

2021 Online Retail Forecast

Current landscape and key trends in the Australian retail sector

Australian Retail: A snapshot



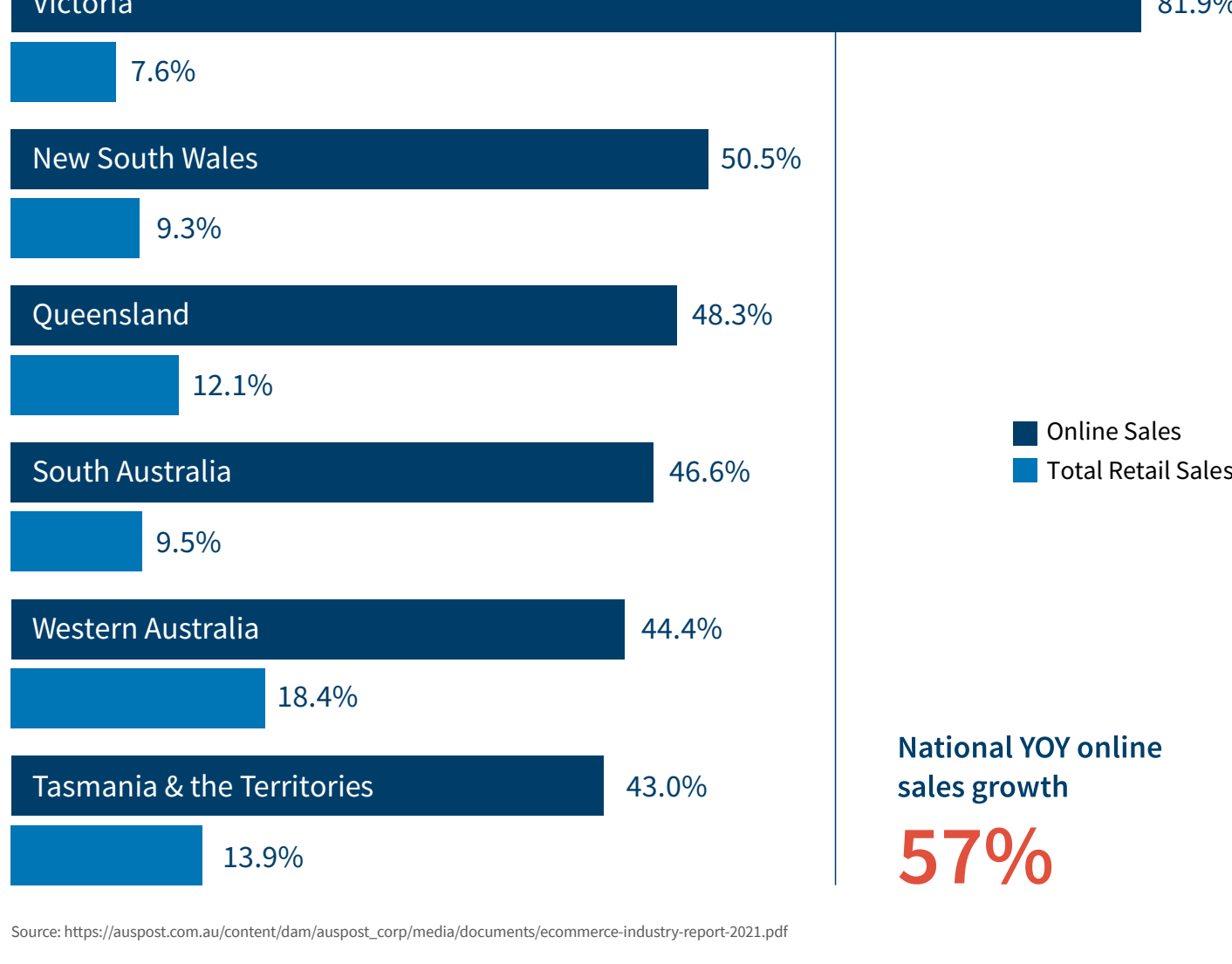
Retail e-commerce and the pandemic: one-time windfall or game changer

Online sales in 2021 were already well ahead of the prior year, when retailers elongated the cyber sales period, discounted their already depleted inventory balances, and delivered a record breaking November.

