Digital Media Research 2011

Australian and New Zealand Online Shopping Market Insights

An Executive Overview

FROST & SULLIVAN

Make sense of digital change

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In 2011, the online shopping market in Australia will reach $13.6 billion and will grow at 12.6% CAGR to $21.7 billion by 2015

Growth in the online shopping market is expected to grow at least twice as fast as the total retail market over the next four years.

In 2011 we expect online shopping expenditure in Australia to reach $13.6 billion, a growth of 13% from the $12 billion expenditure in 2010. This equates to 5.5% of total retail sales and per capita expenditure of $600, and reflects an 11.9% increase from $536 in 2010.

It is estimated that $6.0 billion will be spent by Australians on overseas websites this year. This equates to 44% of the total online purchases for 2011, an increase of 25% from 2010.

As more consumers look to shop online they are incentivised by:

- Lower prices
- Convenience of shopping at a time and place appropriate to them
- Access to a broader product range

This is leaving traditional bricks and mortar retailers struggling to compete with international retailers on price given the major structural issues around higher labour and rent costs.

As online retailing continues to grow, some retail sectors are more at risk than others. Retail sectors that are non-food are more vulnerable to offshore online retailing and these include clothing, footwear, gaming, books, magazines, recreational products, cosmetics etc.

Key drivers of this growth are:

- Global supply chains are now delivering cost effectively and quickly to consumers removing what was previously a major barrier to shopping online offshore
- The exponential uptake of mobile devices such as iPads and the role social media is increasingly playing in the purchasing decision. Consumers indicated in the survey that mobile devices made online shopping easier and importantly, increased the time available to spend browsing for goods to buy online
- The strength of the Australian dollar and the range of products available to Australian customers
- An increased consumer awareness of the benefits of buying online has also driven a rapid increase in overseas online shopping.

Interestingly, our report also highlighted that consumers across all demographics were shopping online both offshore and onshore.

This demographic shift is important as the next generation of customers increase their spending power will also cement continued growth in online shopping.

While price and range remain the key drivers for growth in overseas online shopping, very few respondents (<1%) cited that they shopped overseas to avoid GST.

Our survey findings indicate that the price differential between local and overseas retailers is far greater than the 10% rate of GST imposed locally.

The digital revolution will be remembered as one that transformed the fabric of conventional retail and customer behaviours at large

Maturity of the global online retail market

Online retail sales as a percentage of revenue for the US and UK are significantly higher than in Australia and NZ. This can be largely attributed to the significant maturity of the online retail market .

Online retail sales as a percentage of revenue

US	UK	AU	NZ
7.5%	9%	5.5%	5.1%

Retailers in these countries have a strong online Customer Value Proposition and have invested substantially in their technology and global supply chains. Major retailers in these countries, such as JC Penney, generate up to 8% of their revenue from online sales.

Many of the overseas retailers now offer an integrated multi-channel experience that allows customers to seamlessly shop across all channels anytime, anywhere, and on any device.

Such convergence is leading to multiple channels being used simultaneously. It is no longer one channel or the other.

Australia lags

The general lack of an online presence by the large retail chains in Australia over the last decade has been a significant factor for a relatively poor uptake of online shopping in this region to date.

The online channel continues to be relevant for both online and in-store shopping experiences.

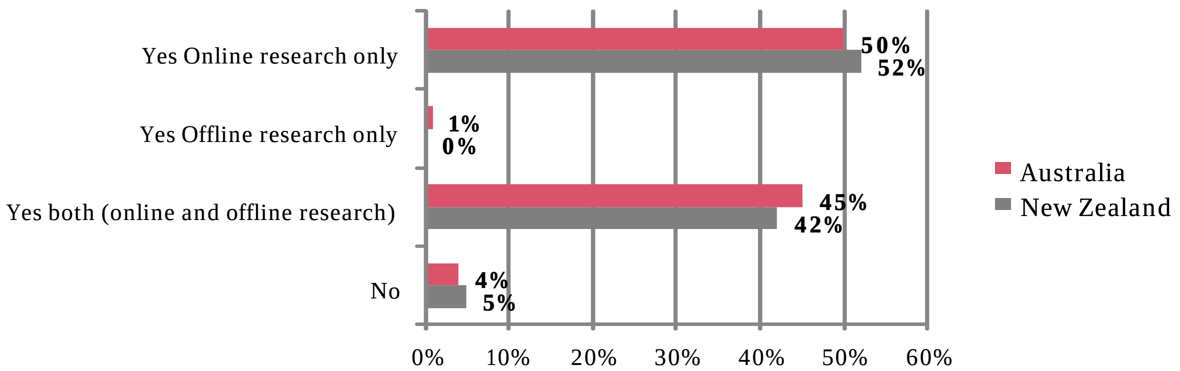
Australian consumers love doing their homework

95% of online shoppers search the web for product information, price comparisons and peer reviews before making a purchase online and over 65% of in-store purchases are initiated on the web.

