

A photograph of a modern clothing boutique. In the foreground, a woman with blonde hair in a ponytail is seen from behind, looking at a laptop. A man in a pink shirt is partially visible on the left. In the background, two other women are shopping; one is holding a smartphone and a shopping bag, and the other is looking at a pair of shoes. The store has wooden floors, white walls, and racks of clothing. A long wooden table in the center holds various accessories like shoes, bags, and jewelry.

Retailing Now

An Overview of the
New Zealand Retail Sector

TAKING RETAIL
FURTHER //

Retail

NZ



Last year, online sales grew by 16%, compared to only 2% in-store.

INTRODUCTION

The retail sector is a significant part of the New Zealand economy and is one of the only sectors that affects every Kiwi, every day. Retail is a highly competitive market, both online and in traditional bricks and mortar, and is continuously changing to meet consumer demands. Retail is driven by consumer behaviour in many respects and it is a constant challenge for retailers to keep up with demand for products and services whilst delivering a unique shopping experience for the customer.

Retail is an incredibly diverse industry and includes everything from fuel and grocery, to fashion, electronics, building supplies, jewellers and cars. Retail NZ is here to help the large and diverse retail sector deliver success across the nation. *Retailing Now* is a high-level view of the retail sector's performance and is a guide to understanding what retail in New Zealand is like today, and where it will be heading in the future.

Recent market developments have seen significant change for retailers and consumers alike. Month to month, retailers are struggling to see growth in consumer spending, but in the long-run things are better overall for the retail sector. There is more competition, greater pressure on businesses to demonstrate they are environmentally conscious, increased pressure on wages and operational costs and a number of other employment law changes that affect most retail businesses. While the changes are significant, retailers are resilient and work hard to meet customer demand. Growth in online spending is skyrocketing, with a 19 per cent increase in domestic spend online in 2018. Additionally, retailers in New Zealand are continuing to outperform Australia's retail market. I hope that our members, as well as others who have a keen interest in the retail sector, find this report to be a useful tool to help them achieve future success.

A handwritten signature in blue ink, reading "Greg Harford".

Greg Harford
Chief Executive, Retail NZ





CONTENTS

| | |
|---|----|
| What is the retail sector? | 4 |
| Retail sector performance | 5 |
| Retail spending | 5 |
| Retail spend per capita | 6 |
| Average annual retail spend per person | 6 |
| Total growth in actual retail sales | 8 |
| International comparisons | 9 |
| Net profit margins across the retail sector are low | 10 |
| Online spending | 11 |
| Retail jobs and retail outlets | 12 |
| Business demographics | 13 |
| Retail businesses openings and closings | 14 |
| Looking ahead to 2030 | 15 |

WHAT IS THE RETAIL SECTOR?

The retail sector is a huge part of the New Zealand economy, and a bellwether of economic performance. A thriving retail sector is key to a thriving community and social well-being. Retail businesses create places for social interaction, offer jobs to New Zealanders, and provide the goods and services that Kiwis need to run their lives.

Retail is large employer, with 9.6 per cent of all New Zealand's filled jobs in the sector, but the biggest firms account for the majority of employment. Nearly half of New Zealand's 27,759 retail businesses are owner-operators and employ no staff, while 345 large retail businesses employ over half of the retail employees across the nation.

Retail spending has grown slowly over the last decade and as of June 2019 accounts for over \$96.8 billion. However, retailers are now beginning to feel greater pressure. This is true particularly for more discretionary spending categories, where consumers are choosing to spend less. Additionally, retailers across the entire sector are feeling a squeeze due to continuously increasing operational costs, pressure on wages and the cost of payments all while trying to keep up with innovative technology and delivering an exceptional customer experience.

Retail is a significant part of the NZ economy, with nearly 60 per cent of household spending in the retail sector.