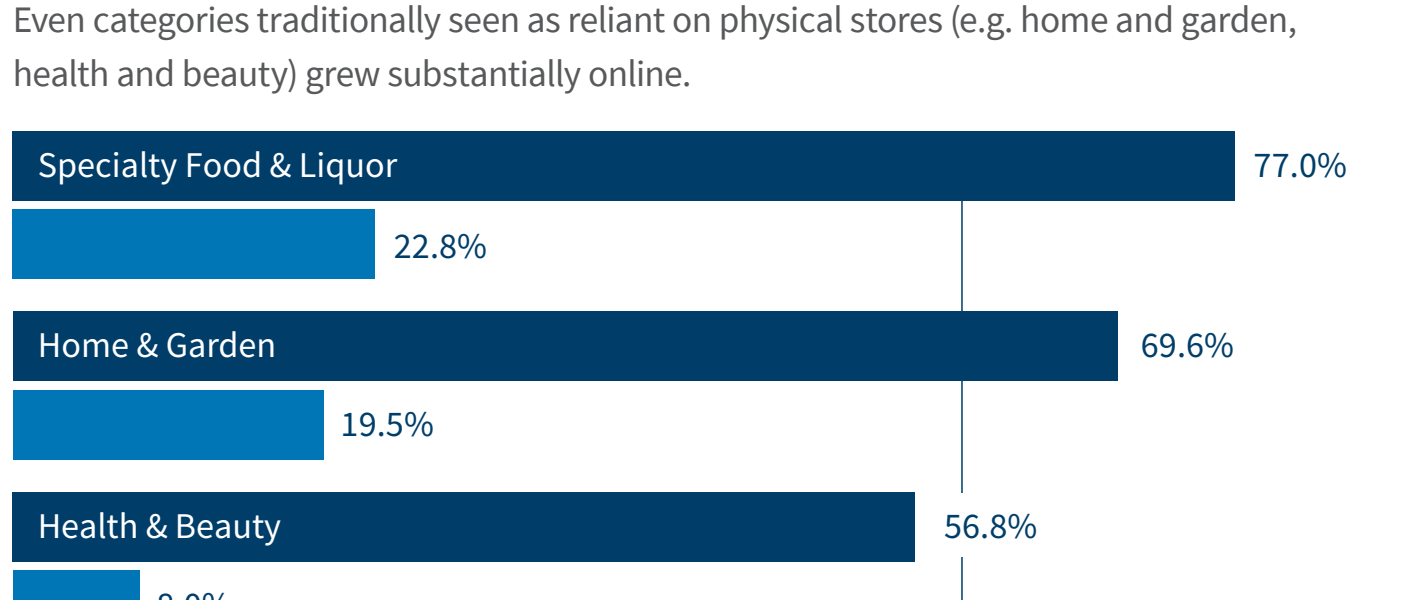
Online sales growth in Australia has now consistently outpaced the U.S. over the last decade, however Australian online sales as a percentage of total sales has lagged the U.S. Online sales as a percentage of total sales in the U.S. peaked in Q2 2020 at 15.7% (Australia reached a record at the time of 10.8%) but has since tapered off and settled at approximately 13.5%. In Q3 2021, online sales as a percentage of total sales in Australia surpassed the U.S for the first time reaching 13.8% (U.S. 13.0%), after recording quarter on quarter growth of 40%.⁴

This growth is expected to continue throughout 2022 and beyond. As a result optimisation of online sales, with e-commerce working in combination with other channels, continues to represent a significant near and long term opportunity for retailers.

