

# Retailing in New Zealand: Where Are We and Where To Next?

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## Abstract

This report provides a description and commentary on the current state of retail in New Zealand. Following the introduction of New Zealand as the retail space, we present a dichotomous perspective of retail themes apparent in the New Zealand market. We then turn our attention to key categories that help form the New Zealand retail landscape, including supermarkets, department stores, fashion stores, online retail, and hardware. We also present a brief commentary on the burgeoning café culture in urban New Zealand. We conclude the discussion with an analysis of where we think New Zealand retail is headed, based on where it is now, and what is changing about New Zealand.

## Keywords

New Zealand; current retail market; retail categories; future retail

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## 1 Introduction

In this paper we take the approach of describing the current situation in the New Zealand retail space, and then providing some thoughts on where New Zealand retail may be heading. In doing so we draw upon some of the inherently unique aspects of the New Zealand retail context, such as location, geography, population characteristics, and regulation, and suggest a future that has parallels with many western countries, but has its own New Zealand flavour.

Located in the Southern hemisphere, New Zealand is a geographically isolated nation with a population of approximately 4.5 million people. Comprised of two main islands covering 270,000 sq km (slightly larger than the United Kingdom), it is located diametrically opposite Spain on the globe, with a climate similar to the UK. The largest city, Auckland, is located in the top half of the northern island and contains just over one third of the population; it also has the largest Polynesian population in the world. A long, thin country, the population is largest in the north and becomes sparse in the south. There were 32,972 retail outlets in New Zealand as of October 2012 (Statistics New Zealand, 2014) with 36.4% of those stores located in Auckland. As at 2012, the total number of people employed in retail was 194,150 (Albertson, 2013). Retail sales for the year 2013 totalled \$72.7 billion (Statistics New Zealand, 2014) or just over \$16,000 per head of population, and retail sales have been steadily growing over the past decade—see table 1.

Table 1: Retail Sales Growth

12 Months Ending	Total Retail Sales \$ m	% Change on Prior Year	Index (year 2005 = 1,000)
Dec 2012	70,300	+3.7	1,255
2011	67,800	+4.1	1,211
2010	65,100	+3.7	1,162
2009	62,800	-0.8	1,121
2008	63,300	+0.3	1,130
2007	63,100	+6.2	1,127
2006	59,400	+6.1	1,061
2005	56,000	+6.5	1,000

Note: The above includes all retail categories, including the motor vehicle sector, cafes and restaurants, hotels, accommodation etc.

Source: Retailers Association—2013 Retail Market Analysis

Whilst still a relatively young nation (less than 200 years old), New Zealand was founded on trade; as a result retailing has formed an integral part of New Zealand's development since it was first colonised. It is an agriculturally based export nation, but has a low manufacturing base and relies heavily on imported goods for much of its non-food retail.

Table 2 shows the degree of spread and concentration of selected categories in New Zealand retail, as well as total outlets (for those unfamiliar with New Zealand geography, the list of provincial areas in the first column essentially goes from the northernmost area of New Zealand to the southernmost area). The pattern that emerges from table 2 forms an integral part of the theme discussed in the next section—that of a New Zealand which has two sides to its retail.

Table 2: Geographic Spread of Selected Categories and Total Retail Outlets

	Supermarkets/ Grocery	Department stores	Clothing	Furniture	Appliances + electrical	Chemists	Footwear	Stationery, Newspapers	Books	Total Outlets (incl categories not shown)	% of total
Northland	122	9	94	56	57	37	9	35		<b>1,115</b>	3.4
Auckland	1,232	68	1,501	775	722	462	219	339		<b>12,018</b>	36.4
Waikato	298	25	349	166	144	100	55	92		<b>2,989</b>	9.1
B.O.P.	186	19	237	132	107	80	35	63		<b>2,111</b>	6.4
Gisborne	33	5	30	17	11	9	4	10		<b>270</b>	0.8
Hawkes Bay	105	9	120	77	47	51	16	30		<b>1,076</b>	3.3
Taranaki	88	6	89	50	37	33	17	33		<b>795</b>	2.4
Manawatu, Wanganui	169	15	149	96	81	58	17	63		<b>1,555</b>	4.7
Wellington	379	35	430	213	174	144	80	121		<b>3,349</b>	10.2
<i>Total North Island</i>	<i>2,612</i>	<i>191</i>	<i>2,999</i>	<i>1,582</i>	<i>1,380</i>	<i>974</i>	<i>452</i>	<i>786</i>		<b><i>25,278</i></b>	<i>76.7</i>
West Coast	35	2	19	12	14	6	5	8		<b>263</b>	0.8
Nelson	28	6	60	24	32	14	11	10		<b>444</b>	1.3
Tasman	28	3	30	16	13	17	4	8		<b>3324</b>	1
Marlborough	31	5	23	15	17	13	6	11		<b>303</b>	0.9
Canterbury	367	44	470	232	215	157	80	110		<b>4,014</b>	12.2
Otago	141	22	242	83	73	66	32	53		<b>1,674</b>	5.1
Southland	76	11	67	39	28	24	11	21		<b>672</b>	2
<i>Total South Island</i>	<i>706</i>	<i>93</i>	<i>911</i>	<i>421</i>	<i>392</i>	<i>297</i>	<i>149</i>	<i>221</i>		<b><i>7,694</i></b>	<i>23.3</i>
<b>Total New Zealand</b>	<b>3,318</b>	<b>284</b>	<b>3,910</b>	<b>2,003</b>	<b>1,772</b>	<b>1,271</b>	<b>601</b>	<b>1,007</b>		<b>32,972</b>	