THE RETAIL INDUSTRY

\$96.8 bn

annual retail spend

27,759

retail businesses in New Zealand

35,205

retail premises in New Zealand

3.6%

average net profit margin

9.6%

of all New Zealand jobs are in retail

13,668

retail businesses employ no staff

8.9%

of all retail spending is online





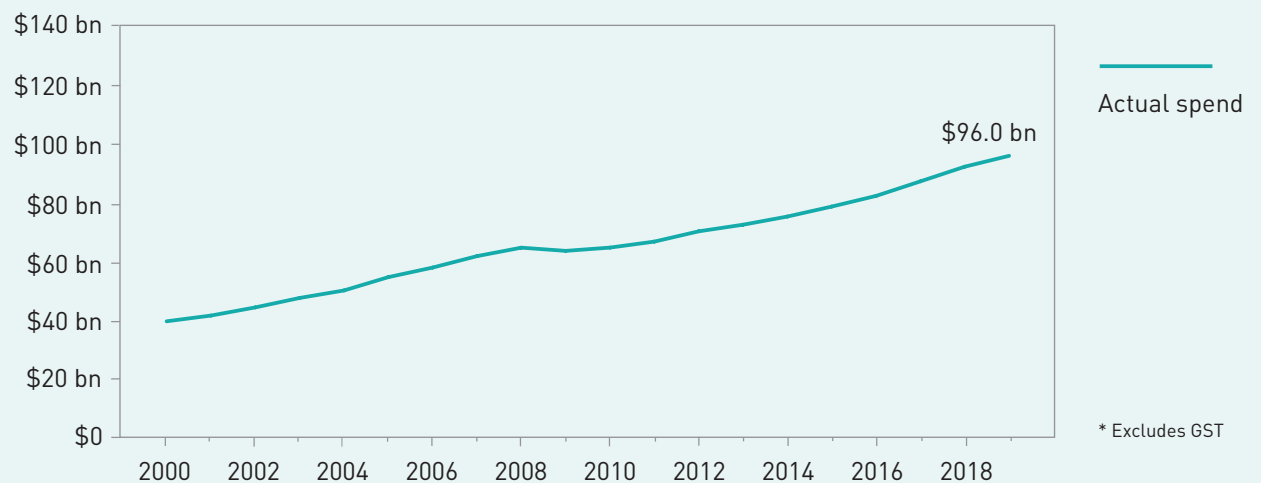
RETAIL SECTOR PERFORMANCE

- Overall, retail spending has continued to grow at a steady rate since the Global Financial Crisis in 2008-2009, particularly in the last five years.
- Consumers are spending an average of 43 per cent of their gross annual income in the retail sector.
- New Zealand's retail growth remains relatively positive when compared to other economies.
- While the number of individuals employed in the retail sector is rising, the total number of retail outlets is shrinking.

RETAIL SPENDING

For the past five years, the retail sector has seen actual sales growth of 4.5 per cent or greater year-on-year. However, we are now beginning to see that growth slow down. In the last year, actual retail sales have increased by four percent, a substantial decrease from the previous year's growth of 5.7 per cent on a seasonally adjusted basis, however, growth is substantially lower.

TOTAL RETAIL SPEND*

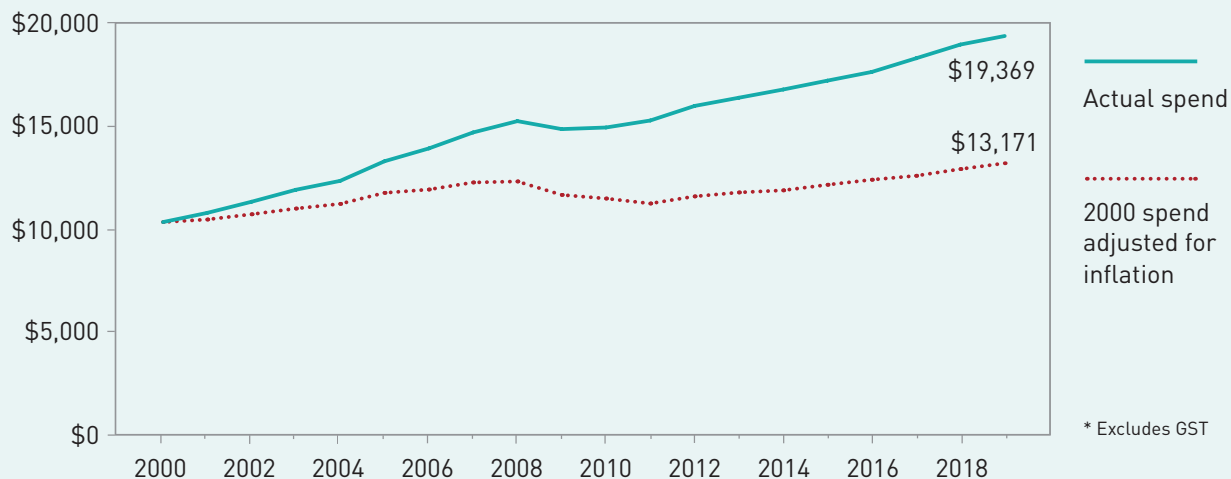




RETAIL SPEND PER CAPITA

Taking both inflation and population increases into account, customers are continuing to spend more in retail than they were in the year 2000. This reflects changing lifestyles, as consumers are ever more focused on convenience living where their needs are increasingly met through retail. Retail is, for many New Zealanders, a form of entertainment and social interaction.

RETAIL SPEND PER CAPITA*



AVERAGE ANNUAL RETAIL SPEND PER PERSON

Individuals are continuing to spend more in retail each year. The average annual spend per individual in New Zealand is \$22,273 (including GST), an increase of only a few hundred dollars on the previous year.

Supermarkets and grocery take the biggest share (19 per cent) of consumer spending, while payments to the Government through GST are the second largest slice of the retail pie.

12 per cent of all spending is on motor vehicles and 11 per cent is on food and beverage services, reflecting the growing importance of the entertainment and hospitality sectors.

THE AVERAGE KIWI SPENDS \$22,273 IN RETAIL EVERY YEAR... WHERE DOES THIS GO?

7.




















TOTAL GROWTH IN ACTUAL RETAIL SALES

Since 2010, the retail sector has seen a 48 per cent growth in sales, across all categories.

The largest growth over the last decade has been in non-store and commission-based retailing, which includes those retailers who are online only. Looking at the growth in the various categories over the years is also an indication of where consumer's discretionary spending is going, as well as what retail categories are finding greater success.

