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### Australian retailers lacking in strategic planning

Why is the GST-exemption such an issue for major Australian retailers when the problem is about strategy and not tax? Australian retailers are set to launch an advertising campaign aimed at persuading the Government to reduce or drop the tax free threshold on international internet purchases.

Unfortunately, this is not the answer to their woes. The price differential on internet purchases is regularly greater than 10%, and according to Choice, this market segment is only 3% of total retail trade (ABC News 4/1/2011).

Australian retailers have been exposed with out-dated and narrowly focused business strategies and are suffering for their inattention to market forces.

A value chain assessment reveals Internet-based retailers are vertically integrating - predominantly downstream towards the customer and thus able to control costs. In effect, manufacturers and wholesalers have become retailers.

Australian retailers on the other hand have pursued a diversification strategy through acquisition and organic growth- accumulating more shop-fronts, carrying inventory and adding costs that result in higher prices at the checkout.

There are three issues that need to be understood by Australian retailers:

- A focus on bricks and mortar retailing is a high cost strategy
- Customer service is important to customer, just ask them
- Consumer sentiment is contracting and past over spending by consumers are not likely to return in the near future

#### **Bricks and Mortar**

Large retailers in Australia have pursued a strategy of distributing their products through a network of stores in order to entice customers to buy; you can find them in every shopping mall in the country. This strategy may have worked in the past, but bricks and mortar retailing is under pressure, thanks to the internet and the global village. The result of such an elaborate distribution network is higher overheads, resulting in higher product costs at the checkout, which is definitely not a competitive advantage.

#### **Customer Service**

Customer service is important and creates a competitive advantage when customers feel valued and not a commodity whose main purpose is to create shareholder value. Unfortunately, many retailers don't effectively focus on customer service, and have relied on customer loyalty programs and lower price to generate repeat sales. Customer loyalty cannot be bought, it happens before you hand over your card.

In their defence the lack of customer service can also be attributed to marketplace competition for staff during periods of low unemployment. This situation was typical in the recent mining boom and is destined to be repeated in the near future, particularly in WA.

#### **Consumer Sentiment**

The effect of the Global Financial Crisis (GFC) has created ongoing concerns and apprehension in consumers. The lesson from previous generations about saving for a rainy day ring true to many people, post GFC.

In addition, future expected increases in interest rates will also weigh heavily on household spending until at least 2015, with an estimated 2% contraction of consumer sentiment during this time<sup>1</sup>.

As a result the household savings ratio in Australia has continued to increase since early 2009 just in case there are rainy days ahead.

Previously, households on average actually spent more than they earned, particularly in the period from 2002 – 2005<sup>2</sup> and our current Government actually encouraged spending with cash handouts to ensure when had enough money to throw at the economy and creating abnormal market conditions. To add to this cautious approach, the household debt ratio in Australia is at its highest level in 35 years, adding further downward pressure on discretionary spending.

### **The Internet**

In contrast to bricks and mortar retailers, Internet retailers don't have the high overheads. They operate virtual stores and tend to practice Just In Time (JIT) inventory management, effectively controlling costs.

They do offer customer service prior, during and after your purchase, they do make sure you are satisfied; after all they are only as good as their last sale in the highly competitive global village. In addition, changing customer demographics make buying on the internet more acceptable to a larger segment of the market, driven by the much maligned Gen Y's.

Whilst there are unscrupulous internet companies, the use of social media networks as an interactive customer evaluation process quickly exposes these online retailers and levels the playing field. This scenario probably contributed to retailers being blindsided to the threat of the internet and as a result are now behind the leaders.

### **Summary**

Australian retailers are suffering from a lack of strategic focus and have failed to perceive the competitive forces of the internet. As a result they are not going to benefit to any great extent if the GST threshold is removed or reduced due to excessive costs. They rely too much on bricks and mortar distribution. Customer service has diminished due to labour shortages and other factors and, differentiation between competitors is low, which does not create loyalty based on brand.

Australian retailers will continue to suffer as consumer spending is likely to be subdued due to recent economic events, and ongoing pressures to household spending.

Changing demographics have increased the acceptance of online purchasing, and consumers are likely to seek more cost-effective and service orientated alternatives on the internet.

Internet-based retailers have integrated downstream towards the market, therefore managing cost more effectively; they also provide consistent levels of customer service compared with many Australian retailers.

For Australian retailers to continue to compete they will need to adapt to the changing market forces or suffer further erosion of their market-share irrespective of the outcome of their current tax related concerns.

### **References**

1 IBISWorld Consumer Sentiment Index: D1111, June 2010

2 <http://www.aph.gov.au/Library/pubs/msb/34.htm>