

CommBank **Retail Insights**

Edition 3



Contents

Key Insights	3
State by state view	6
Pricing Strategy	7
The importance of pricing	8
What do customers want?	9
What do retailers do?	10
Opportunities for retailers	12
The Psychology of Pricing	13
Sales and Promotions	16
The never-ending sale	17
What do customers want?	18
What do retailers do?	20
Opportunities for retailers	23
Global Trends	25
North America	26
United Kingdom	27
Asia Pacific	28
Sector Insights	29
Clothing & Footwear	30
Food & Liquor	31
Homewares & Hardware	32
Other Retail	33





SALE

50%

Key Insights

Setting prices in a global marketplace

In this edition of CommBank Retail Insights, we explore the complex issues of pricing and sales to discover whether retailers are successfully targeting profitable customers – or simply sacrificing margins in a race to offer the best deal.

Key Insights

Welcome to the latest edition of CommBank Retail Insights, a wide-ranging analysis of the Australian retail sector and the emerging trends shaping the industry's future.

Alongside our usual survey of retail businesses across the country, this edition features a detailed study of the attitudes and behaviours of Australian consumers. The results highlight both those areas where retailers already have a strong understanding of their customers' needs and preferences, and those areas where retailers' perceptions of customer needs don't always reflect the beliefs and desires driving consumer behaviour.

One topic where consumers' and retailers' views diverge is the outlook for the Australian economy and conditions in the retail sector. Over the last six months, confidence in the retail sector has rebounded somewhat, with 35% of businesses expecting conditions to improve over the next 12 months, and just 18% anticipating a decline. Retailers are looking to economic growth, new business initiatives and growth in their own businesses to boost results over the year ahead.

In contrast, our survey suggests that consumers remain comparatively pessimistic, with only 16% saying they expect economic conditions to lift, and 28% anticipating a decline. Weighing on the minds of these pessimists are government policies (37%), the cost of living (15%) and an unstable global economy (13%). However, as is so often the case, those sentiments aren't necessarily reflected in their spending decisions.

According to the Commonwealth Bank Business Sales Indicator, economy-wide spending rose 0.6% in trend terms in August, the fastest growth rate in nine months, putting retailers on track for a strong holiday season¹.

Our research shows that the retail environment continues to evolve at breakneck pace, with online and mobile sales increasing even faster than previously anticipated. That trend is reflected in surging confidence among pure play online retailers, with 46% expecting conditions to improve (up from 38% a year ago), compared to only 26% of purely bricks and mortar businesses (down from 31%).

In this edition, we also take an in-depth look at two of the most important and complex issues facing retailers today: pricing strategy, and the use of sales, discounts and promotions. Retailers today can access an unprecedented volume of sales and customer data to shape and test effective pricing strategies, so that they can focus on their most profitable customer segments. Yet our research suggests many remain uncertain about how to gather, analyse and harness that information, and how to respond to a market they perceive as highly price sensitive.

And it isn't only retailers who have access to more price information than ever before. Consumers can now compare prices instantly on a global scale, even while standing in a physical store. Our research confirms that many shoppers consistently use this newfound price transparency to their advantage.

Yet our survey also reinforces the well-understood observation that price is only one factor in the buying decision. For shoppers, price is a signal that the product they are buying reinforces their perception of themselves – whether as a savvy bargain hunter, or as a discerning consumer of quality goods whose buying decisions help them stand out from the crowd. As a result, the lowest price is not always the most attractive.

Overall, our findings underline the benefits of having a clear strategy around both pricing and sales. By putting a strategy in place, retailers can ensure they consistently talk to the right target market, driving higher sales among their most loyal and profitable customers, rather than temporarily attracting fickle bargain hunters who will shop somewhere else when the current promotion ends.

That's especially important in the current environment of intense price competition. With around a third of retailers running promotions every few weeks, it seems that sales have become the new norm. Many appear to be holding sales because they feel they are necessary to remain competitive, not because they are the best strategy for the business. For businesses to resist that trend and maintain their prices, they need a clear pricing strategy and the tools to test and measure its effectiveness.

As always, we'd love to hear from you about your own experiences and frustrations in developing and maintaining an effective pricing strategy.

And if you'd like to learn more about how you can put our insights into practice in your own business, please get in touch with our team of retail specialists.

Jerry Macey

National Manager, Retail Industry
Business and Private Banking
Commonwealth Bank of Australia

About CommBank Retail Insights

CommBank Retail Insights is an exclusive, wide-ranging analysis of the Australian retail sector. This edition is based on two surveys carried out by ACA Research on behalf of the Commonwealth Bank:

- An in-depth online survey of Australian retailers in July and August 2016, using online panels and publisher databases, including databases from Inside Retail, Intermedia and Retail Media. ACA's survey involved a total of 500 decision makers from small, medium and large retailers across Australia, with turnover ranging from less than \$1 million to over \$500 million.
- An online quantitative survey of 1,001 shoppers across Australia in July 2016.

¹Commonwealth Bank Business Sales Indicator (BSI), September 2016. The BSI measures economy-wide spending growth by tracking the value of credit and debit card transactions processed through Commonwealth Bank point-of-sale terminals.

BUSINESS CONFIDENCE

H1
2016

31%
IMPROVE

48%
STAY THE SAME

21%
DECLINE

H2
2016

35%
IMPROVE

47%
STAY THE SAME

18%
DECLINE

BUSINESS CONFIDENCE BY TYPE

PURE PLAY ONLINE

46% **42%** **12%**
IMPROVE STAY THE SAME DECLINE

MULTI-CHANNEL

33% **48%** **19%**
IMPROVE STAY THE SAME DECLINE

PHYSICAL STORES ONLY

26% **51%** **23%**
IMPROVE STAY THE SAME DECLINE

AVERAGE ONLINE AND MOBILE SALES

(AMONG MULTI-CHANNEL RETAILERS)

NOW **12 MONTHS**
(FORECAST)

24% **29%**

29% **40%**
OF ONLINE SALES OF ONLINE SALES

SHOPPER CONFIDENCE

H2 2016
IMPROVE **16%**
STAY THE SAME **56%**
DECLINE **28%**

WHAT'S WORRYING SHOPPERS?

 Government policies **37%**

 Cost of living **15%**

 Declining or stagnant economy **13%**

 Unstable global economic and political outlook **13%**

 Increasing unemployment **10%**

WHAT CUSTOMERS SAY ABOUT PRICE

Quality is more important to me than price

68%

 I would never pay full price **46%**

WHAT CUSTOMERS SAY ABOUT SALES

I plan some of my purchases around sales

71%

I often or sometimes buy on impulse

77%

DISCOUNT MOST OFTEN OFFERED DURING A SALE

 Start of sale: **20%** End of sale: **50%**

 Shoppers are most likely to say they need a **25%** discount to make an unplanned purchase

WHAT RETAILERS SAY ABOUT PRICE

My sector is very or quite price sensitive

59%

My price positioning is about the same as the market

58%

My pricing strategy is:

More sophisticated than most

32%

About the same as most

50%

Less sophisticated than most

18%

State by state view


WA

SA and NT

QLD

NSW and ACT

VIC and TAS

Forecast business conditions over the next 12 months

H1 2016	H2 2016	H1 2016	H2 2016	H1 2016	H2 2016	H1 2016	H2 2016	H1 2016	H2 2016
▲ 17%	▲ 22%	▲ 25%	▲ 26%	▲ 32%	▲ 36%	▲ 34%	▲ 29%	▲ 34%	▲ 44%
▬ 46%	▬ 50%	▬ 47%	▬ 42%	▬ 48%	▬ 43%	▬ 46%	▬ 52%	▬ 50%	▬ 44%
▼ 37%	▼ 28%	▼ 28%	▼ 32%	▼ 20%	▼ 21%	▼ 20%	▼ 19%	▼ 16%	▼ 12%

Pricing objectives

42% Increase revenue	39% Increase revenue	45% Maintain revenue/margins	45% Increase revenue	45% Increase revenue
42% Increase profit margin	39% Maintain revenue/margins	45% Increase profit margin	42% Increase profit margin	44% Increase profit margin
39% Build market share	37% Develop profitable sales promotions	34% Increase revenue	33% Develop profitable sales promotions	34% Support brand value proposition

Pricing challenges

Manage increasing costs

67%	39%	48%	52%	52%
-----	-----	-----	-----	-----

Consumers are more price sensitive

69%	47%	46%	50%	48%
-----	-----	-----	-----	-----

Sales objectives

64% Increase customer traffic	54% Attract new customers	56% Attract new customers	59% Increase customer traffic	56% Attract new customers
58% Boost sales compared to same period last year	51% Increase customer traffic	48% Increase customer traffic	55% Attract new customers	50% Boost sales in quiet period
48% Attract new customers	51% Sell excess inventory	44% Boost sales in quiet period	54% Boost sales compared to same period last year	49% Increase customer traffic

Sales tactics

87% Percentage based discounting	97% Percentage based discounting	85% Percentage based discounting	88% Percentage based discounting	85% Percentage based discounting
81% Dollar based discount	88% Dollar based discount	85% Dollar based discount	82% Free gifts or offers	80% Blanket discounts
81% Blanket discounts	81% Blanket discounts	70% Blanket discounts	81% Dollar based discount	80% Volume based discount

Pricing Strategy

Driving revenue and defining a brand

While retailers set prices to appeal to a market they see as highly price sensitive, many consumers are still willing to pay more for quality.