Source: Retailers Association—2013 Retail Market Analysis

Regulation in New Zealand retail is also worth a quick mention. New Zealand deregulated back in the 1980's which for retail meant that the marketplace became a genuine market where there was no protection and no restrictions on imports. However, with that came the Commerce Commission to ensure that competition was maintained (so collusion is illegal at any level—price, supply, advertising, etc.). The Consumer Guarantees Act legally enforces basic consumer rights regarding the quality of products sold; and the Fair Trading Act requires the likes of product labelling, descriptions and advertising to be accurate. Currently stores are able to operate 24 hours a day, seven days a week (though few take advantage of the 24 hour option—in fact the vast majority of stores in New Zealand only opens 9.00 am to 5.00 pm). Depending on the licence under which the retailer has applied to the local government to operate, this may restrict the opening hours also; as the retailer is required to state their normal hours.

There is a minimum wage that applies across all industries including retail—currently it is NZ\$14.75 per hour. Recent employment law reforms have introduced a 90 day trial period during which a new employee can be dismissed without any reason. After that period it is very difficult to dismiss an employee; other than for misconduct, breaking the law, or other serious offences. Thus, technically, if an employee stayed in exactly the same job with the same firm they could retain that job for life. New Zealand also has no compulsory retirement age despite all New Zealanders receiving universal superannuation (old age pension) from 65; this meaning you can continue working AND receive the Government pension.

Another major regulatory impact in retail is the Goods and Services Tax, which mandates that every good sold attracts a 15% tax. This is collected directly by the retailer who, after deducting the tax paid on the goods to the manufacturer, pays this revenue to the Government. Local government (usually urban councils or rural district authorities) zone all land, which means that government in New Zealand determines where and what type of retail can be located throughout the country.

Note that many of the statistics quoted in this paper are sourced from Statistics NZ, which is the official New Zealand Government provider of such information, or the Retailers Association who have used Statistics NZ information. Statistics NZ uses the Australian New Zealand Standard Industrial Classifications (ANZSIC 2006) to determine inclusion of firms in a class (such as retail or sub-categories). Details on how this classification system works and is applied to retail can be found at [http://www.stats.govt.nz/browse\\_for\\_stats/industry\\_sectors/anzsic06-industry-classification.aspx](http://www.stats.govt.nz/browse_for_stats/industry_sectors/anzsic06-industry-classification.aspx) along with what types of firms are considered retail or not.

## **2 Retailing in New Zealand: A Dichotomous View**

Due to New Zealand's size in both population (small) and geography (relatively large), there tends to be a polarisation across many aspects; from the way business is conducted through to social identity. The result of this provides the following descriptions of New Zealand's retail profile, which highlight this dichotomy.

### **2.1 Isolated and Regionally Split**

New Zealand is a geographically isolated country. The nearest large market (Australia) is approximately 1,400 miles (2,250 km) away, meaning supply lines for imported retail goods are long. This is reflected in the limited choices available in retail, in comparison to many Euro-

pean countries. Coupled with a relatively small population for a relatively large country, New Zealand's retail sector has developed primarily in a few main cities with very limited options outside of these centres.

Geographically, supply lines are also difficult within New Zealand. While the vast majority of the population resides on either of the two main islands, rather than the over 700 islands that lie within 50 km of the main islands (Walrond, 2013). Both main islands are mountainous and hilly, meaning winding roads connect most urban centres.

In 2010/11 the largest city in the South Island, Christchurch, suffered two major earthquakes destroying much of the city infrastructure as well as killing 185 people and injuring many thousands. The retail sector in the region is still struggling to cope and is far from full recovery (Ballantine, Zafar, & Parsons, 2013). The difficulties with internal supply lines became very evident in the immediate aftermath of the earthquakes when the sole rail line and main road link to Christchurch were severed. Supplies of food and water initially needed to be shipped to the nearest port and then trucked by the army because the roads between the port and the city were unfit for regular transport supply.

Further to this, the top five countries goods are imported from are Australia, China, United States, Japan and Germany (Statistics New Zealand, 2014); all of which are a significant distance away from New Zealand. This has resulted in lengthy transport times and high delivery costs. Although New Zealand is an agricultural country, there is still a need to import off-season fresh fruit and vegetables which requires air freight; again resulting in high costs to market. Cars, appliances and other bulky retail items imported into New Zealand require ocean-shipping, also adding to time and cost for shoppers.