Online and total retail sales growth YOY

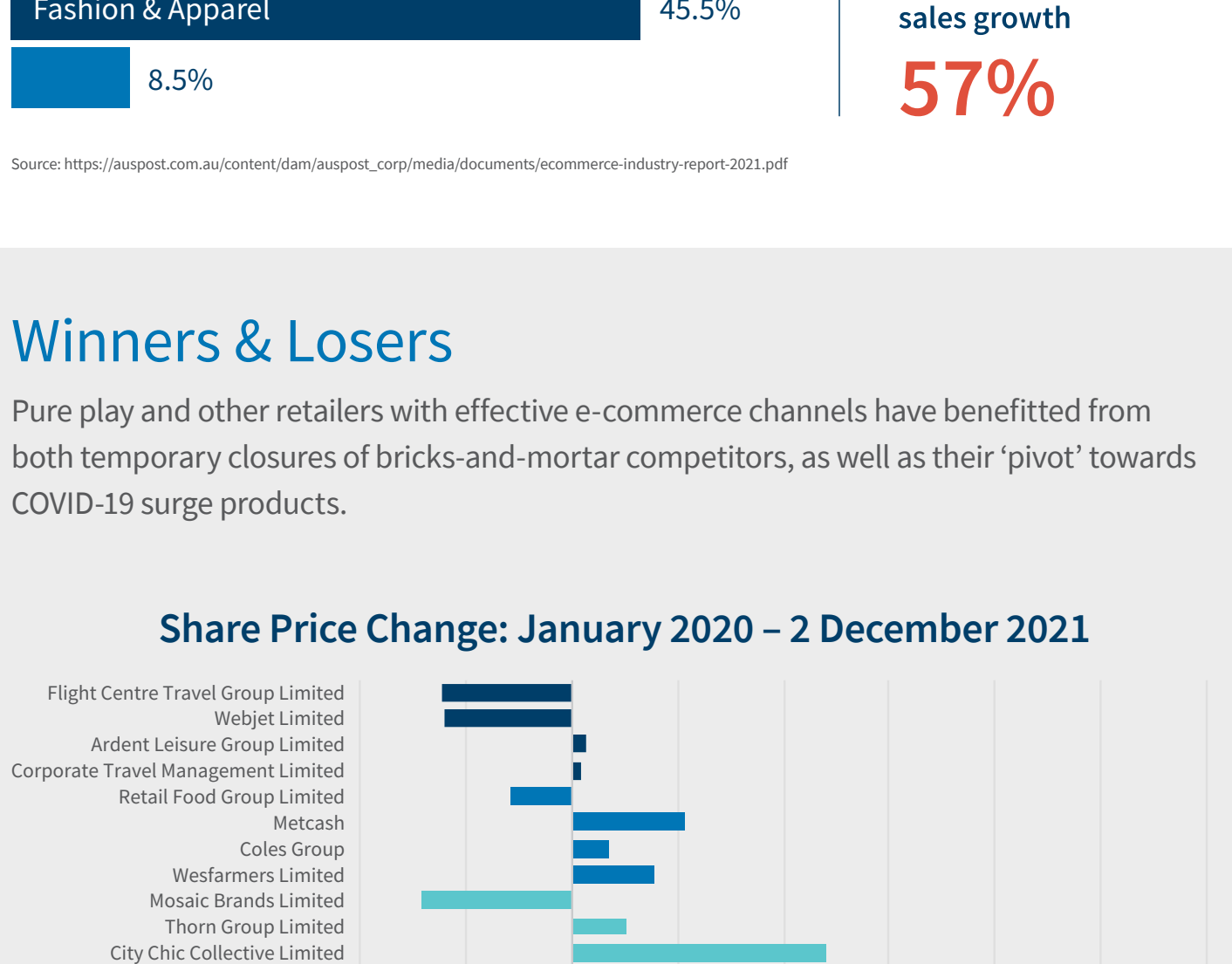


Online and total retail sales growth YOY - U.S. & Aus



Online and total retail sales YOY growth by state

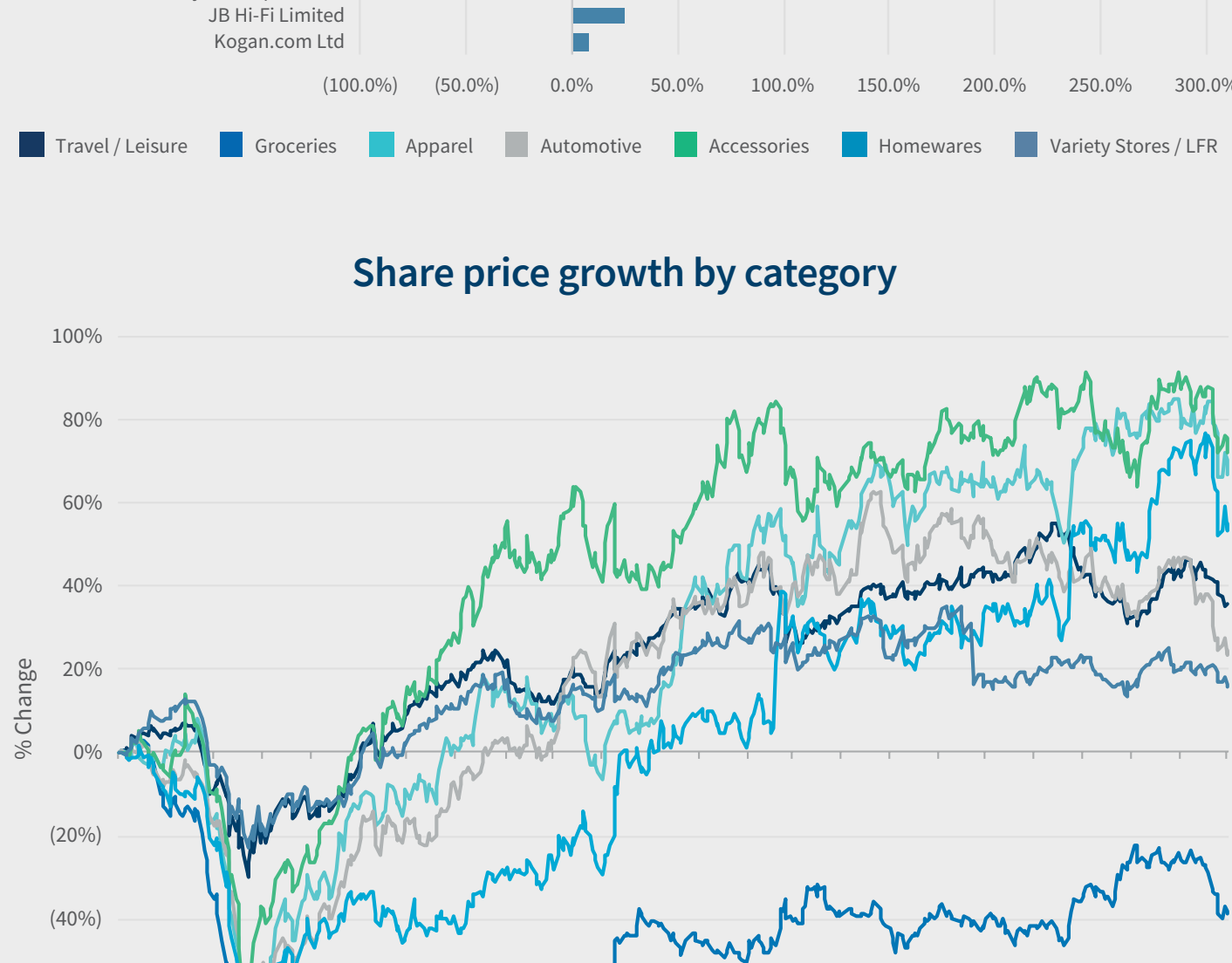
Victoria locked down retail and pushed consumer spending online, but these physical restrictions combined with economic uncertainty caused the lowest total retail sales growth by state in Australia.



Source: https://austpost.com.au/content/dam/austpost_corp/media/documents/e-commerce-industry-report-2021.pdf

Online and total retail sales YOY growth by category

Even categories traditionally seen as reliant on physical stores (e.g. home and garden, health and beauty) grew substantially online.