The importance of pricing

There's no doubt that pricing is a core capability for retailers. Pricing decisions impact everything from a retail brand's market positioning, to its long-term financial sustainability. So it's not surprising most retailers believe it's essential to get their pricing right.

Asked to estimate the price sensitivity of their market, 59% of retailers rate it as quite high or very high, with only 5% saying it was quite low. Food & Liquor retailers were particularly likely to feel this most acutely.

In contrast, the Clothing & Footwear sector appears to be most polarised between value outlets and luxury retailers.

As a result, Clothing & Footwear retailers were relatively likely to downplay price, with only 18% describing their market as very price sensitive, and 22% choosing to position themselves at a higher price point than their competitors, the highest proportion of any sector.

But while most retailers see price as important, fewer believe they have a well-developed pricing capability. Around one in three retailers rate their pricing strategy as more sophisticated than their competitors, while 18% believe they are lagging behind.

Getting the price right

How would you rate the price sensitivity of your retail category?

Total



Clothing & Footwear



Food & Liquor



Homewares & Hardware



Other



● Very High ● Quite high ● Average ● Quite low/low

“Retailers today have increasing access to a massive amount of data. A key challenge is in drawing meaningful insights from that data and making it actionable for their business strategies.”

Doug Stephens

Founder
Retail Prophet

Meeting the pricing challenge

How sophisticated is your pricing strategy compared to most retailers in your category?

Total



Clothing & Footwear



Food & Liquor



Homewares & Hardware



Other



● More sophisticated than most retailers ● About the same as most retailers ● Less sophisticated

What do customers want?

The buying decision

Clearly, retailers believe price is critical to consumers' decision to buy from them. But do their customers agree?

Asked how price affects their decisions, almost two thirds of shoppers (68%) say quality is more important than price, and half (53%) say they will pay more for products and services tailored to their needs. Yet 61% also say price is the main influence on their buying decisions, with an astonishing 46% saying they would never pay full price.

How can all of these statements be true? Clearly, different consumer segments respond to price in very different ways. Among consumers who

prioritise quality over price, an item's price can reinforce the purchaser's view of themselves as well as be an indicator of good value.

At the same time, frequent sales and promotions appear to have raised the expectation among many shoppers that paying full price is seldom necessary. Although two thirds of consumers say retailers have become increasingly competitive in their pricing, 59% also believe it's easy to find a discounted price or promotion for the product or service they want.

So while many consumers are willing to pay for quality, they also believe it's easy to buy at a discount, with a significant minority now unwilling to pay full price on any occasion.

The search for value

Shopper attitudes towards price

	AGREE	DISAGREE
Quality is more important to me than price	68%	32%
I am prepared to pay more for products/services tailored to my needs	53%	47%
Price is the main influence on all my buying decisions	61%	39%
I would never pay full price for an item	46%	54%
Retailers have become increasingly competitive with their pricing	66%	34%
It is easy to find a discounted price or promotion for a product/service	59%	41%

Searching and comparing

A key driver of price sensitivity is consumers' newfound ability to instantly compare prices on a global scale. Our research shows that a majority of shoppers take advantage of price transparency by comparing items both online and in person. Fifty-seven per cent say they compare prices online before they buy, with a similar number saying they spend a great deal of time researching to find the best value.

Our research also confirms the common perception that shoppers are researching in person before buying online from a cheaper outlet, with one in three consumers saying they do so. That highlights the importance of not only pricing competitively, but also ensuring your prices are aligned across channels to create a consistent customer experience.

Hunting for bargains

Price-driven shopping behaviours

	AGREE	DISAGREE
I compare prices online before purchasing an item	57%	43%
I check out catalogues to find the best price	56%	44%
I spend a lot of time researching before I buy to find the best value	56%	44%
I am happy to travel out of my way to get the best price possible	50%	50%
I visit multiple stores to compare prices before purchasing	48%	52%
I look around in-store but buy online as it is cheaper	32%	68%

What do retailers do?

Pricing strategies

For retailers, a fundamental pricing question is whether to prioritise sales with attractively low prices, or increase margins by selling at a higher price point. Our research suggests businesses are almost equally divided between these two approaches, with a slightly higher proportion seeking to maximise sales (21%) over margins (18%) as the main objective of their pricing strategy.

This emphasis on immediate sales also supports the view that many retailers use pricing primarily to support relatively short-term financial goals — driving revenue and turning over inventory —

rather than longer term strategic objectives. Only 13% say the main goal of their pricing strategy is to build market share, while just one in 10 use prices primarily to build a brand value proposition, despite the importance of price as a signal of quality and value.

This finding is confirmed by the price positioning retailers typically adopt in comparison to the broader market. Fifty-eight per cent of businesses say they have set their prices at about the same level as other retailers, rather than positioning themselves as a low-price or premium provider.

Pricing strategies

Over the next 12 months, what are the main objectives of your pricing strategy?

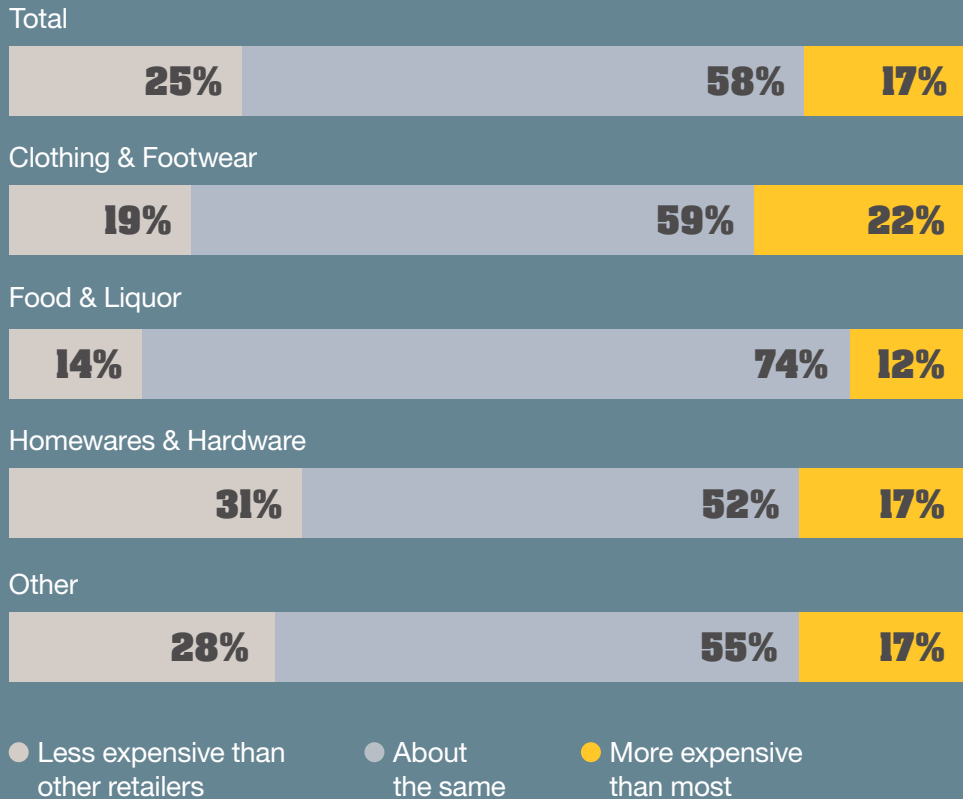


“While setting your prices in line with the market can make sense, it can also mean letting your competitors effectively decide your pricing strategy for you. A better approach may be to set clear goals for your pricing, then measure whether it has helped you achieve them.”