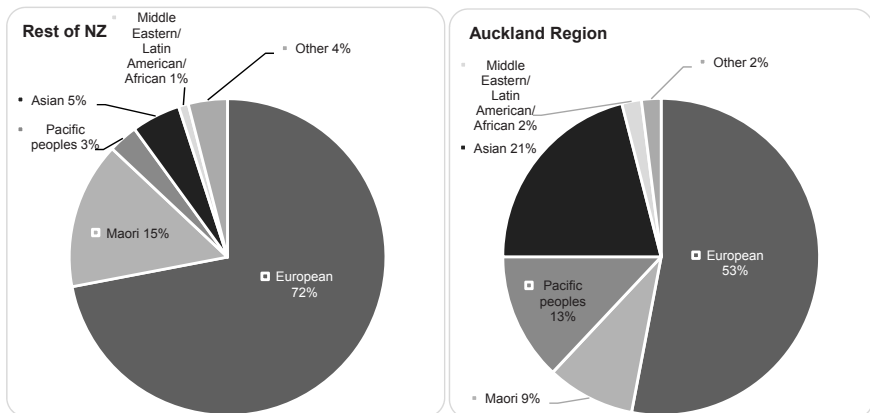
Fashion retailing is a category particularly affected by New Zealand's location. For local designers and production houses who source production of their designs overseas, this is not relevant. However, for fashion brands located internationally and for local stores importing fashion, the Southern hemisphere location means that the buying is done out of season. As such, it can take up to 30 months before the garments are in the stores in New Zealand; for the Northern hemisphere retailer buying 12 months in advance of a season, this translates locally as up to 30 months because the New Zealand buyer has to buy at the same time as the Northern Hemisphere buyer, but won't actually need the product until the following relevant season which is opposite to the Northern season. With environmental changes and instability of weather patterns worldwide, this buying cycle has further significant impact on the investment being made in fashion.

Within New Zealand, there is also a strong urban/rural divide and north/south divide. Just over a third of the population is located in Auckland, a city in the northern part of the North Island, concentrating a lot of the retail focus at one end of the country. In fact, the population of the entire South Island is less than that in Auckland. The implications of this for retail are fairly evident: in the south the retail is spread out, costs of supply are even higher, choice is somewhat limited. Whereas in Auckland there is a high concentration of core retail that is easily accessible to the majority of this population.

Outside of the city centres, retail is fairly standardised in serving basic needs; beyond those needs people generally have to travel to the city centres for non-essential, and particularly hedonic retail. Unlike Europe which developed retail through village markets, town squares and main streets, rural New Zealand retail developed a cut-down model of the city centre; a bare bones version, in towns created as farming centres with an emphasis on catering to the farming needs rather than semi-urban populations. One of the clear implications of this is the limited retail competition within these rural centres.

In contrast to the rest of New Zealand, the Auckland region is very multicultural with significant Maori, Polynesian, and Asian populations, which lends an international flavour to local retail pockets. Local markets reflecting the neighbourhood characteristics are common in many areas of Auckland. For example, the suburb of Mt Roskill is known for Indian retail; Howick has a strong Chinese retail presence; Northcote is fast becoming 'Little Korea'; and Browns Bay is an enclave of South African goods and stores. The Otara markets, which reflect the Polynesian proprietors' origins, are a popular weekend destination for locals and tourists.

Figure 2: Population Characteristics



Source: Statistics NZ (2014)

Figure 2 shows the quite distinctive Auckland profile compared with the rest of New Zealand, leading to a more cosmopolitan retail market servicing the multicultural population. Auckland has a population of approximately 1.4 million, compared, for example to Wellington (the capital city) with 201,000, and Christchurch (the main city in the South Island) with 340,000 (see figure 1 map for location).

## 2.2 Internationalisation

Few New Zealand retailers have internationalised; those that have are largely restricted to forays into familiar markets like Australia, the UK, and the US. Pumpkin Patch, a children's clothing designer and retailer, has successfully entered all three markets, with either their own stores or concessions with major department store chains. Michael Hill Jeweller has a successful operation in Australia and North America (notably Canada). Others, such as The Warehouse, have succumbed to their inability to manage operations far from home without the experience of having internationalised already. They struggle with transferring the culture and model of the firm, the operational techniques, and the consumer values and expectations (Dawson, 2007); the latter most probably because of the unique laid-back 'Kiwi' culture in which they have developed.

The majority of internationalisation has been one way—into New Zealand. Many of the Australian chains have found their way to New Zealand markets. Much like their counterparts in manufacturing, a branch office will be established in New Zealand but the head office is commonly in Sydney, Melbourne, or further afield. It has proven difficult at times for international retailers to manage New Zealand operations, as many fell into the misperception that New Zealand would be just like another state of Australia.

This approach has applied to shopping centres in New Zealand as well, with the St. Lukes Group of shopping centres (a subsidiary of the Fletcher group of building companies) having been bought out by Westfield—the international shopping centre conglomerate headquartered in Sydney, Australia—in the 1990s. In the past few years Westfield has been looking to divest local centres, having built a substantial portfolio in New Zealand, and it has renamed its local presence as Scentre NZ.