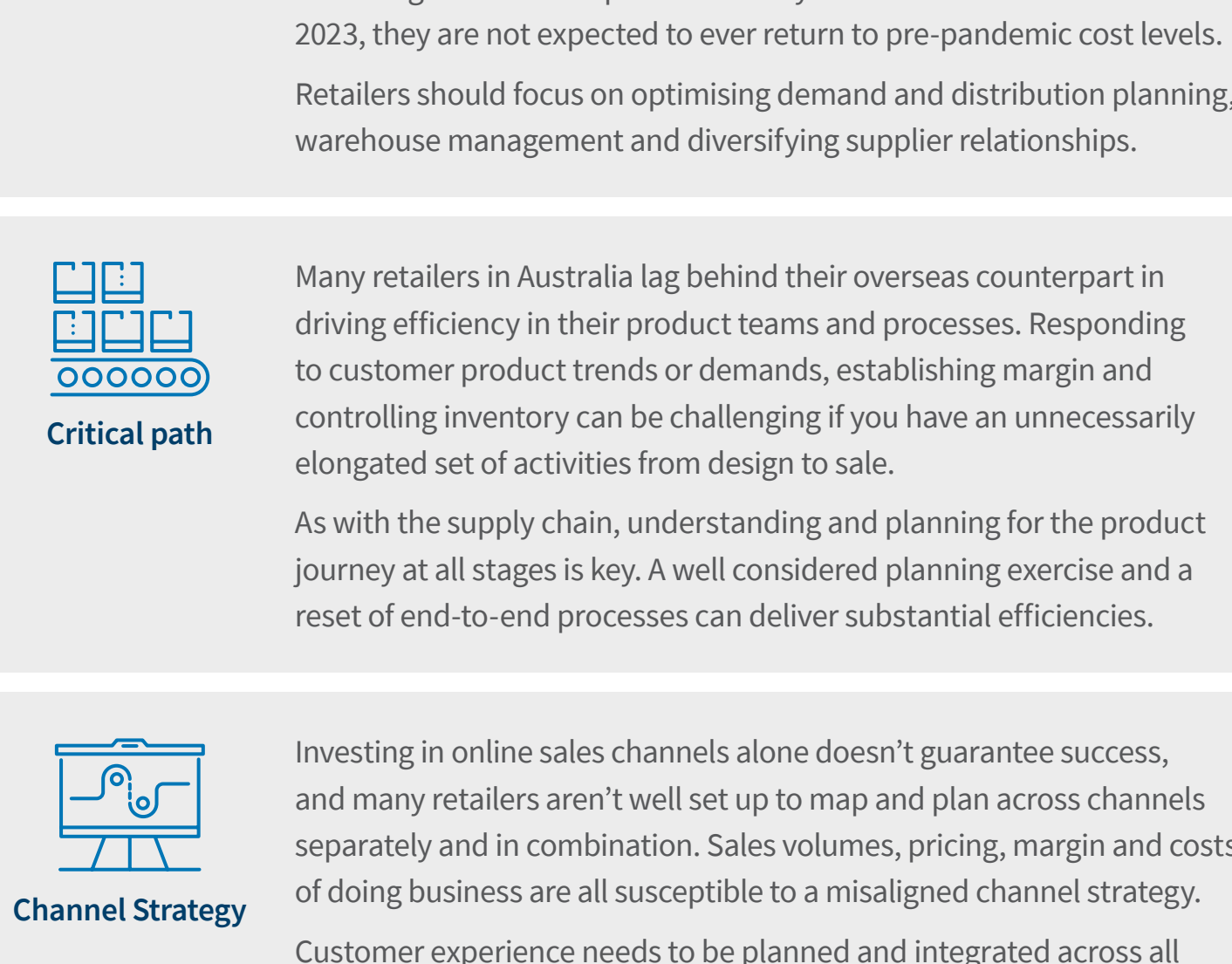


Source: https://austpost.com.au/content/dam/austpost_corp/media/documents/e-commerce-industry-report-2021.pdf