TOTAL GROWTH IN ACTUAL RETAIL SALES 2010-2019

8.

| | | |
|---|---|------|
| Total growth |  | 48% |
| Non-store and commission based retailing |  | 133% |
| Hardware, building and garden supplies |  | 79% |
| Motor vehicle and parts |  | 78% |
| Accommodation |  | 73% |
| Food and beverage services |  | 70% |
| Liquor |  | 54% |
| Furniture, floor coverings, houseware and textile goods |  | 51% |
| Electrical and electronic goods |  | 46% |
| Pharmaceutical and other store based retailing |  | 43% |
| Department stores |  | 36% |
| Specialised food retailing (excluding liquor) |  | 33% |
| Fuel |  | 32% |
| Supermarket and grocery stores |  | 29% |
| Clothing, footwear and personal accessories |  | 25% |
| Recreational goods |  | 11% |

Significant growth in non-store based retailing shows the impact of online sales.

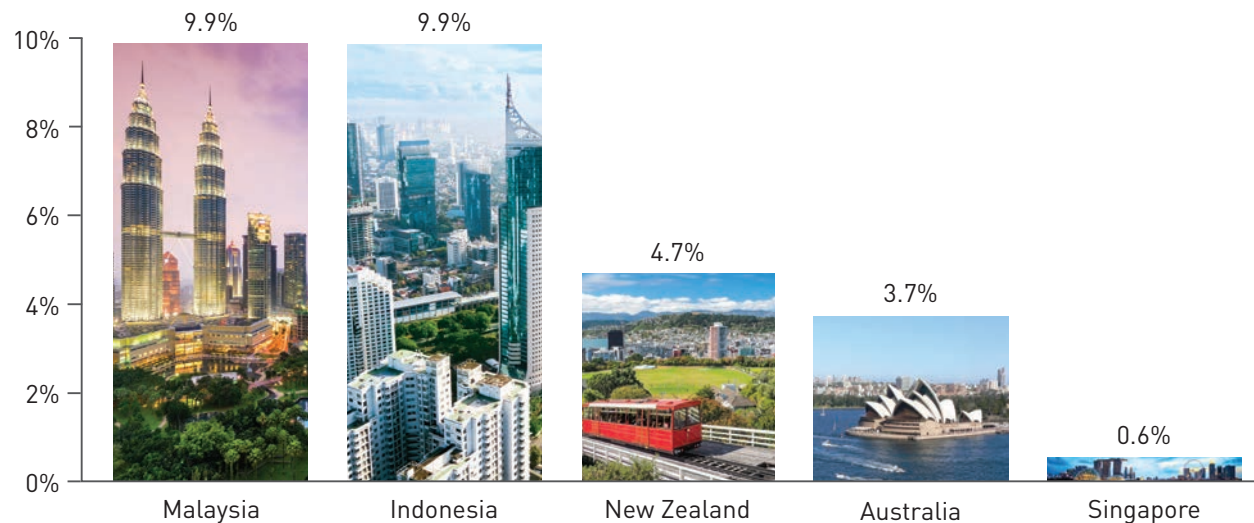


INTERNATIONAL COMPARISONS

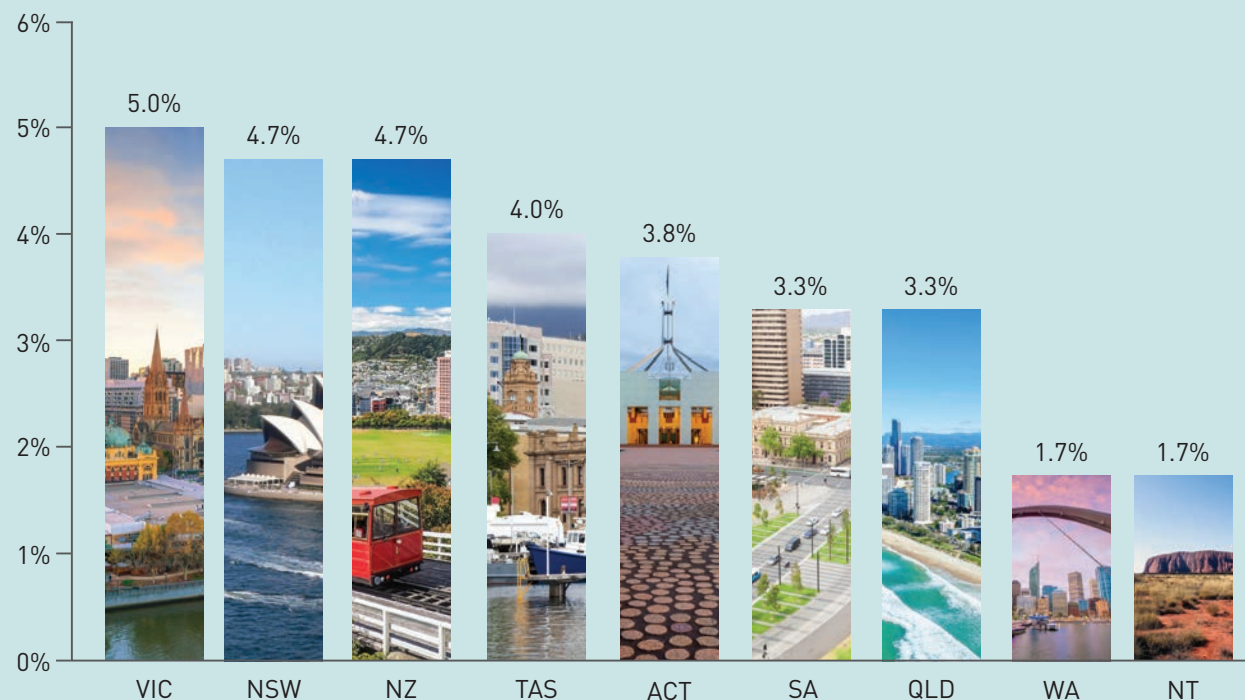
In comparison to other countries in Asia-Pacific, New Zealand's economy has achieved relatively stable growth over the last five years, and retail sales growth has continued to remain steady year-on-year.