Many of the store brands commonly found in New Zealand main streets are Australian or international (e.g. a small selection of retailers found in most main shopping districts, all of which are non-New Zealand: Countdown Supermarkets; Cotton-on; Just Jeans, Typo, Lush, Billabong, Bras 'n Things; Esprit, Dotti, Kookai; Louis Vuitton; Peter Alexander; RipCurl; Supre; Suzane Grae; Temt; Valley Girl; Witchery; Kmart; Andrea Biani; Footlocker; Hush

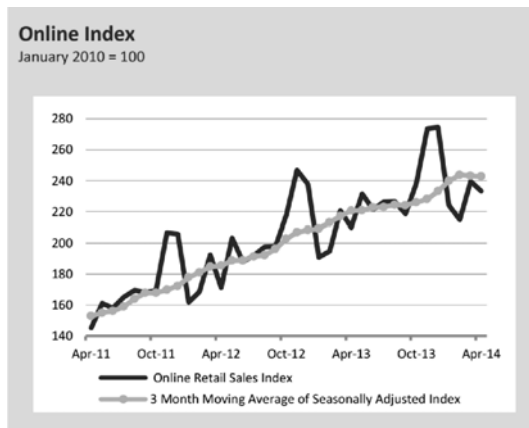
Puppies; Novo Shoes; Rubi Shoes; Strand Bags; Freedom Furniture; Harvey Norman; JB HiFi; Dick Smith Electronics; Smiggle; Kikki K; Body Shop; L'Occitane; OPSM; Specsavers). In recent years there has been an influx of Asian retail, though at present there is little concerted structure to the development of Asian-sourced retail.

Turning to the shopper, it is clear that while many New Zealanders are very international in their outlook, there are a substantial number who are very insular and ethnocentric. When considering food products, for example, it has been shown that New Zealand shoppers prefer local; if that is not available they would prefer goods from the culturally closest country (which conveniently happens to be Australia), and are still very wary of products from culturally distant countries, like China (Parsons, Ballantine, & Wilkinson, 2012).

### 2.3 The Rise of Online

Perhaps because of the isolation, the international outlook of many New Zealander's, the lack of variety apparent in main street shopping and the willingness to adopt new technologies and approaches to life, New Zealand shoppers have embraced online shopping. While still relatively small (various estimates put the online spend in 2013 between \$3.19 billion and \$4.0 billion (New Zealand Retailers Association, 2013)) at around 4 to 5%, it is both growing (see Figure 3), and increasingly shifting offshore (see Figure 4).

Figure 3. Indexed Online Sales



Source: NZ Retailers Association (2013)



Much of the online shopping in New Zealand is fast becoming mobile. 54% of New Zealanders own a smartphone, with 63% accessing the Internet on it everyday. More importantly, 33% have used their smartphone to make a purchase (New Zealand Retailers Association, 2013).

Figure 4. Domestic vs International Online Shopping



Source: NZ Retailers Association (2013)

According to Statistics NZ, 90% of New Zealanders have access to the Internet, and on average spend 12 hours online per week (2013). The New Zealand online shopper is likely to be tertiary qualified, employed, European, earning in excess of \$50,000 p.a., and likely to be aged between 25 and 44.

New Zealand retailers have been slow to adopt omni-channel retailing, and few have a genuine online presence, opting often to simply advertise or have a digital version of their mail-out catalogue / promotional flyer.

One of the difficulties that have faced New Zealand shoppers, particularly when buying from US-based stores, has been restrictions on or even the complete lack of international shipping by foreign retailers. Third-party providers have offered solutions, including New Zealand's own postal service, by providing shipping addresses in the US from which items can then be forwarded to New Zealand addresses.

In recent years there have been calls by New Zealand retailers for the Government to remove the current Goods and Services Tax (GST) exemption for the first \$400 of any items imported through online shopping, but this has been resisted by the current Government as too costly to

enforce. Local retailers see this as an unfair advantage to offshore retailers, but it is a commonly shared view amongst New Zealand shoppers that even the imposition of an additional 15% tax on most goods bought online overseas wouldn't make the goods anywhere near as expensive as those sold locally. More salient is the variety available online which is lacking in New Zealand stores, making the delivery costs acceptable to most.

## **2.4 A Note on The Way NZ Pays**

New Zealanders are more likely to pay for shopping with a debit card (through Eftpos) or a credit card, than with cash. New Zealand leads the world in the use of Eftpos (Khan, 2011) and the adoption of chip-enabled credit-card, pay-wave, and smartphone transactions is fast. One of the implications for this is that traditional pricing techniques involving getting 'change' don't work nearly as well in New Zealand.

Also, retailers are adopting a long-term, interest free payment system to further facilitate purchasing, so of course this does not involve the need for cash. This in turn means a faster adoption of high spec technology because New Zealanders are shopping beyond their purchasing power, as this is made possible because of the way financial systems are set up. But, even at the daily purchasing level—a cup of coffee, a meal, a newspaper—these are all purchased using cards, and this means that shoppers are much less aware of how much they are spending.

## **3 The Focus and Main Players on the Retail Field**

New Zealand has a full spread of retail categories, even though within each there may be limited options. Table 3 shows the number of outlets in each category and it can be seen that there are some categories more dominant than others.

