Girding for Battle

Amazon's impending arrival in Australia is giving retailers shivers.

BY JAMES DUNN

Spare a thought for Australian retailers. Already struggling with weak consumer sentiment, stagnant wage growth and higher energy bills—their own and their customers'—now they must deal with Amazon. The U.S. online retail behemoth announced in April that it was coming to Australia and bringing its full set of offerings: Amazon Prime Now, Amazon MarketPlace and eventually Amazon Pantry and AmazonFresh. In July, it settled on its first distribution center, in Melbourne, and its local website may go live by the end of this month.

Amazon's impending arrival has sent shivers through the Australian marketplace. From their peak share prices last year, major retailers Myer, Harvey Norman and JB Hi-Fi are down 47%, 25% and 22%, respectively. The major shopping center landlords—Scentre Group and Vicinity Centres—are down 24% and 25%. That's not all Amazon's doing, but it shows the fear of how the e-commerce giant could change shoppers' behavior.

The Amazon effect has hit the valuations of several Australian fortunes *(see p. 76)*. Gerry Harvey, who owns 32% of Harvey Norman, is down $200 million, or 11.1%, since February, when *Forbes Asia* figured his net worth for our annual billionaires issue. The wealth of Frank Lowy, who owns 4.5% of Scentre Group, and John Gandel, whose Gandel Group owns half of Australia's biggest shopping mall, Melbourne's Chadstone, each crept up only $100 million, and only because of their other investments. For Chadstone, which just underwent a $519 million redevelopment, the specter of Amazon is especially scary.

Should they be worried? Amazon is likely to capture only 2% of retail sales within five years of entering Australia, according to a UBS report. But rival broker Macquarie says it could snare $11.3 billion, or 25% of online sales, by 2025 by taking business from department stores; home-appliance, sporting-goods and clothing retailers; and even food sellers. Amazon could also induce more Australians to shop online, where retailers' margins are thinner, force retailers to spend much more on their online presence—which may take years to deliver returns—and drive retail prices down significantly.

Retailers don't intend to let Amazon dictate terms without a fight. Both Vicinity Group and Scentre Group have culled their portfolios, trying to ensure that they own only centers with the best chances of success and that those centers are Amazon-proofed by boosting the number of tenants offering lifestyle, entertainment and dining options. The reasoning is that "experiential" retail can't be bought online. The supermalls, such as Chadstone and Scentre's Westfield Sydney, are also looking to bring in large international fast-fashion retailers—such as Uniqlo, Zara and H&M—whose business is less likely to go to Amazon.

The tweaked offerings, a focus on service and the quaint old notion of the "human touch," as well as robust options for customers to make purchases online and via their phones, just might help incumbent retailers stave off at least some of the disruption that Amazon will soon bring. F

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