Jerry Macey
National Manager, Retail Industry
Business and Private Banking
Commonwealth Bank of Australia

Following the market

What price positioning have you adopted?



Barriers to better pricing

Clearly, optimising price is far from easy. Our research shows retailers typically face multiple barriers to better pricing, both in setting and implementing pricing strategies.

Some of the most difficult challenges are operational. Asked to name the key barriers that impact their pricing strategy, retailers are most likely to cite the difficulty of controlling prices across channels (mentioned by one in four survey participants) along with co-ordinating different parts of the business (23%).

Yet strategic issues were also important, exacerbated by a lack of reliable customer data to help forecast the potential impact of price changes. Twenty-three per cent of retailers say they were concerned about negative customer reactions to price changes, with a similar number finding it difficult to accurately forecast the impact of pricing decisions.

Coordination and control are an ongoing challenge

What are the key barriers that impact your pricing strategy?

Controlling prices across channels

14%

25%

Fear of negative customer reaction

11%

23%

Coordination between various parts of the business

15%

23%

Forecasting the impact of pricing decisions

13%

22%

Making sure that staff change prices promptly and accurately

8%

21%

● Main barrier ● Barrier

Pricing across channels

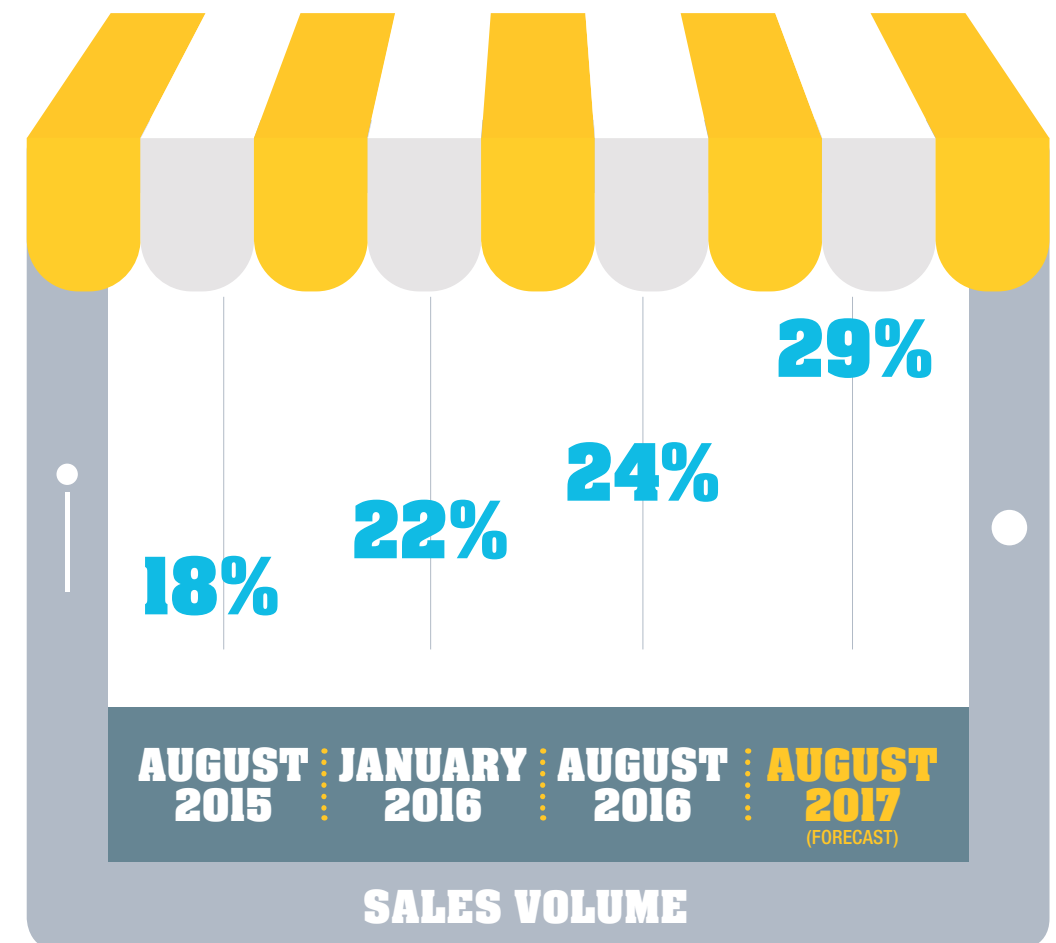
Controlling prices across channels is likely to become increasingly important for retailers as digital sales continue to grow. Our research suggests consumers strongly dislike being asked to pay different prices on different channels, with 72% agreeing that it is important for retailers to set prices consistently.

Meanwhile, mobile and online sales are expanding at an even faster rate than anticipated just 12 months ago. Measured by volume (rather than dollar value), the number of sales generated

online by multi-channel retailers surged by a third to 24% in August 2016, easily outpacing the 21% growth predicted by retailers a year ago. Mobile sales grew even faster, albeit from a lower base, jumping 60% in 12 months to a new high of 29% of online sales, almost double the 36% growth rate anticipated by retailers in 2015.

Online sales growth beats expectations

Percentage of sales volume generated online — multi-channel retailers



Opportunities for retailers

While our research shows retailers are aware of the potential impact of pricing on their business, it also suggests many are conscious that their pricing strategies could be both more sophisticated and more co-ordinated. In particular, businesses may be overlooking opportunities to maximise profitability by using pricing and promotion strategies to target their most profitable customers.

Our research identified four broad consumer segments with very different attitudes and behaviours, each responding to price signals in distinctive ways. This analysis illustrates the potential benefits of understanding and targeting core customer groups through a focused pricing strategy, rather than simply following the lead of the broader market — benefits that some retailers are already realising with more granular segmentation analyses focused on their specific markets and customers.

Targeting connoisseurs and brand loyalists

Our analysis suggests that some of the most price-conscious customers are also the most likely to visit multiple stores, actively seek out lower prices and plan ahead to buy products when they are on sale. The segment we call **Researchers** are particularly likely to compare prices or try a product in-store before buying it online; they are also least likely to buy on impulse.

Bargain Hunters are strongly attracted to sales, with many saying that price is the main influence on their buying decisions. If they don't plan ahead to buy products on sale, it's only because they know there's always another promotion just around the corner.

In contrast, consumer groups who prioritise quality over price are often willing to pay more to secure the precise product they want.

Brand Loyalists believe full priced products are generally better quality than discounted ones, and that brands lose their allure by offering discounts too often.

Similarly, **Connoisseurs** are focused on finding the perfect product, regardless of the price tag. This segment is both affluent and willing to spend, preferring to buy exactly what they want when they want it, rather than waiting for a sale or compromising on quality.

By understanding differences like these and setting prices accordingly, retailers can avoid sacrificing margin to chase price sensitive customers who may never return once a promotion is over.

Which customer are you targeting?

Behavioural segments and preferences

RESEARCHERS

- Spend a lot of time researching
- Compare prices online
- Visit multiple stores
- Happy to travel out of the way to get the best price
- Look around in-store but then buy online



Skew
to female



18-39
year old

Household income

\$100,000+

BARGAIN HUNTERS

- Say price is the main influence on buying decisions
- Regularly buy products when on sale
- Believe it is important that retailers price consistently across channels
- Think retailers have become increasingly price competitive
- Say it is easy to find a discounted price or promotion



Skew
to female



All
ages

Household income

<\$100,000

BRAND LOYALISTS

- Think full priced products/services are better quality than discounted ones
- Believe brands lose their allure by offering discounts too often



Skew
to male



Under 60
years old

ALL INCOME GROUPS

CONNOISSEURS

- Think quality is more important than price
- Prepared to pay more for products that are tailored to their needs



Skew
to male



40+
year old

Household income

\$100,000+

“Consumers are not rational decision makers. Today we know that up to 95% of our daily decisions are made non-consciously, so understanding the non-conscious mind is critical for an effective retail strategy.”

Katharina Kuehn
Head of Neurostrategy and Innovation
Winning Group

A woman with long dark hair, wearing a grey and white long-sleeved shirt, is sitting on the floor of a grocery store. She is holding a smartphone and looking at it with a smile. A young girl with dark hair in pigtails, wearing a pink shirt with a large bow and blue pants, is sitting next to her, also looking at the phone with an excited expression. A woven basket is visible next to the girl. The background shows shelves stocked with various products in a brightly lit store.

The Psychology of Pricing

Katharina Kuehn is Head of Neurostrategy and Innovation at Winning Group. She applies the lessons of neuroscience to consumer behaviour, helping retailers understand the complex influences driving buying decisions. We asked Katharina to share her insights into the psychology of pricing.