Unsurprisingly, food is a major category and we discuss this in some more depth next. Department stores—particularly discount and national chains—are a feature of the New Zealand retail space; these too are discussed in more depth. Do-it-yourself (D.I.Y.) home improvement has long been an integral part of the New Zealand culture; accordingly this category is also briefly examined. Also, as fashion is ubiquitous in global retail, the state of New Zealand fashion retail is explored.

Finally, a recent phenomenon in New Zealand retail has been the growth of the café culture in New Zealand society, so this category wraps up the discussion in this section.

Table 3. Retail Outlets in New Zealand by Store Type

Store type	Number of Outlets	% Share	% Change on Feb 2011
Supermarket and Grocery Stores	3,317	10.1	+0.8
Fresh Meat/Fish/Poultry Retailing	660	2.0	-0.5
Fruit and Vegetable Retailing	484	1.5	+1.3
Liquor Retailing	941	2.9	+3.1
Other Specialised Food Retailing	964	2.9	+3.3
Department Stores	284	0.9	-1.4
Clothing Retailing	3,910	11.9	n/c
Footwear Retailing	601	1.8	-0.5
Other Personal Accessory Retailing	186	0.6	-5.6
Manchester & Other Textile Goods Retailing	504	1.5	-2.5
Furniture Retailing	737	2.2	-1.1
Floor Covering Retailing	482	1.4	-1.2
Houseware Retailing	280	0.8	-5.1
Electrical, Electronic & Gas Appliance Retailing	1,149	3.5	-3.0
Computer & Computer Peripheral Retailing	405	1.2	+1.5
Other Electrical Equipment Retailing	218	0.6	+10.7
Sports/Camping Equipment Retailing	1,177	3.6	+2.0
Toy & Game Retailing	223	0.7	n/c
Newspaper & Books Retailing	642	1.9	-6.0
Stationery Goods retailing	365	1.1	+1.4
Entertainment Media Retailing	118	0.4	-13.9
Marine Equipment Retailing	292	0.9	-1.4
Pharmaceutical, Cosmetic, Toiletries Retailing	1,271	3.9	+2.2
Antique and Used Goods Retailing	910	2.7	-5.3
Hardware & Building Supplies	1,447	4.4	-2.6
Garden Centre Retailing	437	1.3	-4.3
Flower Retailing	452	1.4	-3.8
Watch & Jewellery Retailing	584	1.8	-4.7
Car Retailing	1,638	5.0	-1.3
Motor Cycle Retailing	260	0.8	-8.8
Trailer & Caravan Retailing	101	0.3	-5.6
Motor Vehicle Parts Retailing	344	1.0	+2.1
Fuel Retailing	1,182	3.6	-1.1
Tyre Retailing	654	2.0	-0.6
Non Store Retailing	1,497	4.5	+3.1
Commission-Based Buying and/or selling	277	0.8	+1.1
Other Store-Based Retailing n.e.c.*	3,985	12.1	-3.8
<b>Total All Retail</b>	<b>32,978</b>	<b>100.00</b>	<b>-1.0%</b>

(\*n.e.c. not elsewhere classified)

### 3.1 Supermarkets and Other Food

The New Zealand supermarket/grocery sector is dominated by two groups, who between them account for approximately 85% of the total supermarket and grocery store sales; \$16.7 billion in 2012 (Albertson, 2013). While reasonably sophisticated in their operations, especially in the back-end integration and supply management side, the main supermarket chains have changed little in basic format in the past 40 years.

While categories have matured or moved through cycles (e.g. home baking goods; prepared meals) and new categories have been introduced (e.g. beer and wine in the 1990s) the standard 1960's aisle-based grid layout has persevered, catering to the weekly grocery shopper rather than the single-meal shopper. While some of this can be attributed to the American-style suburban-shopper-with-a-car approach to grocery shopping in New Zealand and a lack of significant inner-city apartment residential populations, some of it can also be linked to the lack of genuine competition offering alternative styles of grocery shopping in New Zealand.

There are two main supermarket groups in New Zealand. Progressive Enterprises operates as Countdown, and is owned by Woolworths Limited (Australia). They have 165+ supermarkets employing 18,500 people. Countdown has four dry grocery distribution centres around the country, three fresh produce distribution centres, two meat-processing plants, and one seafood processing plant (Countdown, 2014; Progressive, 2014). Countdown also operates an online supermarket option and has a loyalty card scheme (Onecard) offering discounts and rewards for customers. Progressive Enterprises is the franchise co-ordinator for the Fresh Choice and SuperValue banner groups which add a further 56 stores to the business.

In various forms and under various monikers Progressive Enterprises has been in New Zealand for 85 years, and has had a history full of mergers, acquisitions, takeovers, and ultimately consolidation of most of the competing supermarkets in New Zealand; with the notable exception of its main rival, Foodstuffs. Progressive Enterprises (as Countdown) is a wholly owned subsidiary of Woolworths Limited—a company listed on the Australian stock exchange (ASX, 2014).

