



## Spotlight on Australia

### Understanding the Australian Consumer

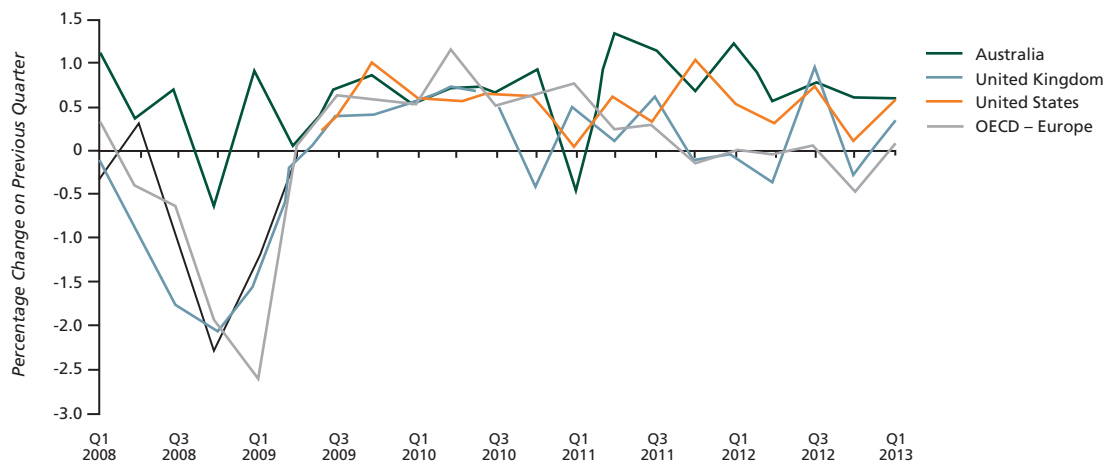
The period from 2011 to 2013 was very difficult for Australian retailers. An uncertain domestic political environment and the slowing of the investment boom in the resources sector – Australia is a large exporter of iron ore, coal and other metals to China – created uncertainty over employment, weakened consumer confidence and undermined growth in the Australian real-estate market. Australians hold a greater proportion of their wealth in real estate than people in many countries in the Organization for Economic Cooperation and Development (OECD); so weak property prices translate quickly into a perceived drop in wealth. Slowed rates of new housing construction also hurt the home-furnishing and consumer-electronics segments.

The fundamentals of the Australian economy are sound, however, and the outlook for revived consumer demand is positive. Australia has low unemployment and relatively low interest rates. Personal disposable income is expected to rise. Additionally, Australia had a divided parliament from 2010 to 2013. That ended with the 2013 national election and a period of greater stability is expected to benefit business and consumer confidence.

Australia is country of 23 million people, mostly concentrated in major urban centers and large regional towns. Five capital cities of Australian states account for almost 60% of the population. Australian gross domestic product was approximately \$1.5 trillion in 2012 – or roughly one percent of U.S. gross domestic product that year – and has grown at an average annual rate of two to three percent since 2008.

Food and household goods dominate retail turnover in Australia. Food retail has been a key driver of sector growth at a 4.5% CAGR for the past five years. Two large retail conglomerates, Wesfarmers and Woolworths, are leaders in grocery retail and have major positions in liquor, discount department stores and home hardware retail, as well as convenience stores and fuel retail.

**Figure 1**  
Quarterly Real GDP Growth (Q1 2008 – Q1 2013)



Source: OECD Key Economic Indicators

The shopping center or “mall” format is particularly popular in Australia, with large operators like Lend Lease, Westfield and AMP controlling many key locations. Unlike the U.S. and U.K., the “hypermarket model” has not flourished in Australia. This is in large part because the large supermarket operators also control the three key discount department-store brands.

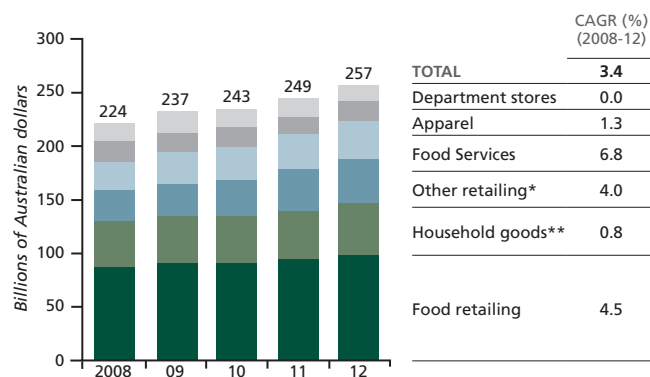
Australian retailers must contend with the country’s relatively high retail rents, due in part to the clustering of the population into major cities and the concentration of shopping-center ownership. In response to the high cost of floor space, “homemaker centers” featuring multiple bulky-goods retailers (furniture, whitegoods, consumer electronics, garden, etc.) have developed in lower-cost, easy-parking locations in many cities recently. These sites have also attracted new entrants such as the U.S.’s Costco.

Like the U.K. and U.S. consumers whom they resemble in affluence and values, Australian buyers are receptive to strong consumer brands. Australian consumers have welcomed the entry of a range of global brands in recent years, including GAP, Polo Ralph Lauren, Topshop and others. Entry has been achieved via a range of strategies including licensed distribution, retail partnerships (“concessions”) with department stores and direct vertical retail entry. Historically, private-label offerings have achieved relatively low market penetration in Australia, although this has changed somewhat in recent years with Coles, Woolworths and Aldi each driving their house-brand share higher.

Australian households were slower to adopt e-commerce compared to the U.K. and U.S., but growth in online retail spending far outstripped bricks and mortar growth in the three years after the Australian dollar reached parity with the U.S. dollar in late 2010. Because so many Australian retailers were late to the party in online and mobile commerce, many are still playing catch-up and launching omnichannel and mobile digital and social-media strategies. At the same time, however, the strong Australian dollar and the expansion of online offerings by major global brands have seen Australians spend an increased proportion of their disposable income online. With many expecting the Australian dollar to weaken as the U.S. strengthens, many local retailers are anticipating improved price competitiveness with the online offer of international rivals.

Figure 2

Australian Retail Turnover by Industry Group (2008-2012)



Note: \*Other retail includes newspapers and books, recreational goods, pharmaceuticals and online retailing; \*\*Household goods includes furniture, floor coverings, houseware and textile goods retailing, electrical and electronic goods retailing and hardware, building & garden supplies retailing.  
Source: Australian Bureau of Statistics, L.E.K. analysis

## Meet Our Experts



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