What lessons does neuroscience hold for retailers?

The most important lesson is that consumers are not rational decision makers. Today we know that up to 95% of our daily decisions are made non-consciously, so understanding the non-conscious mind is critical for an effective retail strategy.

Secondly, we cannot ignore the fact that consumers are living in a world full of distractions. Attention spans have decreased dramatically, and consumers now expect retailers to almost read their minds, then tailor their offerings accordingly. Effective marketing and sales

strategies use non-conscious cues like pricing, colours, music, imagery and in-store or website design to instantly signal to a customer that the product is right for them, helping them save time in the decision making process.

Thirdly, and related to the previous point, we're all different. The days of treating consumers as a single demographic are long gone, and retailers who can work out how to personalise their offerings to different customer segments will win.

What role does price play in the buying decision?

In a saturated marketplace, most products and services are wants rather than needs. No one really needs another phone, another pair of shoes or another watch. So most buying decisions are driven by the identity value a product provides. People express their values and personality by consuming certain products and buying certain brands.

Of course, there are always some functional considerations, such as getting the right size and meeting the basic requirements of delivering a product that does what it is meant to do. But unless we can demonstrate how the product will address emotional needs and solve consumers' problems, they simply won't buy.

Price is just one non-conscious signal in that mix. Consumers ask 'Is this product exclusive and will it help me stand out from the crowd?', leading to the consistently high price strategy of Apple. Or 'Does this retailer offer the best prices in the market, making me feel like I have made a smart, considered choice?', responding to the constant, low price strategy of Aldi. Or even 'Is this a great bargain that I can reward myself with?', leading to the surprise deals strategy of a retailer like Deals Direct. The price you set determines the signal you send and the consumers you attract.

How do different consumer segments respond to prices?

Spending money equals pain to the brain. For a customer to give away their money, the perceived benefit must exceed the anticipated pain or cost. But not every consumer experiences this pain in the same way or to the same extent.

Generally, there are two polar opposite segments in the market. About 25% of consumers perceive intense pain when spending money. Therefore they are more prone to experience buyer's remorse and will research products and compare prices more thoroughly before making a decision.

At the other end of the spectrum there are about 15% of people who experience no pain, but in fact pleasure when spending money. Common effects with these segments are price blindness as well as high price bias — that is, the more expensive a product, the more attractive it becomes. Retailers who try to discount to this segment will actually lose, not increase sales.





SALE

How can retailers ensure they reach the right segments?

Retailers need to understand their point of difference and why consumers are ultimately shopping with them — not only on a functional level, but also on an emotional, identity level.

Only then can they implement pricing strategies that resonate with their target markets and reinforce correctly what both parties are trying to achieve.

What are the risks of mispricing?

Pricing can make or break a brand, determine the success of a new product or service, and decide whether an offer is perceived as relevant, credible and trustworthy. Both pricing too high and too low can be detrimental. Darrell Lea is an example of where pricing too low

has undermined the brand's positioning and its perceived attractiveness to its core target consumers, with obvious consequences. If we want customers to believe that a brand is premium and aspirational, the pricing has to reinforce this point non-consciously.

By constantly discounting, do retailers risk educating consumers to always buy on sale?

We have seen the rate of discounting in Australia increase over the years. Consumers know that there is almost always a sale on. This does a number of things to both their perception of these retailers and their behaviour.

Consumer segments who are looking for better value or better deals will be more inclined to shop during sales. Other segments who are in fact deterred by heavy discounting will move away from retailers who overuse this tactic to drive sales, questioning the quality and legitimacy of the brand in the first place.

What are the secrets of using sales and discounts effectively?

I believe that any sales and discount strategy needs to first and foremost align with the long term strategic objectives of a business, its brand positioning and a deep understanding of its core target markets.

From there we can also implement a wealth of tactics such as setting defaults, anchors, framing, using emotional triggers and cognitive biases.

The common thread in all these strategies is that they take into account how consumers make predictably irrational decisions based on emotions and shortcuts, using price as a signal to determine whether a product or brand is right for them.



Sales and Promotions

Driving traffic, winning market share

Sales are becoming more frequent as retailers compete to drive traffic and boost revenue. Yet not all sales are equally effective in attracting profitable customers for the long-term.

The never-ending sale

Sales and discounts have become a standard promotional strategy for retail businesses in every category, with only a small minority resisting the temptation to drive activity by cutting prices. Ninety-one per cent of retailers have sales, with more than two-thirds planning ahead by setting yearly, six-monthly or quarterly sales schedules. Others prefer to use unscheduled tactical sales to clear inventory or boost turnover in quiet periods.

Larger retailers with turnover in the \$10m plus category are most likely to have a sales plan (87%), along with 73% of Homewares & Hardware businesses – an interesting result in a sector where 76% of customers say quality is more important than price.

Smaller retailers were most likely to avoid holding sales, including one in five businesses with turnover under \$1m.

Sales are not only held by the vast majority of retailers, but they are becoming more frequent, as many shoppers have come to recognise.

One in four retailers say they are running sales more frequently now than a year ago, with 62% now holding them at least monthly. One in four have weekly or daily sales.

Most have a sales strategy

Do you have a plan that sets out your sales promotions activity?

YES, we have a yearly plan

30%

YES, we have a six month plan

15%

YES, we have a quarterly plan

25%

NO, our sales tend to be unscheduled or planned as required

21%

NO, we do not run any sales promotions

9%

In this hyper-competitive environment, it's unsurprising that 59% of shoppers say it's easy to find products at a discount. But are these increasingly frequent sales effective in changing consumer behaviour and achieving retailers' long-term goals?

Or are businesses simply engaged in a race to the bottom, sacrificing margin to attract fickle bargain hunters or – even worse – make sales that would have occurred even without a discount?

Sales are becoming more frequent

Typically, how often do you run sales promotions?

Most days

7%

Weekly

19%

Fortnightly

12%

Each month

24%

Each quarter

19%

Twice a year

7%

Once a year

1%

Varies

11%



What do customers want?

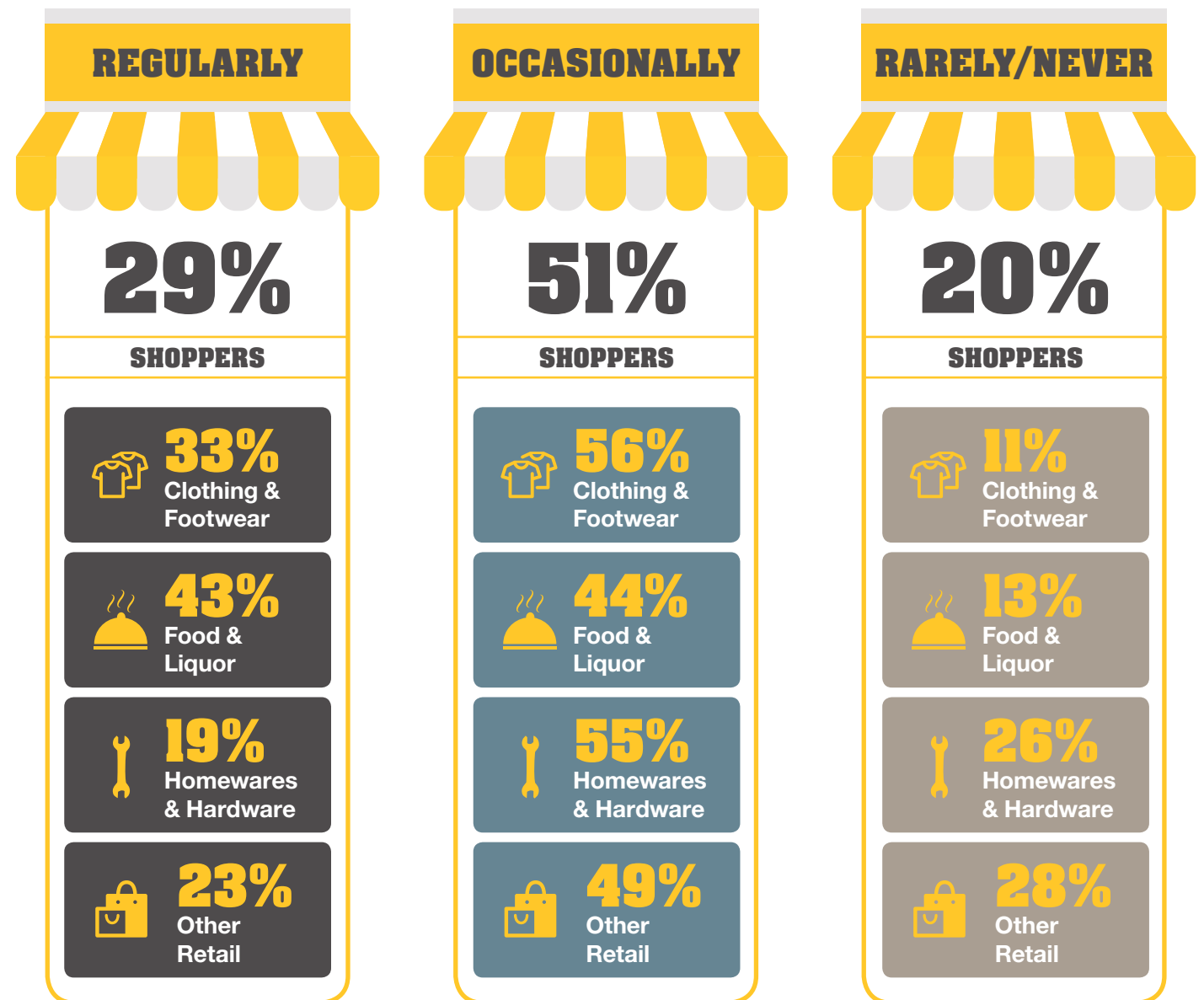
Eighty per cent of consumers say they buy products on sale, either regularly or occasionally. Food & Liquor shoppers are most likely to buy sale items regularly (43%), while Clothing & Footwear buyers are the largest users of sales overall.