Foodstuffs, on the other hand, is 100% New Zealand owned and operated and is made up of two regional cooperatives operating three supermarket brands: Four Square, New World, and PAK'nSAVE. Foodstuffs has 680 retail and wholesale outlets throughout New Zealand, employing approximately 30,000 people. Foodstuffs North Island Limited supplies 98 New World, 40 PAK'nSAVE, and 205 Four Square owner-operated retail supermarkets. They also supply 55 Liquorland liquor stores, and wholesale food outlets Gilmours and Toops. Foodstuffs South Island Limited supplies 41 New World stores, 10 PAK'nSAVE, 77 Four Square, and 147 On the Spot convenience stores, plus 23 Liquorland and 18 Henry's Beer Wines & Spirits liquor stores (Foodstuffs, 2014).

Progressive Enterprises' Countdown brand is largely aimed at the suburban middle-class shopper, and Foodstuffs' New World brand would be the closest competitor in this market space. PAK'nSAVE is aimed at the price-conscious shopper, with bulk buys, no frills stores,

and their signature ‘pack it yourself’ approach—customers are encouraged to bring their own bags or boxes, or use discarded ones from the supermarket, for packing up their groceries.

The Four Square stores are a ubiquitous part of rural and small town New Zealand, with the stylised grocer (Cheeky Charlie) used as a logo becoming an iconic symbol in New Zealand folklore. While there are Four Square stores as local neighbourhood grocers in big cities, they are seen as the quintessential small-town retailer. Four Square was the first of the Foodstuffs brands, starting in 1925.

Foodstuffs are 50% owners of Flybuys, a loyalty card scheme connecting a number of retailers and services, including the national carrier—Air New Zealand. Rather than offering in-store discounts like the Progressive Enterprises’ Onecard, Flybuys accumulates points that can then be exchanged for rewards from a catalogue or converted to air-miles for Air New Zealand’s airpoints loyalty scheme.

Both Progressive Enterprises and Foodstuffs make extensive use of the shopping data captured at the checkout through the use of their respective cards; targeting special offers to shoppers, tailoring advertising, and working with suppliers to gain insights into shopper behaviour.

While these two groups have over 800 stores between them, there are 3,317 supermarket and grocery stores in New Zealand (Statistics New Zealand, 2014) with a further 3000+ food retailers (fresh meat, fish, poultry; fruit and vegetable; liquor; and other specialised food retail). A recent issue of note concerning food retailing in New Zealand is the perceived ‘obesity epidemic’. Food labelling laws in New Zealand are patchy; packaged goods require an ingredients list and most manufacturers also provide a nutrition guide (levels of things like sodium, sugar and fats per serving against a recommended daily intake), and a modified ‘traffic-light’ system like that promoted in a number of countries around the world is being considered. Nonetheless, outside of supermarket environments there is little guidance on the nutritional value (or otherwise) of food items. With the American fast food giants (e.g. McDonalds, Burger King, Dominos, Carl Jr, Wendys) present throughout New Zealand, along with fish and chips, Chinese takeaways, and a myriad of other ethnic fast food operations available in most towns and suburban areas, healthy choices have a lot of advertising clutter to break through in the minds of shoppers.

Progressive Enterprises and Foodstuffs are keen competitors. Comparative advertising, rarely seen in New Zealand, has become commonplace for both operators. Each has their own store brands; Pams (Foodstuffs) pitching at the mid-level shopper; Homebrand (Countdown) pitching at the budget shopper and Select (Countdown) being the competitor to Pams.

Woolworths Limited reported that the New Zealand division of supermarkets recorded \$5.7 billion in sales for 2013, with EBIT of \$236 million, on a gross margin of 23.3% (Woolworths Limited, 2013). Online sales grew by 32%, with ‘click and collect’ now offered at 43 stores. Onecard has 1.8 million members. Foodstuffs North Island reported \$6.1 billion revenue, with an operating profit of \$189 million (FSNI Annual Report 2014, p5). Foodstuffs South Island reported \$2.6 billion revenue, with an operating profit of \$256 million (FSSI Annual Report 2014). Operating profits are more prudent to consider because, as a cooperative, most ‘profit’ is then rebated to owner-operators leaving minimal group profit.

### **3.2 Department Stores**

Department stores in New Zealand accounted for \$3.97 billion of retail sales in 2013 (Statistics New Zealand, 2014). There is an independent department store in each of the four main cities of New Zealand which position themselves as higher-end retail—Smith & Caughey (Auckland City); Kirkcaldie & Stains (Wellington City); Ballantynes (Christchurch); Arthur Barnett (Dunedin), though each has a small footprint compared to similarly positioned stores internationally.

Farmers is positioned as New Zealand’s leading fashion and home retailer, with 55 department stores in rural and city locations around the country. Owned by the Norman family, who also owns Whitcoulls (a 62-store book and stationery chain) and the Pascoes, Stewart Dawsons, and Prouds jewellery-store chains, Farmers has been in the New Zealand retail landscape for over 100 years. A key component of their success is the Farmers Finance Card which offers a credit payment option not just for Farmers, but many other stores including petrol stations and supermarkets.