With the exception of Victoria and New South Wales, the New Zealand retail sector continues to outperform Australian states and territories. Even more recently, the growth in total retail sales in New Zealand over the last financial year are much stronger than Australia. In 2018, New Zealand sales grew at a rate of 3.7 per cent, compared with Australia at 2.95 per cent. This is another indication that the New Zealand economy is strong and that the retail sector is a major contributor to success. The relatively strong performance of New Zealand compared to most Australian jurisdictions is one of the factors behind the entry of Australian brands into the New Zealand market.

ASIA-PACIFIC TOTAL SALES GROWTH 2013-2018



AUSTRALIA VS NEW ZEALAND TOTAL SALES GROWTH 2013-2018



NET PROFIT MARGINS ACROSS THE RETAIL SECTOR ARE LOW

The average net margin across the retail sector in 2018 was 3.6 per cent.

The average net margin in 2018 has dropped slightly from 3.7 per cent reported in 2017. A net margin is the profit after costs of business operation are deducted. Retail businesses with high overheads or high-volume categories can often expect a lower profit margin. A drop in profit margins across the retail sector can indicate that retailers are facing higher operating costs relative to profit from sales.

AVERAGE NET MARGIN IN 2018

| | | |
|---|---|------|
| All retail sectors |  | 3.6% |
| Recreational goods |  | 5.9% |
| Hardware, building and garden supplies |  | 5.2% |
| Clothing, footwear and personal accessories |  | 4.4% |
| Pharmaceutical and other store based retailing |  | 4.3% |
| Supermarket and grocery stores |  | 4.3% |
| Furniture, floor coverings, houseware and textile goods |  | 4.2% |
| Department stores |  | 4.0% |
| Electrical and electronic goods |  | 3.4% |
| Specialised food retailing (including liquor) |  | 3.1% |
| Fuel |  | 2.4% |
| Non-store and commission based retailing |  | 2.0% |
| Motor vehicle and parts |  | 1.6% |

ONLINE SPENDING

A significant portion of retail sales take place online, and online is continuing to grow. In 2018, 8.9 per cent of retail sales were online, which accounts for about \$4.2 billion dollars. Retail sales online with New Zealand merchants grew by 16 per cent in the last year while bricks and mortar grew by two per cent.

1.8 million Kiwis are shopping online and are purchasing goods from both domestic and international retailers. 67 per cent of the online retail spend in 2018 was on domestic retailers, while 33 per cent of spend was on international retailers.

Online sales growth domestically is growing twice as fast as international online sales, even with the significant competition Kiwi firms face from international online retailers. Kiwis who shop local and are purchasing food, grocery and liquor online continue to give domestic spending a boost.

While online sales grew in general, domestic spend online has grown by 19 per cent with a 16 per cent increase in transactions. International spend has increased by 10 per cent with transactions increasing by 6 per cent. This indicates that basket sizes are generally larger when New Zealanders shop online domestically, compared to when we shop offshore.

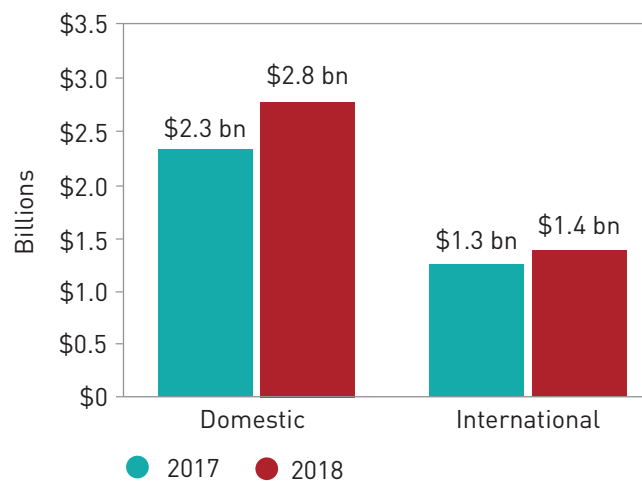
Clothing and footwear, homewares and electronics and food, grocery and liquor all saw the largest growth in online spend in 2018. Department stores also saw double-digit growth and accounted for 31 per cent of all online spend last year.

