

focus



The changing face of retail

Lenin said nothing can happen for decades, and then decades can happen in weeks. Although not quite a decadal shift, there is no doubt that the COVID-19 pandemic has pulled forward the future of retail. Consumer purchasing behaviour has changed, effectively overnight. While many consumer behaviours will revert once the COVID-19 threat eases, we expect that recent changes in the way people shop could prove enduring.

Focus on health, home, and wellbeing

As day-to-day life changed, so too did consumer demand patterns. At first we saw a big jump in spending on food and other necessities. But as people realised they were unlikely to run out of loo paper, we saw other categories perform well through the lockdown period.

Self-care: Fitness and wellness products

A daily ritual for many households during lockdown was the 5pm walk around the block. The fitness category saw strong online demand (no doubt helped by tracksuit pants and athleisure becoming the work-from-home apparel of choice for many). Within that trend we expect the outdoors category in New Zealand to continue to do well as more Kiwis holiday domestically. The focus on health and wellness also extended to other categories, such as food and supplements.

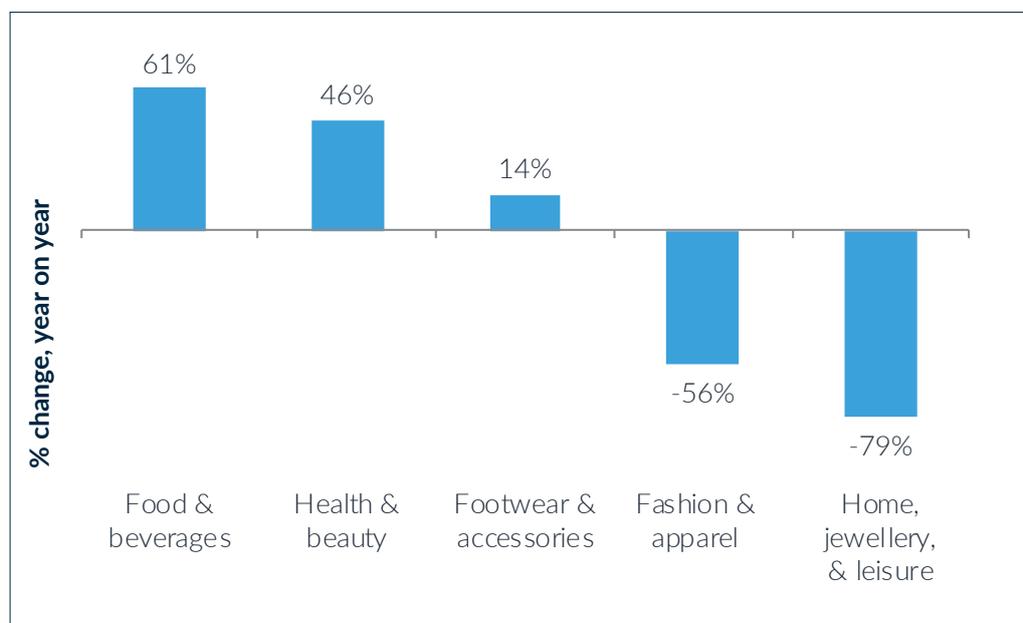
The home as a sanctuary: Perfecting the lockdown experience

With hospitality and travel out the window, consumers looked to make the most out of home luxuries. Smart television sales and subscription streaming services jumped in the days before lockdown. As more freedoms were allowed, DIY stores and food delivery services benefited. For the last two weeks New Zealand electricity demand has been around +5% above the same time last year, with much of that being driven by retail demand. This may suggest that, despite being allowed out, people are choosing to remain home.

A focus on the social good

The other overarching trend has been a focus on social good. Firstly, “buy or support local” messaging has resulted in a move away from multi-national producers. Secondly, share of wallet is being directed towards those companies that are perceived as good corporate citizens, based on their responses and behaviours through COVID-19. Offshore, anecdotal evidence suggests brand New Zealand is benefitting from our handling of the virus.