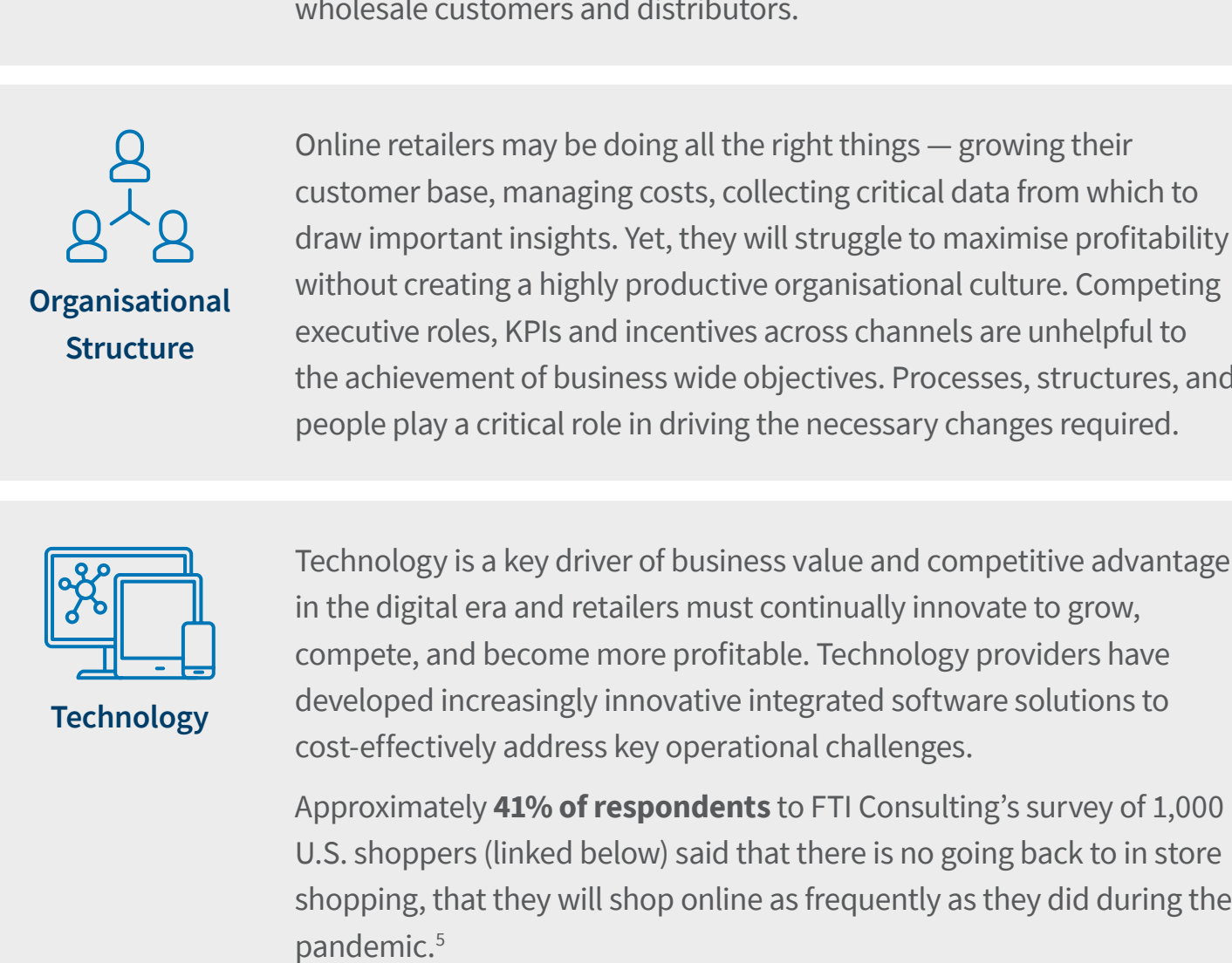
Winners & Losers

Pure play and other retailers with effective e-commerce channels have benefited from both temporary closures of bricks-and-mortar competitors, as well as their 'pivot' towards COVID-19 surge products.

Share Price Change: January 2020 – 2 December 2021



Share price growth by category



What retailers need to consider – getting your house in order

Operational challenges

Fluctuations in available capacity, congestions, and rapid cost increases have disrupted retailers supply chains. Understanding issues at all links, leveraging relationships and accelerating response times have been needed to partially cope with this increasingly challenged environment. Whilst logistics carriers prices will likely soften in the second half of 2023, they are not expected to ever return to pre-pandemic cost levels. Retailers should focus on optimising demand and distribution planning, warehouse management and diversifying supplier relationships.

Many retailers in Australia lag behind their overseas counterpart in driving efficiency in their product teams and processes. Responding to customer product trends or demands, establishing margin and controlling inventory can be challenging if you have an unnecessarily elongated set of activities from design to sale. As with the supply chain, understanding and planning for the product journey at all stages is key. A well considered planning exercise and a reset of end-to-end processes can deliver substantial efficiencies.

Investing in online sales channels alone doesn't guarantee success, and many retailers aren't well set up to map and plan across channels separately and in combination. Sales volumes, pricing, margin and costs of doing business are all susceptible to a misaligned channel strategy. Customer experience needs to be planned and integrated across all touch points; whether online via desktop, tablet and mobile; as well as over the phone in physical stores, concessions or across networks of wholesale customers and distributors.

Online retailers may be doing all the right things – growing their customer base, managing costs, collecting critical data from which to draw important insights. Yet, they will struggle to maximise profitability without creating a highly productive organisational culture. Competing executive roles, KPIs and incentives across channels are unhelpful to the achievement of business wide objectives. Processes, structures, and people play a critical role in driving the necessary changes required.