During the 1980’s a new discount department store chain challenged the existing firms in that space. Called The Warehouse, it was modelled on the Walmart concept and quickly saturated and dominated the market. This caused its own version of the Walmart effect (Miller, Reardon, and McCorkle, 1999) in many small New Zealand centres, driving many independents out of business as they were unable to compete on price and variety.

The timing for The Warehouse was an almost perfect conflagration of events; with New Zealand deregulating the market, including opening up to imports from China and South East Asia; entering a difficult economic period following the 1987 stock market crash; and seeing an influx of immigration from the Pacific Islands and Asia. This combination, coupled with the high operating costs of existing New Zealand retail and the uncompetitive pricing of lo-

cally made goods, meant that New Zealanders were looking for cheap alternative products; something The Warehouse willingly provided.

The Warehouse went through some difficulties more recently, with ill-fated forays into the Australian market, inventory and supply chain management failures, and changes in senior management. Most recently they have bought the Noel Leeming Group (a chain of appliance and technology stores) which, along with the Warehouse Stationery arm of the business, has meant The Warehouse Group has 92 stores throughout New Zealand, and posted a net profit of \$72 million on sales of \$2.2 billion for the year ending July 2013 (The Warehouse, 2014).

A strengthening competitor to the general merchandise dominance of The Warehouse is Briscoes. Briscoes Group, which has 90 stores trading as Briscoes (homeware), Rebel Sport (sports and leisure equipment and clothing) and Living & Giving (upmarket homeware), had sales revenue of \$483.5 million for the year to January 2014, with a net profit after tax of \$33.5 million (Briscoe Group Limited, 2014). While The Warehouse has largely followed a traditional every-day-low-price strategy, Briscoes has taken a rolling sale strategy where different categories are on sale each week. This has proven popular with shoppers who now take advantage of the sales, especially with seasonal items.

The department (and discount department) store model has been popular with traditional, middle New Zealand but is increasingly under pressure from international niche market entrants. Farmers reinvented itself a decade ago with a modern, fresh look and approach to inventory, and have so far proven successful in the battle for middle-New Zealand shoppers. The Warehouse, who lost some direction in the early part of this century, is also looking to reinvigorate their presence in the market. The biggest threat to the one-stop shop approach of the department store, however, is likely to be international online sales (see 2.3. The Rise of Online). A new entrant to this retail space has been the chain store \$2 shops (and variants on this theme) which have targeted the very low-end merchandise sector.

### **3.3 D.I.Y. (Home Improvement)**

New Zealanders have a reputation for do-it-yourself (D.I.Y.) when it comes to home improvement, though recent legislation around building codes has begun to erode the Kiwi ‘number-eight wire’ approach to doing things. While there are many building and home improvement supply stores around, the retail landscape is dominated in New Zealand by Mitre10 (who operate Mitre10, Mega Mitre10, and Hammer Hardware stores throughout New Zealand), and their smaller rivals Bunnings (owned by Bunnings Australia) and Placemakers (Fletcher Building Limited).

Mitre10 is a retail cooperative, Bunnings is a listed company and Placemakers is a joint venture franchise operation with each store operating as a partnership between a joint venture partner and Fletcher Distribution Limited; the retail arm of Fletcher Building Limited, one of New Zealand's largest building firms. Hardware, building, and garden supplies accounted for \$5.4 billion in retail sales in 2013. The introduction of the Bunnings chain earlier this century from Australia has shaken up the D.I.Y. market with aggressive marketing campaigns largely based on price competitiveness.

### **3.4 Fashion**

The overall profile of fashion retail in New Zealand is comprised largely of mainstay chains predominantly out of Australia (see 2.2 Internationalisation) although there are some strong local performers such as Farmers, Hallenstein Glassons Holdings, and Barkers. In recent years, a strong performer has been a catalogue retailer who moved online and has now moved into bricks and mortar—Ezibuy. They have also started to expand into fashion homewares. There is also a tiny but burgeoning designer culture (e.g. Trelise Cooper, Karen Walker, Denise L'estrang Corbet (World)) taking shape in the New Zealand fashion sector.

There is an overabundance of low-end fashion retail targeting younger consumers and, at the other end of the scale, specialist independent boutique fashion stores targeting the more affluent. What appears to be lacking is the mid/high-end brands targeting middle New Zealand which are very available internationally (e.g. Gap, Forever 21, Desigual, Zara). If these brands are present, they tend to be within a department store or alternatively a single store offering within New Zealand.

At the time of writing, Topshop is in the process of opening a flagship (and sole) store in Auckland's main shopping precinct. This has caused a considerable degree of excitement amongst its target market; illustrating the lack of choice of international brands within New Zealand.

There is little assortment or variety in the styles of clothing. New Zealanders, and Aucklanders in particular, are renowned for favouring black/dark clothing or jeans and t-shirts which the local retailers support through their offerings. Whilst a casual look is their preference, to most overseas visitors, New Zealanders do not appear to be very fashionable or fashion conscious. That said, many young New Zealanders are aspirational in their fashion choices but cannot afford the international labels (Shergill, Rosmala, & Parsons, 2010).