Retail sales versus prior year (United States, 15 March to 15 April 2020)



Source: TotalRetail, Amperity

Some aspects of consumer behaviour change are likely to be short-term in nature, and may revert as virus concerns subside. A more challenging economic backdrop may accelerate normalisation, with price and value becoming front of mind for many consumers.

Digital acceleration

Perhaps the biggest change during lockdown was the collapse of bricks and mortar sales as store doors were forced to temporarily close. Still keen to shop, consumers ventured online, many for the first time. As New Zealand moved from Alert Level 4 to 3, online retail sales surged by 3.5 times versus the prior year period.

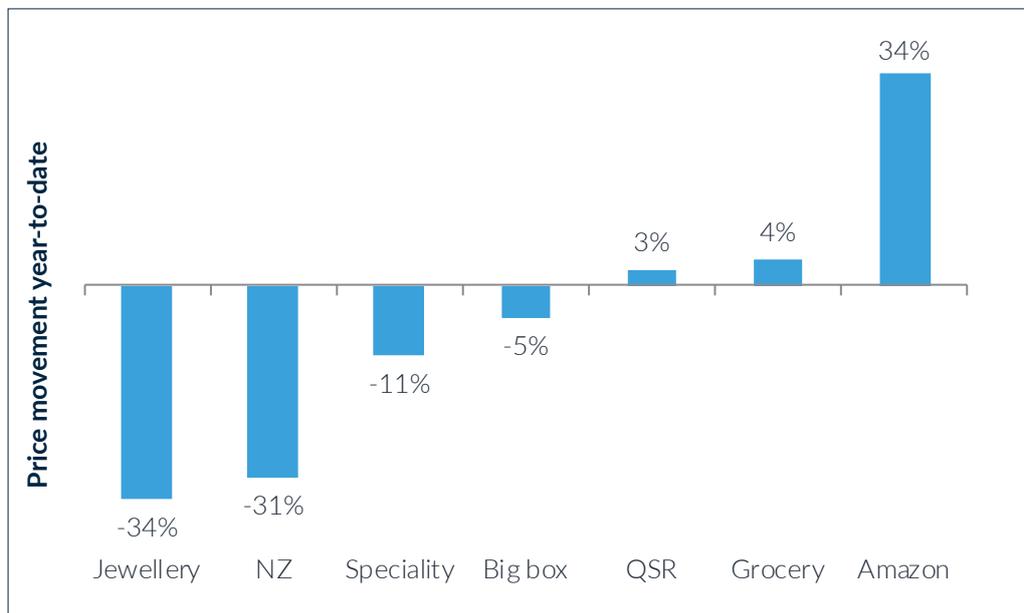


Accelerating online

The shift to ecommerce is not a new trend, but COVID-19 has accelerated growth. Lockdowns have forced customers online and retailers to emphasise online offerings. Rapid investment in digital strategies and the improved ability of companies to service online orders should enable sustained higher online penetration post-COVID.

In global markets, online retailer Amazon has been a key beneficiary of this trend, with around 44 cents of every dollar spent online in the United States going through Amazon. Through March and April, daily Amazon site traffic was up +22% on the prior year. The company has invested heavily into its retail offering over the years, expanding categories, and fulfilment and delivery capabilities. High levels of investment remains a theme with the company signalling it has added an additional 175,000 employees to meet heightened demand, and 12 Boeing 767-300 converted cargo planes to its fleet.

Share price change (year-to-date) by retail category



Source: Bloomberg, categories made up of selection of global listed retailers

In New Zealand, online penetration had grown from 4% of total retail sales in 2011, to 8% before COVID-19 hit. During lockdown, online was the only channel for consumers to funnel any retail therapy. Not surprisingly many retailers reported a significant spike in online sales.