While sales may be successful in driving traffic, it is less clear that they encourage shoppers to buy more overall. Seventy-one per cent of consumers say they plan ahead to buy at least some items during a sale, simply delaying purchases they would otherwise have made earlier. However, 77% also admit they buy on impulse at least occasionally – and discounts play a large role in persuading them to do so.

Asked why they make unplanned purchases, impulse buyers were most likely to say they were motivated by a good discount or promotion, especially Clothing & Footwear shoppers. Yet low prices are not the only reason shoppers make impulsive buying decisions. Sixty per cent of impulse buyers in the Homewares & Hardware category say they make unplanned purchases when an item is exactly what they need, making discounts unnecessary.

Shoppers look for discounts on high volume items

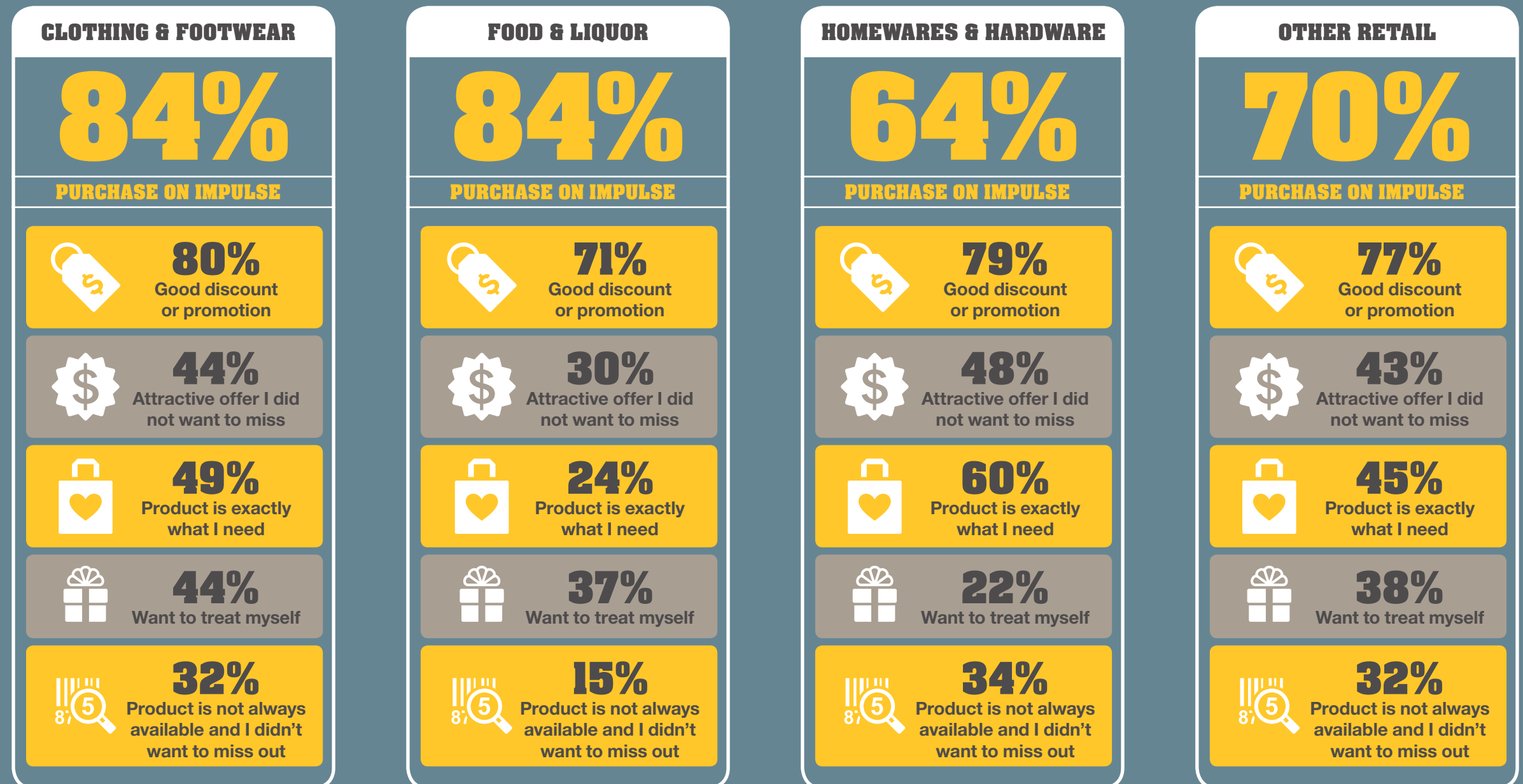
Frequency of purchasing on sale by retail sector



What do customers want?

Why shoppers make unplanned purchases

Reasons for impulse purchases



What do retailers do?

Sales strategies

Asked why they hold sales, retailers typically cite a range of reasons, ranging from the short-term to the strategic. Around one in four say their main objective is to boost year on year sales, often in a peak season, while another 19% aim to increase in-store traffic. Given the effectiveness of discounts in driving impulse buys, especially in categories like fashion and food, these goals seem to make good sense, with the combination of higher traffic and reduced prices likely to encourage unplanned purchases.

The most common reason for running a sale is to attract new customers, building market share. Yet our research suggests that only the most price sensitive customer segments are likely to be attracted by lower prices alone, and that these Bargain Hunters and Researchers are likely to go elsewhere when a sale is over. For retailers seeking to grow their customer base over the long term, it's worth asking whether these are the customers you truly want to win, and whether the margin you sacrifice in a sale wouldn't be better spent on a more targeted promotion.

Sales objectives

What are your key objectives when running sales?