Technology is a key driver of business value and competitive advantage in the digital era and retailers must continually innovate to grow, compete, and become more profitable. Technology providers have developed increasingly innovative integrated software solutions to cost-effectively address key operational challenges. Approximately 41% of respondents to FTI Consulting's survey of 1,000 U.S. shoppers (linked below) said that there is no going back to in store shopping, that they will shop online as frequently as they did during the pandemic.⁵

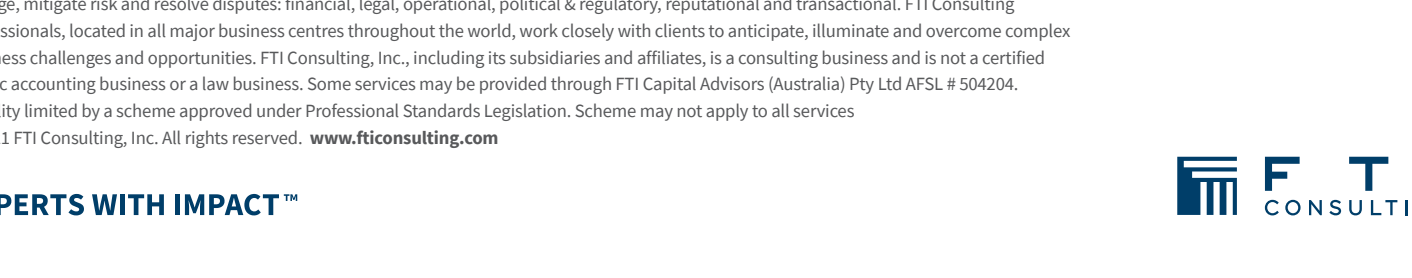
The surge in online activity has provided retailers with a significant advantage – that they have greater volume and accuracy of customer data. Retailers can now clearly understand how customers are behaving online and across other channels, including how they ended up on the site, what items they've looked at, heat map digital and physical environments, and conversion into a sale. However many retailers are struggling with the pure volume of data, including how to analyse it into meaningful insights and actions that improve customer experiences and increase sales. Investments in data scientists to manage all this data are insufficient to enable change if customer data and insights aren't prioritised in executive decision making. Informed analytics and creative ideas help translate the customer data into a structured plan. Some degree of flexibility is also required to use the data to inform concepts and ideas and test and refine them, accepting that they may not be right first time.

Capital challenges

Fluctuations in demand and disrupted supply chains reduced overall inventory levels during the pandemic. Slowly production and canceling orders from manufacturers was quickly replaced with ordering increased product volumes to meet enhanced forecast expectations, that logistics providers were unable to deliver to. 23% of retail trade businesses and 25% of wholesale trade businesses surveyed by the Australian Bureau of Statistics in June 2021 said their ability to meet financial commitments over the next three months was difficult or very difficult.

Despite the unprecedented economic volatility, the cost of capital is at historic lows and there is an increasing number of investors competing to provide debt and other finance to retailers to fund digital and other transformation strategies. Retailers should consider investments in transformative technology that can be scaled to meet consumer needs and respond to future changes.

Key areas of digital e-commerce architecture



Key takeaways



2021 U.S. Online Retail Forecast

Access the U.S. Online Retail Forecast Report to learn more about how the U.S. retail sector has excelled with online retailing in 2021. The report also features results from a recent survey where FTI Consulting commissioned a survey of 1,000 shoppers who made a purchase on Prime Day last year to get their thoughts on a variety of topics as the big event date approached. To read the full report, [click here](#).

¹ Australian Bureau of Statistics, Retail Trade, Australia, October 2021 <https://www.abs.gov.au/statistics/industry/retail-and-wholesale-trade/retail-trade-australia/ltrc-2021>
² Source: https://austpost.com.au/content/dam/austpost_corp/media/documents/e-commerce-industry-report-2021.pdf
³ Australian Bureau of Statistics, Business Conditions and Sentiments <https://www.abs.gov.au/statistics/economy/business-indicators/business-conditions-and-sentiments/latest-release>
⁴ Australian Bureau of Statistics, Retail Trade, Australia, October 2021 <https://www.abs.gov.au/statistics/industry/retail-and-wholesale-trade/retail-trade-australia/ltrc-2021>, U.S. Census Bureau <https://www.census.gov/retail/index>
⁵ <https://www.fticonsulting.com/insights/reports/2021-online-retail-forecast-report>

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