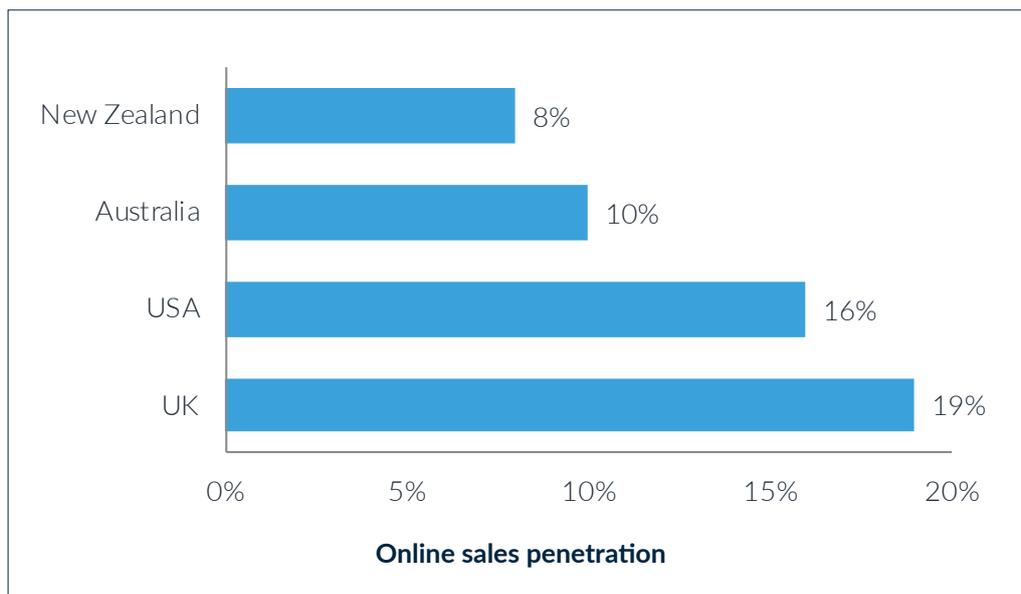
Experience of listed New Zealand retailers

New Zealand retailer	Comment
Briscoe Group	Online demand for essential products doubled during Alert Level 4. The peak online sales day through Alert Level 4 & 3 was up +700% on normal levels
The Warehouse Group	Online sales for the quarter to April increased by +75% on the same quarter last year. Online sales represented 16% of total retail sales (8% in the prior period)
Michael Hill	Weekly digital sales in May outpaced the prior record digital sales week (Christmas 2019)
Kathmandu	During April, Group online sales were 2.5 to 3 times higher than last year. Prior to COVID-19 Kathmandu's online penetration was ~10% of sales
Restaurant Brands	KFC continues to roll out delivery across its store network, with online ordering surging.
Hallenstein Glasson	Experienced significant growth in the online channel and expect this to mark a permanent shift in consumer habits

Source: Company commentary

New Zealand online penetration has lagged other countries. We expect this gap to close, as **1)** retailers invest in online offerings, **2)** familiarity and trust of the channel improves, and **3)** a jump in penetration is likely to entice smaller retailers online, who previously lacked critical mass to justify the investment.

Online penetration of retail sales (2019)



Source: Marketview, Statista

Unsatisfactory delivery timeframes, ability to click-and-collect, and ease of merchandise returns have been hurdles for online penetration in the past. We expect retailers to have more balanced omni-channel offerings in the future, combining online with an experience-focussed in-store proposition. This is likely to lead to a reduction in a retailer's physical store footprint, possibly accelerated near-term as they adapt to challenging economic conditions. We have already seen announced store closures from major New Zealand retailers including Smith City, Michael Hill, The Warehouse, and Bunnings.



Changing face of physical retail

COVID-19 has accelerated existing trends. Many of New Zealand's listed retailers had already flagged the need for investment in their online offering, fulfilment, and supply chains. COVID-19 has been a catalyst for both consumers and retailers to shift online.

Unemployment, job security, and negative impacts on asset prices are likely to weigh on consumer appetite to spend. The near-term outlook for the retail sector will likely be challenging. We've already seen announcements of store closures in New Zealand and around the world. When you combine this with more and more sales shifting online, shopping malls and high streets are likely to look quite different in the years ahead.



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