

CHANGING OF THE GUARD – THE GROWTH OF INTERNATIONAL RETAILERS INTO AUSTRALIA

The representation of international retailers in Australia is minimal, however with expansion prospects in Europe and North America becoming increasingly limited, a growing number of retailers are coming to our shores.

Technological advancements, changing consumer demands and increased global competition continues to transform the retail sector within Australia. The traditional ‘bricks and mortar’ retail format has become somewhat obsolete over the past decade, making way for a more online friendly environment, providing more choice to consumers and greater flexibility for businesses to increase their brand awareness. At the same time, landlords have had to change the way they operate, with the focus shifting towards the ‘experience’ side of retailing.

A number of factors have led to the underperformance of ‘bricks and mortar’ retailing, however none more so than the growing dominance of online retailing and the transition of spending power from Baby Boomers to the younger age cohorts of Gen Y’s and Z’s. Baby Boomers have underpinned retail spending in Australia to this point, with their loyalty leading to the success of many domestic retailers. However, over the next decade or two, their retail spending dominance is expected to diminish, shifting to the tech savvy Gen Y’s and Z’s who place greater emphasis on convenience. This in itself will present as a challenge to retailers as they are less brand loyal than previous generations.

Similarly, the persistent influx of international retailers will require domestic retailers to evolve in order to compete with overseas arrivals with the flow only going to gain momentum. The scope for growth in international retailers is significant with just 37 of the world’s largest 250 retailers by revenue operating here.

2014 was the year of ‘fast fashion’ as H&M, Sephora and Uniqlo joined the Australian market, while Woolworths (South Africa) acquisition of David Jones shows the relative attractiveness of the local market and businesses, where in conjunction with its ownership of Country Road has become a major player in Australian retail. With the bulk of fast fashion brands now operating in Australia (following Zara, Gap and Topshop in previous years), it begs the question as to where the next phase of international growth will come from?

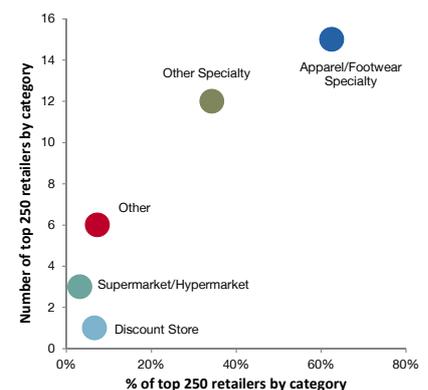
With domestic expansion prospects for retailers in Europe and North America becoming increasingly limited, the overall attractiveness of the Australian market for further international expansions is favourable, underpinned by a resilient local economy.

Looking ahead, the continued roll-out of apparel/footwear retailers in our CBDs and major centres is expected to persist, following in the footsteps of H&M and Zara who continue to increase their presence across the country. At the same time, we expect other international retailers outside of apparel to enter the market over the next two years. This is expected to stem from the likes of the world’s 4th largest retailer, German based Schwarz Unternehmens Treuhand KG where speculation continues to mount that their Lidl supermarket brand is looking to enter the Australian market. For our CBDs, the next phase of growth is likely to be characterised by the influx of luxury retailers looking to establish flagship stores. This is expected to include the likes of Kering, Richemont and LVMH Group.

Given our proximity and strong ethnicity ties to Asia, coupled with the continued growth of China’s middle class, Asia stands as the ‘elephant in the room’ for domestic retailers. Of the world’s top 250 retailers, 43 are based in Asia while only two of these operate in Australia, both of which originated in Japan (owners of Uniqlo and 7 Eleven). In this case, it is likely that Asian retailers will look for expansion opportunities into Australia.

While this will present challenges to domestic retailers, it will come as welcome news to the landlords of our CBDs and major centres. The ‘gateway’ cities of Sydney and Melbourne stand to benefit the most while tourist destinations such as the Gold Coast will present as an attractive proposition for Asian retailers.

FIGURE 1
Top 250 Retailers Operating in Aust. & % of Top 250 Retailers by Category 2013



Source: Deloitte, Knight Frank



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