Slide 3: Retailing has never been easy in New Zealand and the latest data on failure rates highlights the challenges faced in the sector. Between February 2012 and February 2013, Statistics New Zealand business demography data shows 10% of retail trade, accommodation and food service businesses close every year in New Zealand and it has one of the lowest survival rates of any industry sectors over the last decade. Outside of global financial crises and other impacts on consumer spending levels, the structural changes and ever-evolving trends affecting retailers are likely to see a repeat of the failure rates in the next Statistics New Zealand report.

Slide 4: Some of the structural changes in the retailing sector have evolved overtime rather than shifted to a complete new dynamic overnight. By way of example, the path to purchase theory established in 1898, by E. St. Elmo Lewis mapped a theoretical customer journey from the moment a brand or product attracted consumer attention to the point of action or purchase.[1] This model is not new and undoubtedly well-known to many in the room. Often referred to as the AIDA-model - an acronym which stands for Awareness, Interest, Desire, and Action. This staged process is summarized below:

Awareness – the customer is aware of the existence of a product or service

Interest – actively expressing an interest in a product group

Desire – aspiring to a particular brand or product

Action – taking the next step towards purchasing the chosen product

While this has been adapted by consulting firms such as Forrester and Mckinsey overtime to look more like the current picture on screen, the latest grouping by Deloitte provides an interesting take on a long-evolving trend and the shape it may take in the future. In fact, many of the “Beyond” features identified are already implemented to some degree and are having significant impacts on the market. While sitting outside of the retail sector, a Chinese firm, WinSun Decoration Design Engineering, has reportedly printed 10 3D houses in just 24 hours, with construction of the small dwellings costing the company under $6000 each, according to a recent NZ Herald article.

Whether RFID, biometrics and 3D printing become mainstream and a daily occurrence for households is still up for debate, but it will lead to some critical changes in the retail industry.

Slide 5: One of these changes is the number of people waiting in queues to by one off products being served by a staff member standing at a till, as in the picture on screen, will increasingly become a retailing act of the past.

Slide 6: And while landlords may love a picture like this, consumers don’t. Retailers may also be conscious in the ability to be able to serve such high volumes of customers. Retailers make money when people buy their products, and the more they buy over a short period of time, the more profitable they are. Consumers moving around the mall with crowds are not really what a retailer or consumer wants.

Slide 7: What consumers want is more of the scene above, convenience, at their own time, place and pace. Indeed, with the advancements in technology, this type of situation has become much more realistic than even a decade ago.

Slide 8: And there will be customised campaigns to reach out to consumers to make them feel like the journey of purchasing a product is their own unique experience. While this has typically been the realm of smaller niche products, Coke showed us how to bring customisation to the masses with the recent campaign on “Share a Coke with…..”

Slide 9: And this personalised message will be brought to consumers through the rise in technology such as proximity marketing which uses Bluetooth transmission, NFC (Near Field Communication) transmission or SMS-based tracking to provide customers with pull-marketing messages while in the geographic vicinity. This of course provides retailer with the added benefit of data on their customers that they can analyse to tweak and refine their strategies over time.

Slide 10: Analytics is important as it leads to the identification of new trends such as the value that customers want

Slide 11: And value can mean many things, with The Warehouse a classic point in case. The tag line is “where everyone gets a bargain” and the App which allows you track prices of products shows how to get a value from your bargain. Customers can then spend more time buying products

Slide 12: Rather than spend more time searching for car-parks

Slide 13: And this will become increasingly evident as time passes as the new generation of digital natives enter the workforce. What they “expect” and the shape and form in which they absorb it is a lot different from the generations retailers have dealt with in the past.

Slide 14: This chart from Statistics New Zealand while from 2012 highlights the impact online is having, especially in the younger age groups. It shows that almost 7 out of 10 people between the age of 25 and 34 made an online purchase 12 months previous to the survey undertaken…

Slide 15: The proliferation of technology is here. It is all around us. This photo on the left taken outside the Vatican before i-phones were invented compared to 2013 shows just how our world has evolved…

Slide 16: Technology and the mobility it has brought have extended the reach to areas retailers have but dreamed off in the past. For many countries, mobile phones are their main source of connectivity and with mobile phone ownership numbers growing exponentially it breaks down the old-world thinking of borders between countries, markets and people.

Slide 17: It also brings us closer to our appliances and the age of smart appliances will only grow

Slide 18: And Asia Pacific’s role in its share of e-commerce sales will overtake the world

Slide 19: But of course, mobile doesn’t necessarily mean mobile. And while I’m not sure what they are doing while lying in bed with their mobile or what the other 20% of respondents in this survey were doing while in bed…. Concepts or how we market products have changed

Slide 20: While retailers need an online presence to open up opportunities, online needs to be kept in context. In one way of looking at it, 1 in 20 sales in New Zealand are online, but 19 are in bricks and mortar shops. While online sales growth is rising, the rate of growth is slowing. Studies completed in Australia show the potential saturation point is around 20%, but over a long period of time.

And while US statistics, the hang-up on showrooming, whereby people go into a retail shop and then buy the product online is a significant occurrence, so is webrooming, whereby people check products out online and then buy in the shop.

Slide 21: http://retaildesignblog.net/2012/12/12/the-whisky-shop-flagship-store-by-gpstudio-london/

And it's not always about the products, but the experience. "great things do take time"

Slide 23: But time is an important component for the consumer to do while researching or experiencing or buying the product, not getting to the destination as this table shows. In essence, 50% of a core retailers' household spend will be within 7 kilometres drive. Food and Liquor is even lower and 90% of their spend is within just 15 kilometres, according to Auckland Council research.