TOTAL ONLINE SPEND IN 2018 (\$)

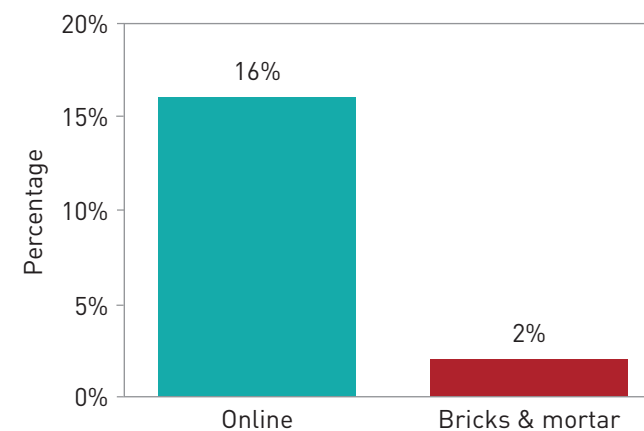


- Online domestic spend (67%)
- Online international spend (33%)

DOMESTIC VS INTERNATIONAL ONLINE SALES 2017-2018



SALES GROWTH ONLINE VS BRICKS & MORTAR



Online channels are driving the biggest growth in retail sales.



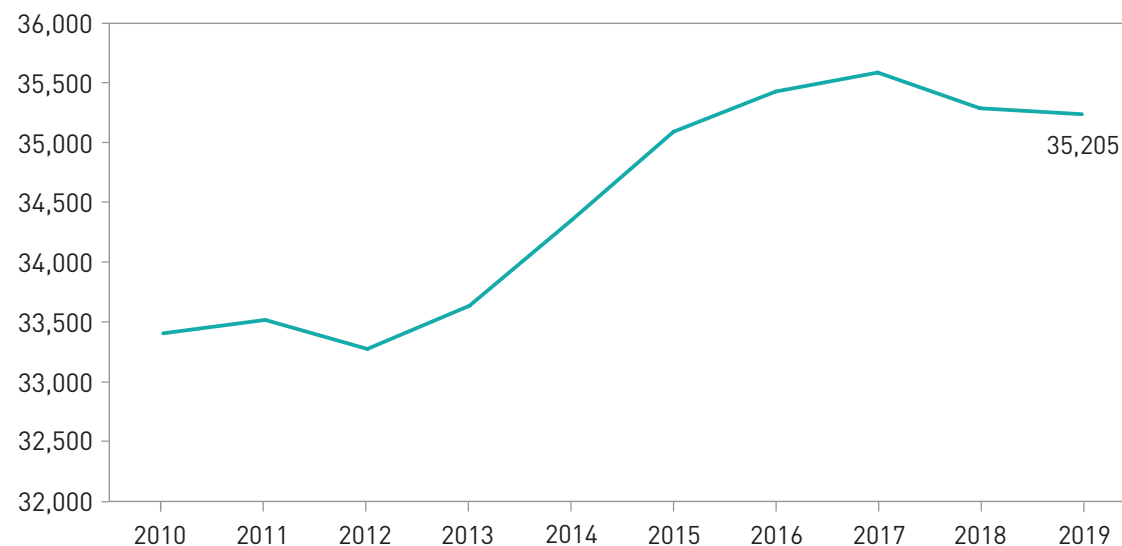
RETAIL JOBS AND RETAIL OUTLETS

Retail is a large employer, accounting for 9.6 per cent of the total workforce.

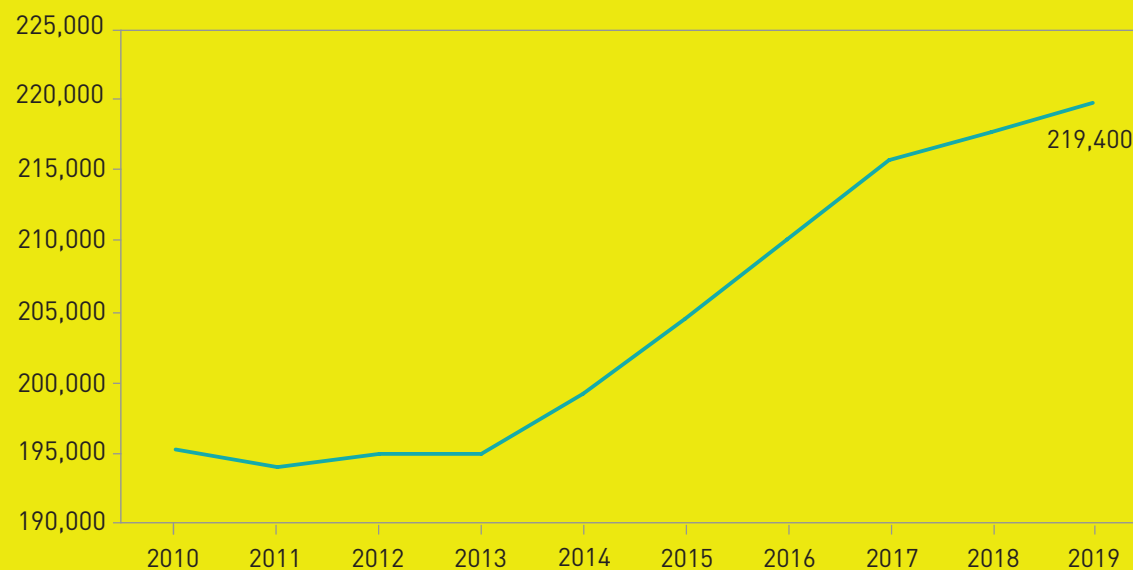
The total number of jobs in retail has increased slightly over the past year, but the proportion of the New Zealand workforce being employed in the retail sector has fallen slightly. This suggests retailers are driving productivity improvements and that there is greater growth in other parts of the economy. The retail sector is dominated by small to medium size businesses, of which half employ no staff at all. 2017 marked the first time we saw a small decline in the number of retail outlets since 2011, and the trend has continued for the last two years.