To attract new customers



To increase customer traffic in store



To boost sales compared to same period last year



To boost sales in quiet periods



To sell excess or out of season inventory



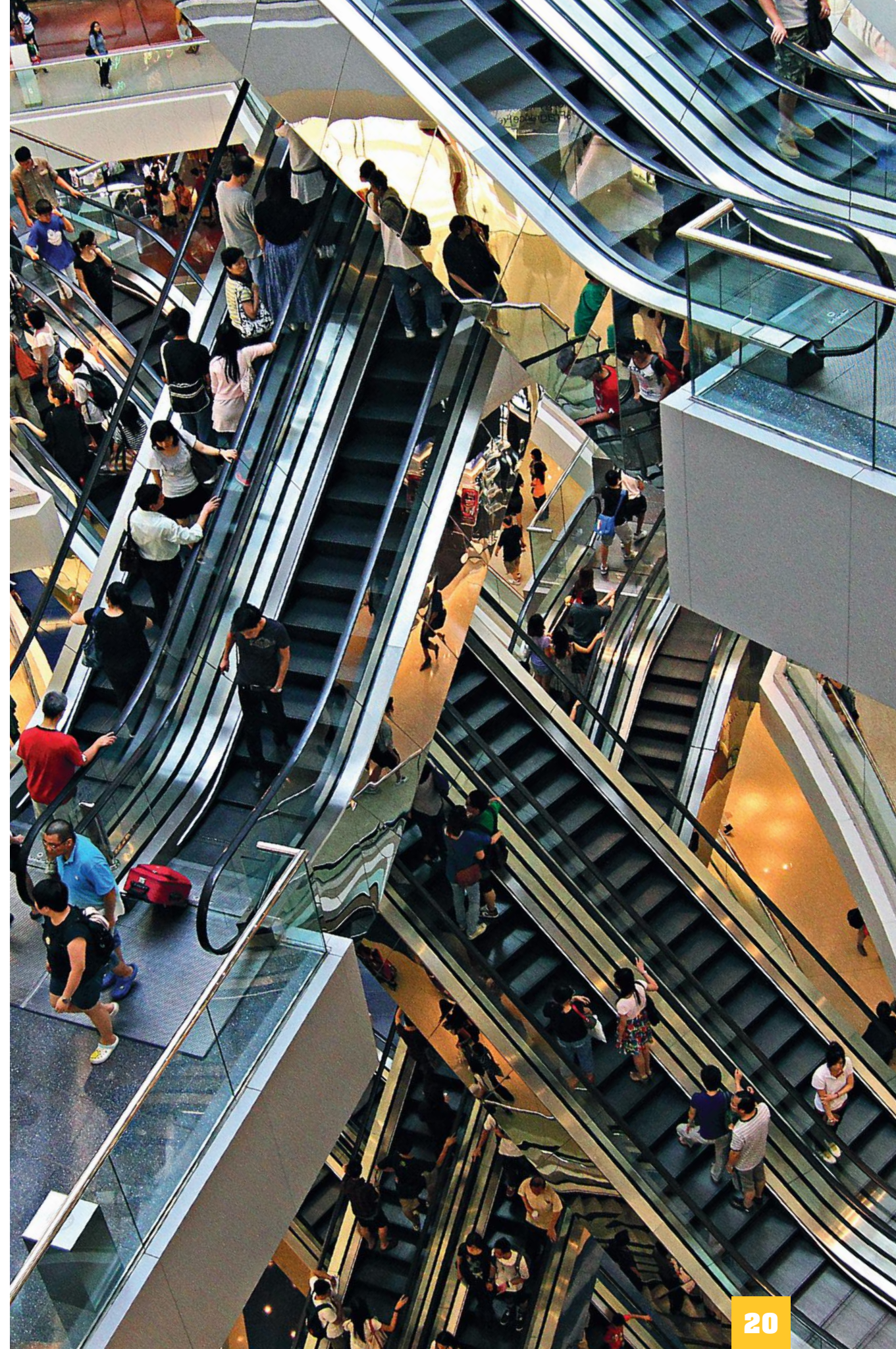
To drive online sales



To counter competitor promotions



● Main objective
● Other objective



What do retailers do?

Sales tactics

There is more than one way to run a sale, and retailers use a variety of tactics to attract customers and sell profitably at a discount. Yet not every tactic is equally effective, and some of the most commonly used tactics achieve relatively poor results.

The most common approach is to offer percentage discounts on selected items (used by 87% of retailers who hold sales), followed by dollar-based discounts and blanket discounts across the entire product range. All of these tactics are seen as highly effective by those who use them, with more than two-thirds rating them as effective or very effective.

In contrast, only around half of retailers who hold sales say that tactics like free gifts and loss leaders are effective at driving sales, despite being used by three in four businesses. And exclusive discounts to social media followers is seen as particularly ineffective, with only 36% of retailers viewing them as a valuable promotional technique.

“Even during a sale, it’s important to make sure your pricing is congruent with your brand positioning. If it isn’t, then it may be worth considering alternative methods for disposing of excess stock, such as a physical or online discount outlet separate to your main store.”

Jerry Macey

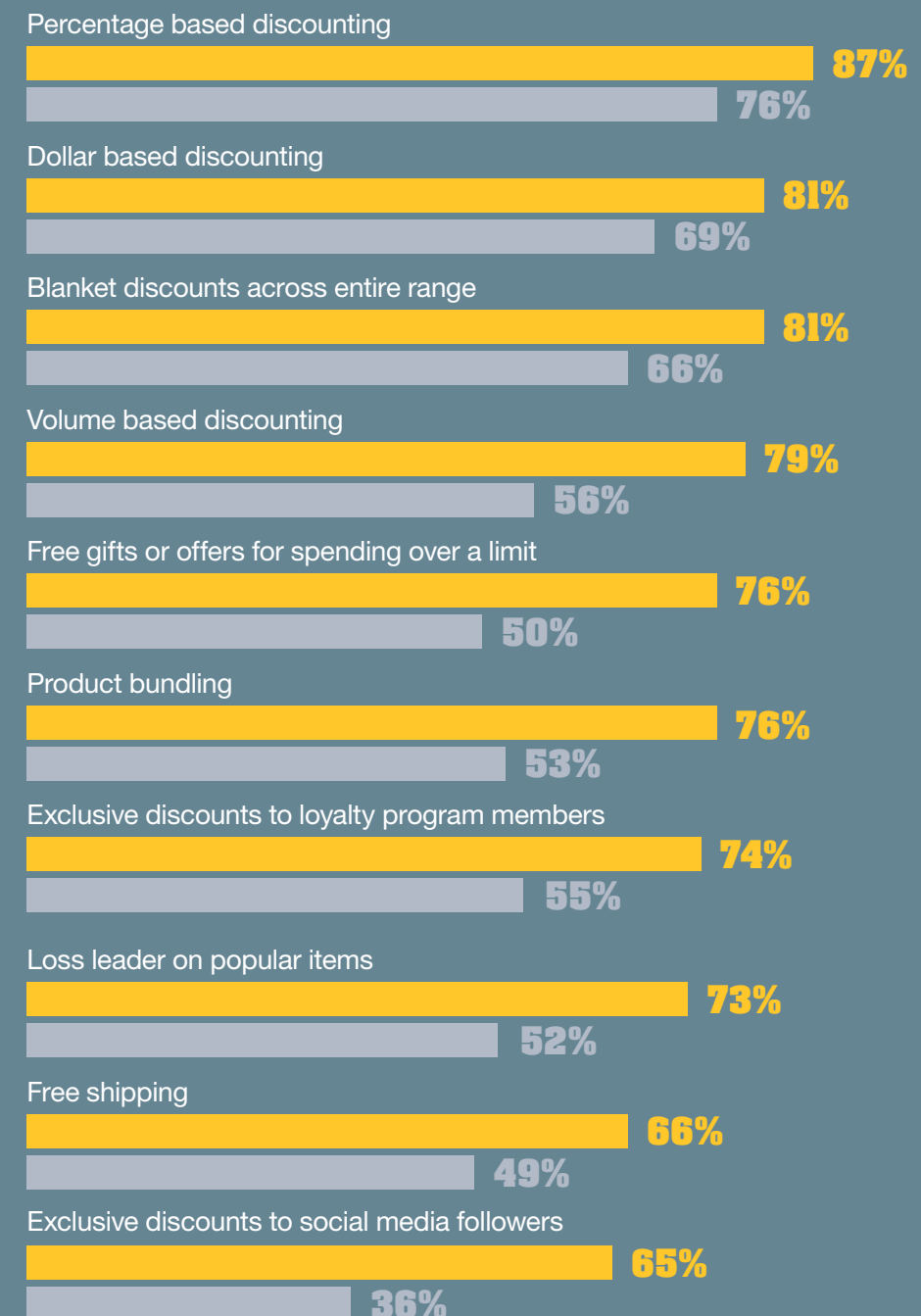
National Manager, Retail Industry
Business and Private Banking
Commonwealth Bank of Australia

Our research also suggests that there is often a significant mismatch between the techniques retailers see as most attractive to consumers and the promotions they actually find appealing. Asked to rate the relative attractiveness to their customers of different sales tactics, retailers are most likely to cite percentage based discounts on selected items (30%). However, consumers are more likely to prefer blanket discounts across the entire product range, allowing them to buy the products they want while spending less.

Retailers also tend to underrate the effectiveness of free shipping, which is highly valued by a significant proportion of shoppers, especially in the Other Retail sector.

Sales tactics

Which promotional tactics do you use? How effective are they in driving sales?



● Used ● Rated as effective

What do retailers do?

What works and what doesn't

Retailers' perceptions of the sales and promotional tactics their customers find most appealing differ from the shoppers' view



Opportunities for retailers

When retailers reduce margins by holding a sale, they are effectively spending money on promoting their business. So it's important to ask whether that money could be better spent elsewhere, especially if the objective is to win new customers over the long-term.