In recent years there has been a surge of online fashion purchasing from overseas websites, such as Boohoo and Asos, or direct from overseas stores. In New Zealand, there is quite a degree of uniformity, not only in the competition offered in different centres, but also in the style of store and the fashion offer (Parsons, 2011). This, coupled with the similarity of many centres themselves (including shopping centres), leads many shoppers to complain that ‘everything is the same’. The majority of clothing retailed in New Zealand is manufactured in South East Asia and China with some new entrants from Mexico, India and Bangladesh.

New Zealand does not have a significant presence of luxury brands—fashion or fashion accessories—in the marketplace. There are not the icons of other international cities—Burberry, Prada, YSL, Chanel, Pierre Cardin, Dunhill, Rolex, etc.; if they are present it is just the branded product in selected stores, not the store brands themselves.

### **3.5 Café Culture**

The café culture within New Zealand has taken some time to establish itself, but has gathered momentum quickly. Very much an urban phenomena it is now fully integrated into the local culture in cities throughout New Zealand. Unlike many countries, New Zealanders tend to shy away from international franchises and frequent their local independent café. There are certainly the international chains such as Starbucks, McCafé, Gloria Jeans and the Coffee Club, but the boutique blends/roasting companies—locally owned and operated—selling to the independent local cafes is the more typical approach. The way in which New Zealanders consume coffee is similarly a little different wherein preference for a ‘flat white’ as a smaller, stronger version of the better known ‘latte’ is the most common drink of choice.

To some extent what has happened is that New Zealand, long a “English-heritage tea-drinking nation’ has embraced but adapted the coffee culture to a locally supported creation that suits New Zealand tastes and social approaches. New Zealand is now 34<sup>th</sup> in the world for consumption of coffee per capita (ChartsBin, 2011).

## **4 The Next Generation**

Given the nature of New Zealand retail as described in the previous sections, what might the future hold? Through the development of New Zealand retail to the current stage, there have been some clear themes. First, retail has served a social purpose, from creating social gathering spaces to providing an identity connectedness. However, the retail spaces of today are based on replicating the old methods of gathering; the shopping centre or mall was construct-

ed around the notion of a nominal ‘town square’. Over the past two decades malls like those of Westfield (Scentre) have also introduced entertainment precincts (cinemas, food courts, restaurants, etc.) but these no longer capture the social needs of modern society. The digital overload of living in an omni-channel world 24/7 is likely to mean the New Zealand shopper of the future seeks escapism through service-based recreational retail.

There is also a saturation of ‘middle’ retail in New Zealand, and as very little of this is experiential there is likely to be a rationalisation of the retail footprint and potentially the long term death of middle retail. The escapist shopper will seek the experiential variety and choice that is currently lacking in the New Zealand space. As prolific international travellers, New Zealanders will continue to increasingly demand greater variety and opportunity for unique retail experiences. At the same time, the multiculturalism of Auckland will continue to expand to the rest of New Zealand, demanding a cultural connectedness in local retail offers.

The socially and environmentally aware New Zealander is also likely to increasingly demand retail that is sustainable and environmentally friendly. Locally made and locally sourced, particularly for food and commodities, coupled with the café culture mentality, foretells a ‘village’ style suburbanisation with boutique retail, especially at the high-end specialist store space. This would be combined with a predicted active targeting by global retailers operating online and ‘show-rooming’ in New Zealand with international brands. Department stores in New Zealand are already under such threat, with the key independents surviving more as collections of branded concessions rather than the true department store of the past.

These developments suggest a ‘glocal’ approach to retail in New Zealand, most likely accentuated by the increasing rich-poor divide prevalent not just in New Zealand, but most western societies. Shoppers may source specialty goods internationally, but shop luxury necessities (high quality food, for example) domestically. Many of these decisions will be driven by the growing health consciousness of consumers, who are also less price conscious and more quality conscious.

The isolation of New Zealand actually helps in this regard—shoppers embracing the green approach to retail, consumerism, and lifestyle are shielded somewhat from the economic necessities driving the maintenance of the status quo in much of the rest of the world. The infrastructure required, for example, to move to an electric transportation model is largely in place and, as the reliance on oil is fed almost entirely by overseas imports, the cost benefits to the New Zealand consumer are enormous; this would lead to increased buying power for an economy that is looking to break the cyclical economic models of the past two centuries.

Similarly a shopping environment that allows the typical New Zealander to focus on activities they prefer rather than squander resources on items and activities increasingly deemed unnecessary would be seen as beneficial to New Zealand society, rather than economically costly. On top of this, New Zealand has put in place a compulsory retirement savings scheme (KiwiSaver) which means that New Zealanders will have an additional lump sum payment available to them at the age of 65.

The retail face of New Zealand in the next few years is likely to undergo dramatic change—not because of a catastrophic economic downturn but because of a renaissance in shopper and societal thinking and desires. New Zealand has a growing population, a healthy and resilient economy, and a progressive governance regime. In Auckland, the engine-room of the New Zealand retail scene, developments are being encouraged that will help transform the retail and societal landscape from transport through to housing density through to regulatory changes—all of which will mean a retail space that is concentrated, innovative, sustainable, and very Kiwi.

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