Slide 24: But while things can get complicated in the retailer's world of technology and ever-evolving trends, it can be kept quite simple. Herb Sorensen summed it up nicely when he breaks down the role of shopper inputs to three key components of the level of time, money, angst and the retailers outputs of items and satisfaction levels provided.

Slide 25: Ok, so what does all this mean for property?

Slide 26: First, we're in a protracted retail spending recovery as this chart shows. The latest recession has been one of the toughest for retailers in a long-time.

Slide 27: And it's not just a New Zealand occurrence. This chart tracks the retail spending growth in New Zealand and Australia, which have only briefly managed to reach long-term averages since the GFC, and New Zealand's growth spurt in 2011 was a function of the Christchurch earthquakes and the replacement of damaged goods.

Slide 28: Which is reflected in the data on screen that shows some retailers by the nature of what they sell, perform differently, with varying degrees of success and growth.

Of course, one component that is likely to be impacted is the amount of spend online not captured in the above data. And this is likely to have an impact on the requirement for floor space, shop fronts and delivery.

Slide 29: But the drive of population needs to be taken into consideration. This chart which looks at the amount of retail space, both strip and mall in Auckland, and the number of people shows the requirements for Small format retail and large format retailing. Keeping the status quo of retail space as we have it today, we will need an extra 1.6 million m^2 of retail space. Yes, online will impact floor space needs, and the growth in retail floor space will be driven by the needs of catchment and council consenting practices, but the drive for more retail space can be a simple function of population growth. The changes in the industry are likely to keep small format retail popular amongst retailers and landlords, protecting themselves from growing rents and retailer turnover.

Slide 30: And population growth, along with business and employment growth also provide the cornerstone of retail spending, which broken down by geography shows a similar result when many other economic measures are considered. Regions outside of Auckland, Wellington and Christchruch have hardly shifted in the last four years.

Slide 31: Of course, the boost by tourism also plays a part as shown in the latest GDP results which signalled the high proportion of retail spending by tourists that boosted our GDP….

Slide 32: But how inelastic are consumers in their purchasing decisions. As shown above, the average Auckland household expenditure lies predominantly in food, beverages, power and phones, not leaving much for the other sectors.

Slide 33: And what we spend matters importantly to the success of retail. The chart shows the relationship between Auckland CBD prime retail yields with sales per head of population inverted to show the correlation. While retail yields have once again reached the record lows of just above 6%, further firming will occur if growth in retail sales continues.

Slide 34: But it's not only a function of spending, and how we purchase goods, but how we move goods around to people. The correlation is shown with the ANZ heavy traffic index (inverted) which shows just how important the distribution of products will have on the performance of the retail sector in the future.

Slide 35: And the way that products are stored has changed vastly. Do you need lighting and air-conditioning in fully-automated distribution centres?

Slide 36: But one thing that seems to stay constant is the pull that shopping centres have on attracting customers and retailers. The vacancy rate of Auckland CBD sub-5% is low, however, at less than 1% in shopping centres, it is likely that there will continue to be positive stories from landlords of shopping centres, especially those surrounded by strong catchment demographics with supportive tenant mixes. Shopping centres that don't and rely too heavily on one sector, product line and have a catchment boundary cannibalised by better performing centres will underperform. And this will be reflective of all types of retail, whereby there will be growth in the sector, but geography and sector play a critical component to the level of success and not being a failing statistic

Slide 37: For some retailers, rental growth will be unavoidable. Dependent on the sector, and the importance of the tenant to the success of the retail environment, the growth in rents will vary greatly. While some of this high growth is a function of mathematics given the lower rental rate achieved, the future of some will be tenuous, as say a 30% increase or a rise in average rents from \$270 psm to \$320 psm, may be too much for many already trading at thin margins. Good guys exit from the New Zealand market after just six years a recent example of what can go wrong.

Slide 38: Continuing the trend in the importance that sector and geography plays in the retail sector are how investors look and feel about the performance of the three biggest markets in New Zealand. Christchurch and Auckland while both near record highs have declined in recent times. Christchurch's decline to a net positive confidence of 41% is likely a reflection of the city coming off significant highs after significant lows. Auckland, now at a net positive 39% is a reflection of the concerns investors have in the ability of tenants to pay rent in light of the potential for consumers to spend less due to interest rate rises and 'lower' (still achieving growth of 8% p.a) growth in median house values. Wellington, up to a net positive 9%, a reflection of investors’ growing understanding of seismic responsibilities and costs, along with lower insurance costs and the stability in government employment numbers, for the time being…

Slide 39: But finding suitable retail premises that provide an uplift in value has become increasingly difficult to find…. Already at record average lows and below other sectors as reflected in the Auckland data on the chart, investors will have to search for value growth in their investment selection at a detailed level that has not always been evident.

Slide 40 and 41: Commentary about charts

Slide 42: Discuss the first three points as a summary

Is there change on the horizon? – I would like to leave you with a cautionary note

Slide 43: Most of New Zealander’s wealth is in housing, and given there is potential for this to slow due to us entering a new cycle of higher interest rates together with lower home ownership rates in the future, this could be to the detriment of the success of retailers and therefore landlords and investors.

Slide 44: And as we can see, while not always linked, there is a correlation between retail sales and the number of houses sold. Given the trajectory of house sale growth over the last six months, it is highly likely retail spending will too follow the same path. For how long the performance in retail spending declines may be a case to consider by the RBNZ with the LVR restrictions in place and the rising interest rate environment at odds with other OECD nations….