Our research suggests that while the overall number of sales has increased, many of the purchases they generate may have occurred anyway, even at full price. It seems that sales are often driven by competitive pressures, rather than consumer demand.

In some instances, retailers may simply be forgoing profits from loyal customers to attract bargain hunters who they are unlikely to retain. For these retailers, it may be more effective to invest in building their brand or using loyalty incentives, rather than holding a traditional sale.

Our research also shows many retailers are sacrificing margin without necessarily winning extra sales. When we asked consumers how large a discount is required to make them buy something they wouldn't otherwise have chosen, they typically named a figure around 25–30%, depending on the retail category. Yet we also found that many retailers normally start a sale with discounts of as little as 20%, only increasing them to 50% during the final clearance.

That suggests that sales are often only effective in changing shopper behaviour and attracting unplanned purchases in their final phase. By discounting too little at the beginning of a sale, retailers run the risk that they are simply making sales that would have occurred without at a discount, but at a lower price.

“If you hold a sale and set the price below the level required to drive impulse buys, you’re effectively using the sale as an advertising tool, not a tool for driving sales and turnover.”

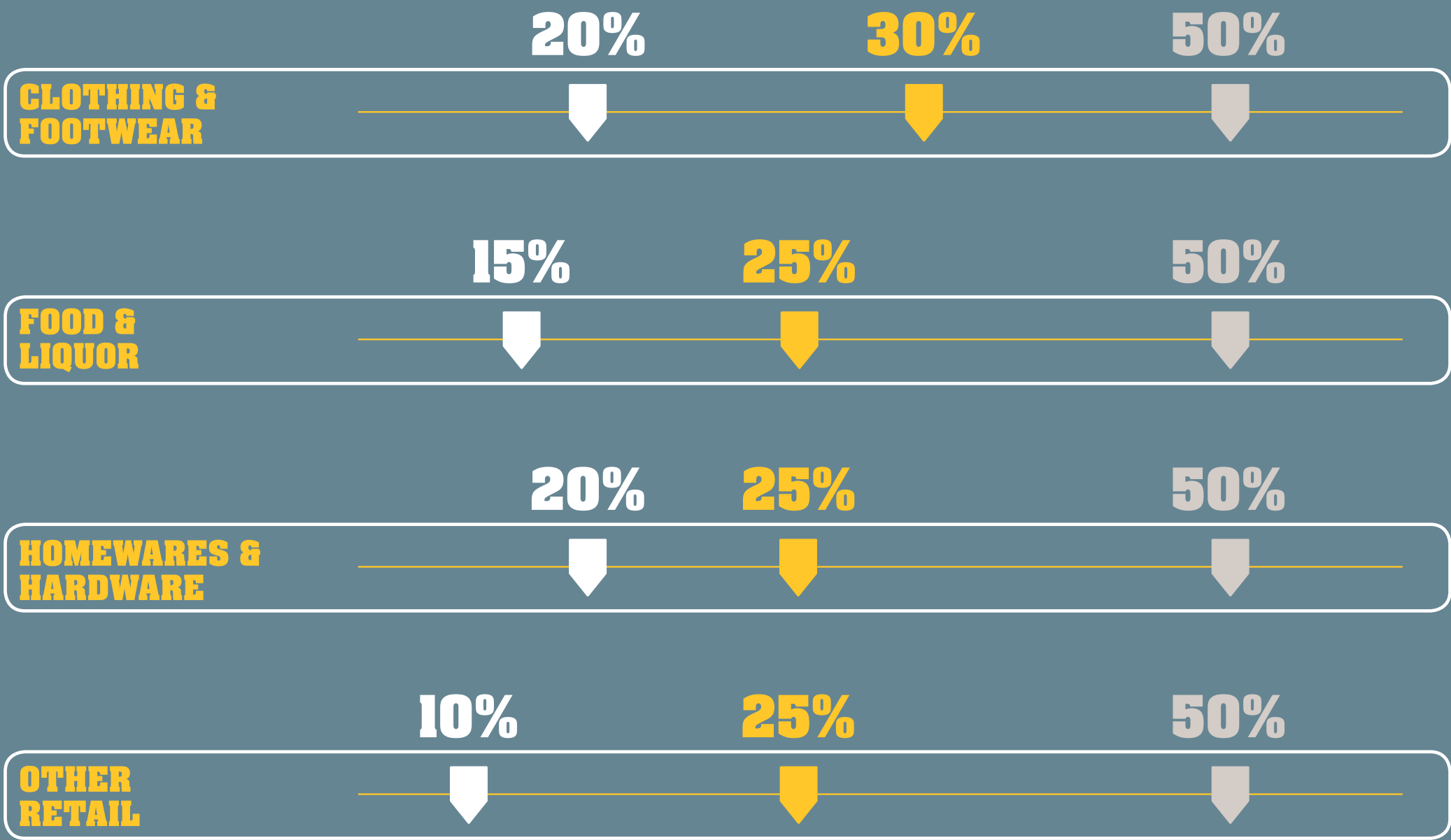
Jerry Macey

National Manager, Retail Industry
Business and Private Banking
Commonwealth Bank of Australia



Opportunities for retailers

Are you giving away too much or not enough?
Percentage discounts — retailer practices and consumer responses



● Discount most often used by retailers at start of sale ● Minimum discount shoppers most often say would prompt an unplanned purchase ● Discount most often used by retailers in final clearance

Global Trends

We asked three retail experts from around the world for their views on the latest trends in retail and pricing strategies in North America, the United Kingdom and Asia.



North America

Doug Stephens is the founder of Retail Prophet and the author of *The Retail Revival: Re-Imagining Business for the New Age of Consumerism*. One of the world's foremost retail industry futurists, he has worked with many of the world's best-known retailers, agencies and brands, including Walmart, Google, Home Depot, Disney, BMW, Citibank and Intel.

At best, the mood in the North American retail market can be characterised as tentative. Incumbent retailers across categories continue to find themselves pressured on a number of fronts. Consumers remain generally more conscious of their spending and more inclined to do so with cash than credit. Increased channel blurring is also a factor, as retailers in all categories seek to expand their offerings to improve revenue. And online marketplaces like Amazon continue to grow at an exponential pace, relative to the retail industry as a whole. In fact, from every incremental dollar spent online in North America today, Amazon captures 60 cents, right off the top.


The biggest trend in pricing is a gravitational shift on the part of consumers to the extremes of value. Outlet malls, off-price retailers and dollar stores continue to thrive, while luxury brands are managing to hold their own. Mid-tier offerings and department store models find themselves vulnerable from all sides. Consumers, increasingly empowered

with technology, are more informed on what the “true” price of a product ought to be and are consequently less susceptible to conventional discounting strategies that use the manufacturer’s suggested retail price (MSRP) as a baseline.

The most successful retailers are using discounts primarily as a means of rewarding their most loyal and high value customers. Doing so not only builds value with this important segment of the retailer’s customer mix, but also mitigates the risk of altering the general positioning of the brand or training customers at large to wait for discounts.

The best advice I can give retailers is to focus on creating remarkable value, rather than obsessing over price. Price is easily undercut, but value is a more unique alchemy of convenience, service, customer experience and product.

Value is ultimately what consumers are seeking. No one ever shopped at Apple because their computers were the cheapest or because they discount their prices. Yet most customers return to Apple because of the sense of value they perceive from the entire experience.



“Price is easily undercut, but value is a more unique alchemy of convenience, service, customer experience and product.”

Doug Stephens
Founder,
Retail Prophet

United Kingdom

Richard Hyman is the founder of richardtalksretail and an acknowledged expert on the industry. He has provided analytics, insights and thought leadership on retail intelligence for more than 35 years and advised most of the UK's leading retailers, along with their product suppliers, landlords, bankers and institutional shareholders.

While Brexit looms, the UK consumer economy has so far been totally unaffected. The key motif of UK retailing right now is uncertainty. Nevertheless, we can be sure of some things, and they provide the context for trading and planning for the next year or so.

Decades of capacity growth have finally caught up with the UK industry and for several years now we have seen a fundamental shift in the relationship between supply and demand. Today demand is flat but supply continues to expand, especially online. This is adversely impacting industry economics — UK retail is becoming less profitable.

A major symptom of this structural shift is massive discounting. We have now had 24 consecutive months of price deflation in every sector of the trade, driven by this growing oversupply. Meanwhile, demand is weak and despite discounting, volumes are negative. So margins are under huge pressure.