TOTAL NUMBER OF RETAIL OUTLETS

12.



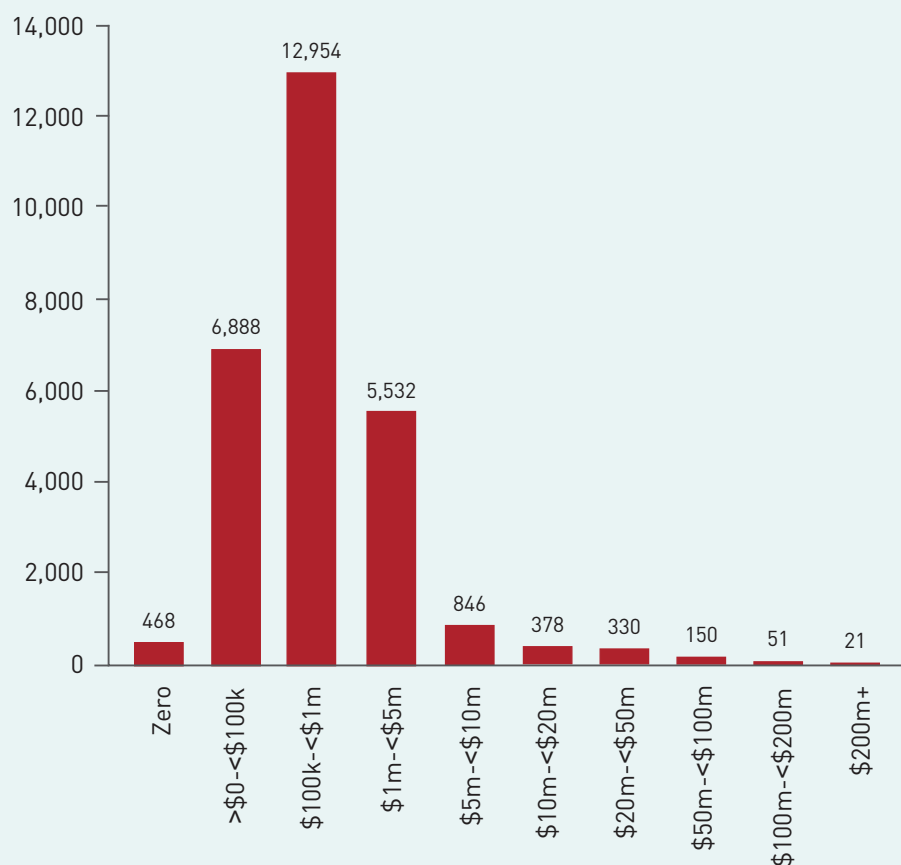
TOTAL NUMBER OF RETAIL EMPLOYEES



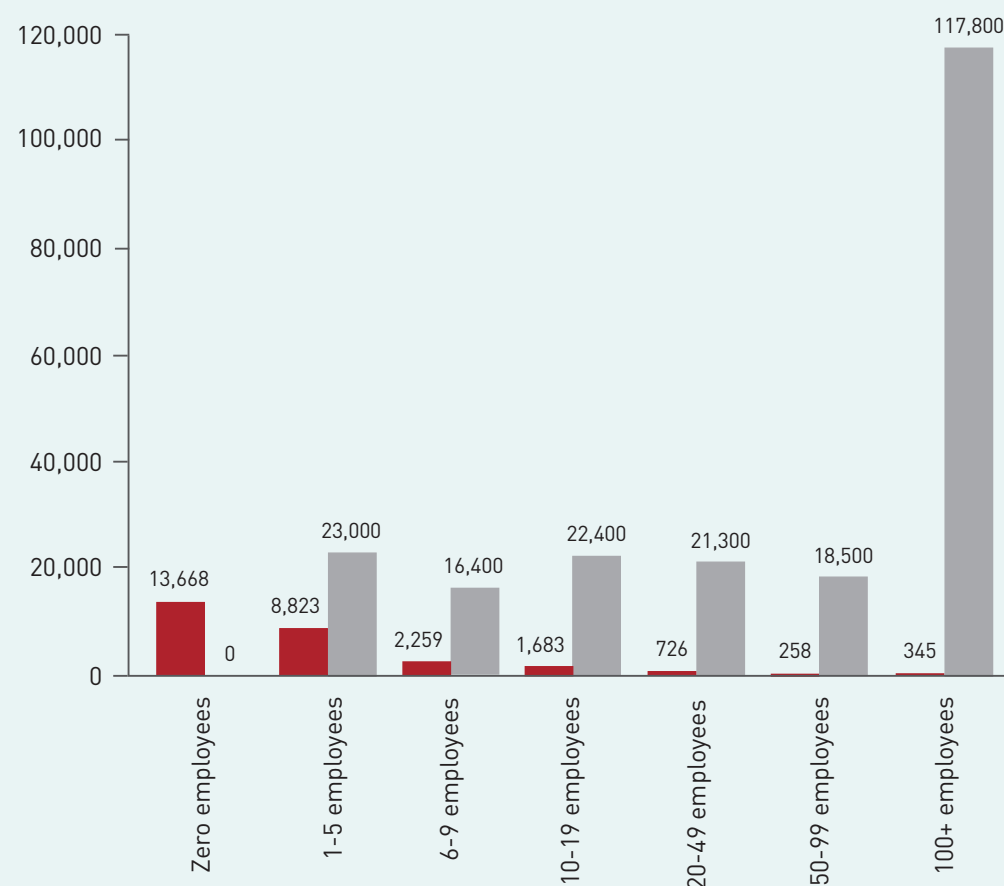
BUSINESS DEMOGRAPHICS

The retail sector is mostly comprised of small to medium size businesses with less than \$1 million in annual sales. These retailers account for 75 per cent of all retail businesses. Nearly half of all retail business in 2019 employ no staff at all and 89 per cent of all retail businesses employ fewer than 10 staff. There are around 28,000 retail business in New