow brand engagement, with search interest leading into cyber events up materially in recent years. This provides an opportunity for retailers in the coming months, and also opportunity to provide more tailored (margin accretive) offers, and scope to go early.

Figure 10: How have your shopping habits changed in the past 12months (total)?



Source: Shippit/Jarden Consumer Survey (March 2024)

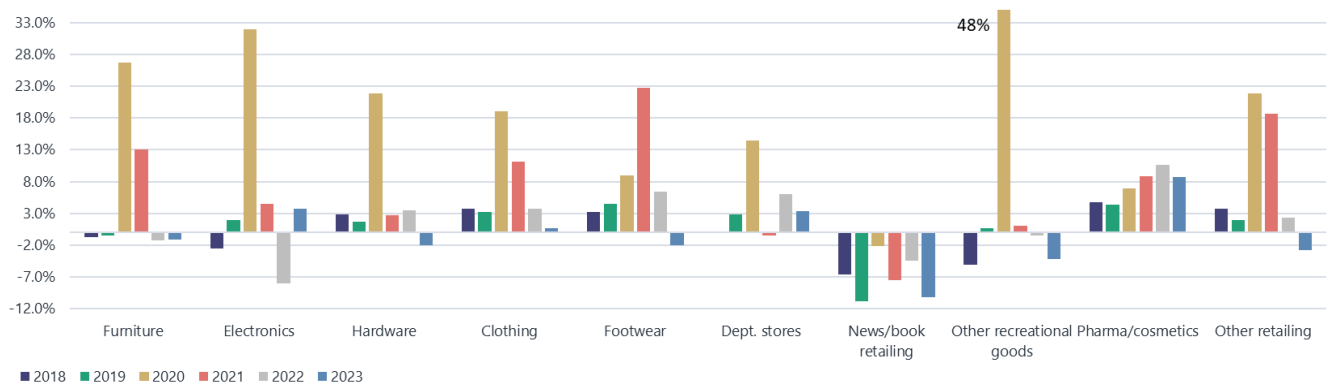
Figure 11: Australians getting more interested in retail events



Source: SimilarWeb

Looking back, the performance by category over the key November sales event has differed by year with footwear, fashion and electronics typically stronger. While furniture remains relatively stable.

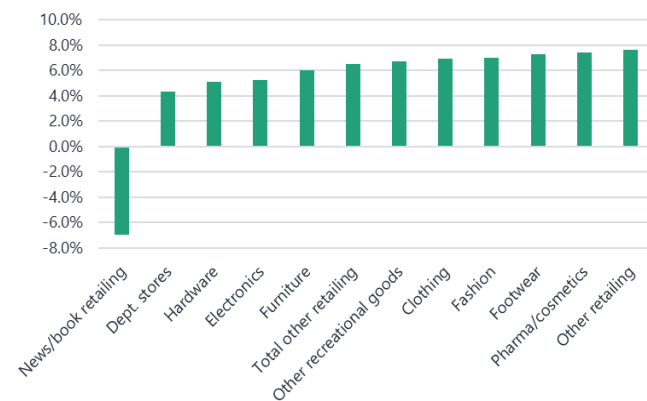
Figure 12: Historical sales growth rate (y/y) for November



Source: ABS

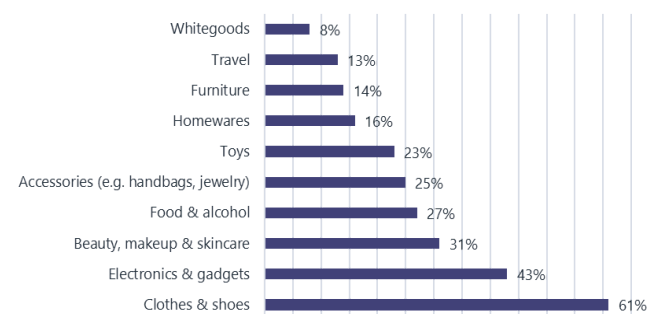
This is consistent with Statista data, suggesting fashion, electronics and beauty are the three major categories, while bulkier whitegoods/furniture and services (travel) are less of a focus.

Figure 13: Average November y/y sales growth per category (2018-2023)



Source: ABS, Data compiled by Jarden

Figure 14: Survey of most popular categories of items to be bought during Black Friday and Cyber Monday events in 2023



Source: Statista

3. Why it is an opportunity to drive margin and ROIC?

The extended sale period of Cyber Week, in our view provides an opportunity for retailers to lift annual profit and customer loyalty, via six broad avenues:

- Extended peak period: Through end November to early January, allowing retailers to engage with consumers for a longer period during which they are actively looking to make purchasing decisions.
- Items per basket: Through data and AI to understand missed items in basket, with Amazon's recommendations algorithm driving c35% of sales according to McKinsey ([article](#)). Growing digital engagement provides an opportunity to lift items per basket.
- Promotional effectiveness: Through utilising targeted promotions to maximise value for both the consumer (via promoting what value) and retailer (via reducing wasted promotions). We believe WOW - alongside Quantum - is doing the best job of this locally.
- Investment in post-purchase: Is an area to differentiate per the Shippit findings, and while retailers are doing a good job lifting C&C (click and collect) and utilising store networks, we believe an opportunity exists, particularly via 3rd party fulfillment.
- Data capture: To adopt a true pull vs. push model and understanding the next right to play categories.
- Adjacencies: Notably media, financial services, marketplaces, logistics and data.

We will address and look to more broadly quantify these opportunities in parts 2 and 3 of this series.

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