The background to all this is that decades of demand exceeding supply meant retail did not have to be brilliant at selling. The customer has been taken for granted because they kept spending. This has now ended and UK retailers find themselves with weak brands, too many stores and websites that cannibalise sales and are expensive to trade. And all this is before any impact from Brexit.

This is a market where strategy has been overtaken by short term tactical necessity. Most discounting is being driven by peer activity, not part of a plan. And consumers are being educated to wait and only buy on mark down. This also damages brand and price integrity.

UK retailers need to rediscover the art of selling. This means investing in their top lines — customer knowledge, supply chain and product quality, and in delivering service. The key headwind next year will be around when currency hedging runs out. Retailers will have to deal with a pound devalued by 12% to 15% or so. Oversupply will make passing this huge cost hike on to customers all but impossible. I am expecting a major shake out — there are simply too many mouths to feed.

“In the UK, we have now had 24 consecutive months of price deflation in every sector of the trade, driven by growing oversupply.”

Richard Hyman

Founder,
richardtalksretail

Asia Pacific

Jonathan Yeung is Head of Asian Business Banking at Commonwealth Bank of Australia, responsible for driving and executing the firm's Asian Business Banking strategy. During 20 years of experience in the financial services industry, he has worked across Asia, the US and Australia, with senior roles at ANZ and Bank of America Merrill Lynch.

The Asian retail sector is evolving, with mobile shopping, growing social media influence and retail innovation all driving change. There is tremendous potential for the growth of e-commerce in the coming year, as the region sees a rise in spending power, increased internet penetration and a growing number of e-commerce players.

Culture and community will continue to be important in generating referrals through word of mouth (either online or offline), and retailers should look to embrace the online community through social media. Social media — the 'great influencer' — is quickly evolving as a driver of online purchasing.

Take WeChat as an example. With users approaching 800 million, consumers are making purchasing decisions and buying goods on WeChat — not only retail goods but properties.

While price is important, in many parts of Asia today's consumer is looking for value, especially in China. For China, this is the age

of value, with a large and growing segment of consumers looking to demonstrate their individuality and stand out from the crowd with brands and goods that define their status. As a result, they are not only just focusing on the big brand names.

At the same time, technology has made retail global. Mobile adoption has accelerated across Asia, from developed to less developed markets. People research online and buy in the physical store. There are location-sensing and self-help technologies emerging in Asia that are supporting and complementing a more personalised and enhanced shopping experience. In China, we also see a continuing willingness on the part of Chinese consumers to become early adopters of cutting-edge shopping habits such as mobile buying.

Retailers today have increasing access to a massive amount of data. The kind of detailed data already available to online retail — page clicks, time on page, visits versus transactions ratios and abandoned baskets — is now becoming available for physical store visits too. A key challenge is in drawing meaningful insights from that data and making it actionable for their business strategies. The next step is to find ways to harness data to create a personalised customer experience, based on customer buying patterns and stock trends, which in turn creates loyalty and higher spending.



“With users approaching 800 million, consumers are increasingly making purchasing decisions and buying goods on WeChat — not only retail goods but properties.”

Jonathan Yeung

Head of Asian Business Banking
at Commonwealth Bank of Australia

Sector Insights

Focusing on four leading retail sectors

While food and liquor stores use sales to drive impulse purchases, fashion retailers are more likely to use premium pricing to attract higher value customers.





89%
of customers buy on sale
at least occasionally

Sector Insights:

Clothing & Footwear

Outlook

Clothing & Footwear retailers have become increasingly subdued, with 47% expecting conditions to remain stable, while around one in five anticipate a decline.

Forecast business conditions over the next 12 months

H1 2016

▲ 41% improve

■ 45% stay the same

▼ 14% decline

H2 2016

▲ 35% improve

■ 47% stay the same

▼ 18% decline

Pricing

Many shoppers in this category are strongly price-driven, with two in three saying price is the main influence on their spending decisions. Yet there is also a lucrative premium market, with 22% of retailers deliberately positioning themselves as more expensive, the highest proportion of any sector.

89% of customers buy on sale at least occasionally

66% of customers say price is the main influence on all their buying decisions

33% of retailers say their pricing strategies are more sophisticated than competitors

47% price to increase margins

22% are more expensive than most

Sales and promotions

Fashion retailers offer the deepest discounts of any sector, using regular (and predictable) clearances to dispose of excess seasonal inventory.

20% run sales at least weekly

63% use sales to sell excess inventory

Discount most often offered

- At start of sale: **20%**
- At end of sale: **50%**



71%

of customers will make
an impulse purchase
because of a discount

Sector Insights: Food & Liquor

Outlook

Food & Liquor retailers are looking forward to a festive end to 2016, with four in 10 expecting better conditions ahead.

Forecast business conditions over the next 12 months

H1 2016

- ▲ 23% improve
- 47% stay the same
- ▼ 30% decline

H2 2016

- ▲ 41% improve
- 41% stay the same
- ▼ 18% decline

Pricing

Consumers buy Food & Liquor items on sale more regularly than any other category of goods. According to retailers, the sector is also highly price sensitive.

63% of customers say price is the main influence on all their buying decisions

88% of customers buy items on sale at least occasionally

38% of retailers say their pricing strategies are more sophisticated than competitors

43% price to increase revenue

67% of retailers report high price sensitivity

Sales and promotions

Impulse purchases are more frequent in this sector than any other, generally triggered by a promotion. At the same time, Food & Liquor retailers hold sales more regularly than any other category.

62% run sales at least weekly

71% of customers will make an impulse purchase because of a good discount or promotion

Discount most often offered

- At start of sale: **15%**
- At end of sale: **50%**



76%
of customers say quality is
more important than price

Sector Insights:

Homewares & Hardware

Outlook

Confidence among Homewares & Hardware retailers remains steady, despite a highly competitive market.

Forecast business conditions over the next 12 months

H1 2016

▲ 33% improve

■ 48% stay the same

▼ 19% decline

H2 2016

▲ 32% improve

■ 54% stay the same

▼ 14% decline

Pricing

One third of Homewares & Hardware retailers position themselves at the value end of the market — even though three in four customers say they prioritise quality over price.

75% of customers buy products on sale

76% of customers say quality is more important than price

31% of retailers are less expensive than their competitors

45% find managing increasing costs a challenge

Sales and promotions

Sales play an important role in triggering impulse purchases, with half of Homewares & Hardware customers saying they are motivated by a fear of missing out.

22% run sales at least weekly

48% of customers make an impulse purchase because they don't want to miss out on an attractive offer

Discount most often offered

- At start of sale: **20%**
- At end of sale: **50%**



73%
consider it important for
retailers to price consistently
across channels

Sector Insights: Other Retail

Outlook

The Other Retail sector is increasingly confident, with around one in three businesses anticipating improved conditions in the year ahead.

Forecast business conditions over the next 12 months

H1 2016

▲ 28% improve

■ 50% stay the same

▼ 22% decline

H2 2016

▲ 32% improve

■ 46% stay the same

▼ 22% decline

Pricing

Although six in ten Other Retail businesses believe their market is price sensitive, they are less likely than other sectors to say their pricing strategy is sophisticated — with 22% believing their strategy is less advanced than their competitors.

59% consider their category to be highly price sensitive

30% say their pricing strategies are more sophisticated than competitors

56% of customers say price is the main influence on all their buying decisions

43% price to increase margins

28% are less expensive than their competitors

Sales and promotions

The Other Retail sector has the lowest frequency of sales, with fewer than one in ten running a sale every week.

9% run sales at least weekly

63% have a sales promotional plan

Discount most often offered

- At start of sale: **10%**
- At end of sale: **50%**

Talk to us

Visit www.commbank.com.au/retailinsights

Call **13 19 98** or email insights@cba.com.au to access Australian based Business Banking Specialists around the clock.

Things you should know: This report is published solely for information purposes. As this report has been prepared without considering your objectives, financial situation or needs, you should before acting on the information in this report, consider its appropriateness to your circumstances and if necessary seek the appropriate professional advice. The information in this report is based on a survey of 500 decision-makers from small, medium and large retailers across Australia, with turnover ranging from less than \$1 million to over \$500 million, and from a survey of 1,001 consumers in July and August 2016, carried out by ACA research on behalf of the Commonwealth Bank. Any opinions, views of contributors, conclusions or recommendations are reasonably held or made, based on the information available at the time of this report's compilation, but no representation or warranty, either expressed or implied, is made or provided as to the accuracy, reliability or completeness of any statement made in this report. The commentary and opinion expressed by other contributors is purely their own and does not necessarily reflect the view of the Commonwealth Bank.

Commonwealth Bank of Australia ABN 48 123 123 124.