Zealand, but only 345 employ more than 100 employees, and it is those employees who account for more than half of the retail workforce.

RETAIL BUSINESSES BY ANNUAL TURNOVER



TOTAL BUSINESSES AND EMPLOYEES



* Sourced from Stats NZ Business Demography Statistics and Annual Enterprise Survey.

● Number of retail businesses ● Number of retail employees



RETAIL BUSINESSES OPENINGS AND CLOSINGS

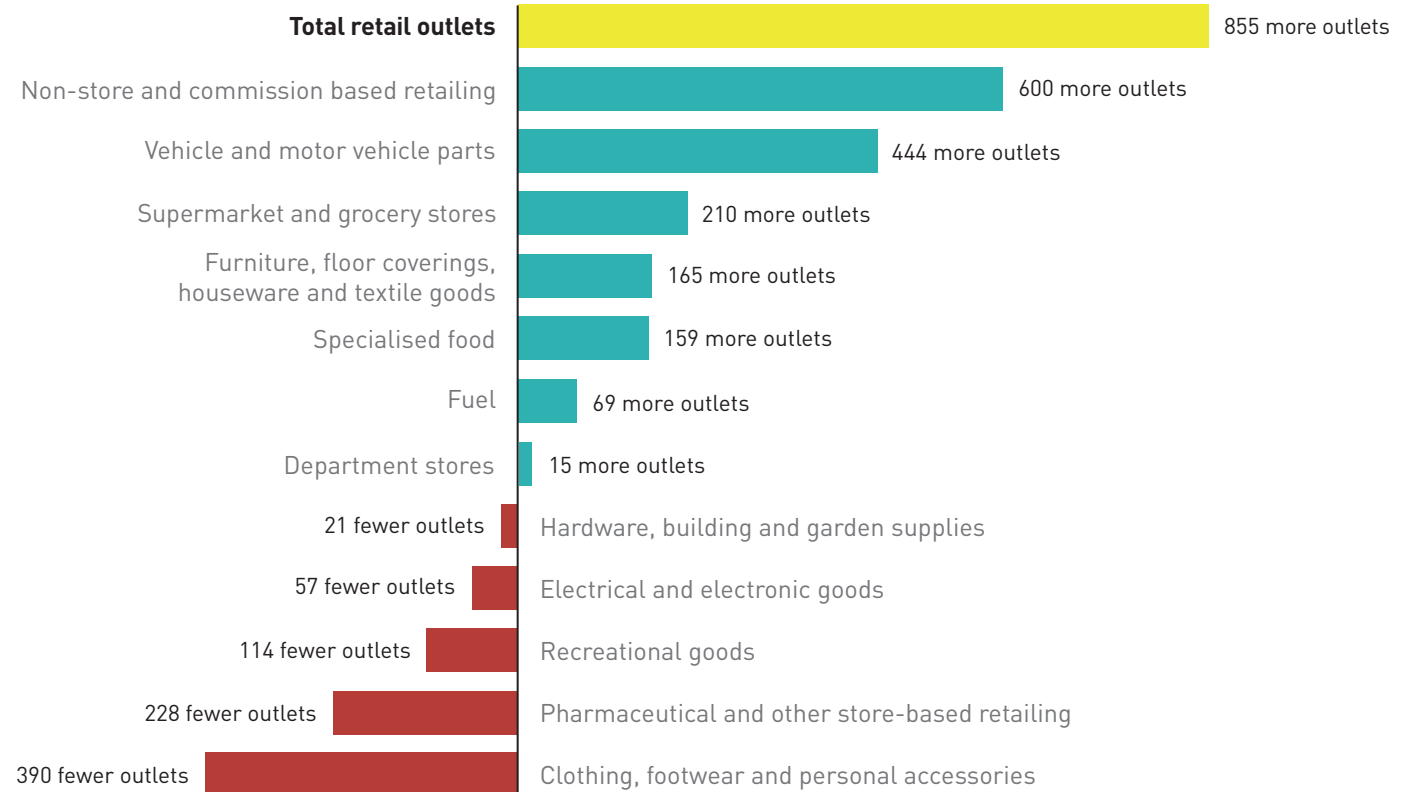
Retail businesses are relatively short-lived, with over a third closing within five years of opening.

There has been a large number of retail businesses closing in recent years. In 2017, we saw a peak in store closures. For the last two years, we have continued to see store closures out-number new store openings. In 2019, 3366 retail outlets closed compared to the 3105 that opened, leaving 261 fewer retail outlets around the country.

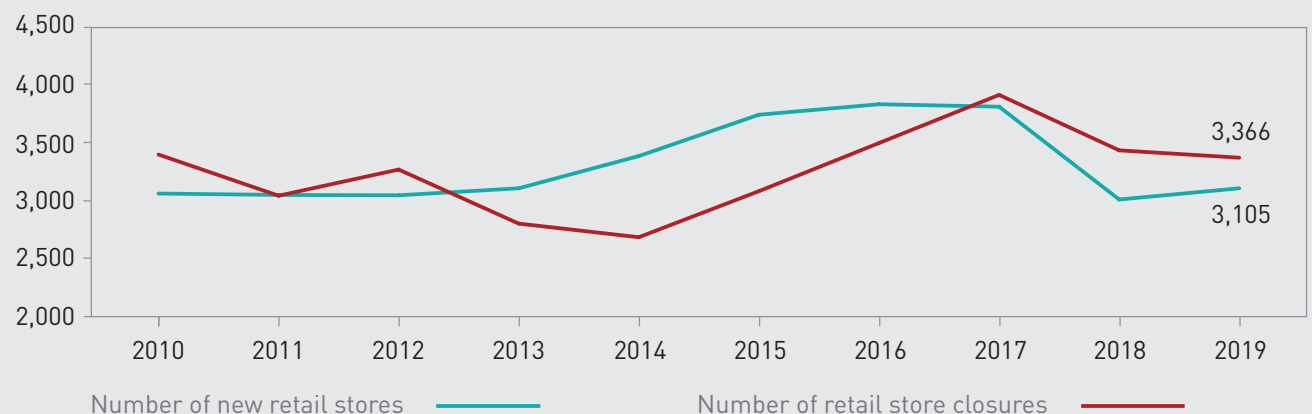
While some categories have really been struggling in recent years, such as recreational goods or clothing, footwear and personal accessories, others have continued to see success. This is particularly true for non-store and commission based retailing, which highlights the growth of online retailing.

NET CHANGE IN NUMBER OF OUTLETS 2014-2019

14.



RETAIL OUTLETS - OPENING AND CLOSING



LOOKING AHEAD TO 2030

Retailers are challenged by strong competition from other retail businesses, both domestically and abroad, competition from other sectors which compete for consumers' discretionary spending, increasingly interventionist Government policies, the small scale of the New Zealand market and our distance from the rest of the world.

However, retail is a dynamic sector that is constantly evolving to meet changing customer demands. We predict that, by 2030:



PRICES

Goods will cost more.

Freight costs will be increased substantially by the phase-out of fossil fuels, and labour costs will be much higher. This will drive substantial inflation in the medium term.



SUSTAINABILITY

Kiwi consumers will continue to desire products and businesses that are environmentally conscious, sustainable and limit waste.

Consumer demand for change will continue to drive productivity to find solutions to some of the sustainability problems that retailers face and those who do not choose to make improvements will find themselves losing in the market.



MOBILE DEVICES

Customers will be doing more shopping online using mobile devices on the train or at work.

Nearly 20 per cent of all retailing will be done online within 10 years. More than a quarter of all online shopping will be picked up by the customer using click and collect services.



STORE NUMBERS

Overall store numbers will decline, but they will be open longer (many for 24 hours).

There will be an increased focus on driving in-store customer experiences using complementary offerings such as coffee and food, childcare and entertainment. Customers will travel to destination stores to enjoy a day out, even more than they do now.



TECHNOLOGY

Technology will be more common in retail.

Customers will enjoy tailored offers delivered via their mobile devices; and technology will deliver improved in-store experiences, allowing customers to interact digitally with products before they buy.

Technology solutions will also allow retailers to track and delivery stock efficiently, and we will see self-service checkouts play a greater role.



VERTICAL INTEGRATION

Kiwi retailers will be increasingly vertically integrated, owning their own brands, and the procurement and manufacturing process.

Niche independent brand owners will see international success, expanding using digital channels to service a customer base in Australia and East Asia. They will build successful businesses based on innovative brands and products, as well as New Zealand's reputation as a clean green pure country.



References to data in this report can be found at: www.retail.kiwi/retailing-now

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