These consumers are particularly influenced by research capabilities such as, social media, while increased mobility is having a greater impact on customer behaviours within both online and physical channels.

The shift in customer buying influencers highlights the importance of having an online offer that is integrated with the store experience.

Do you typically research the items you are interested in before you make an online purchasing decision?



The new way of shopping

Over the next 12 months, 86% of online shoppers surveyed indicated that they would increase or at least maintain their current level of online expenditure. The continual growth of this channel is structurally changing the ways consumers wish to shop.

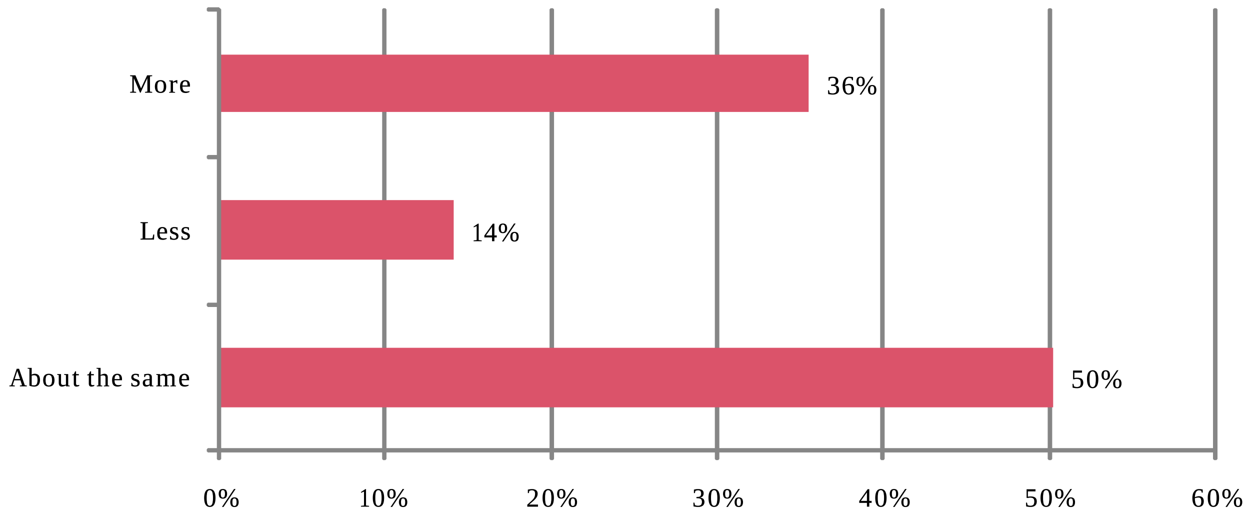
In Australia, more than one third of survey participants indicated they were using a smart phone or a tablet device to buy products online.

In our view, the tablet device has been one of the key drivers in the last 12 months of online retail sales and will continue to drive sales in the next 12 months as new products are introduced into the market. We are also starting to see the introduction of internet enabled televisions that will help drive in the future additional online demand.

The importance of channel integration becomes apparent when shoppers demand the ability to click and collect and transact in-store via mobile devices and kiosks.

Customer analytics and insights – leveraging location based services, demographics and purchase history – will play a key role in providing relevant personalised offers to influence customer buying decisions.

Intention to spend more/less on physical goods over next 12 months, compared to previous year- Australia



Source: Frost & Sullivan, Online Shopping Survey 2011

Engaging and retaining customers in the digital era requires a rethink of the role of the store in the overall integrated offer

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What is the role of the store with ever changing consumers and an increasingly digital world?

The store will always form part of the retail landscape especially given the Australian cultural obsession with the "shopping day out", however its role within an overall customer experience is rapidly changing.

Retailers need to ensure that stores provide an experience that attracts and drives customers into their stores.

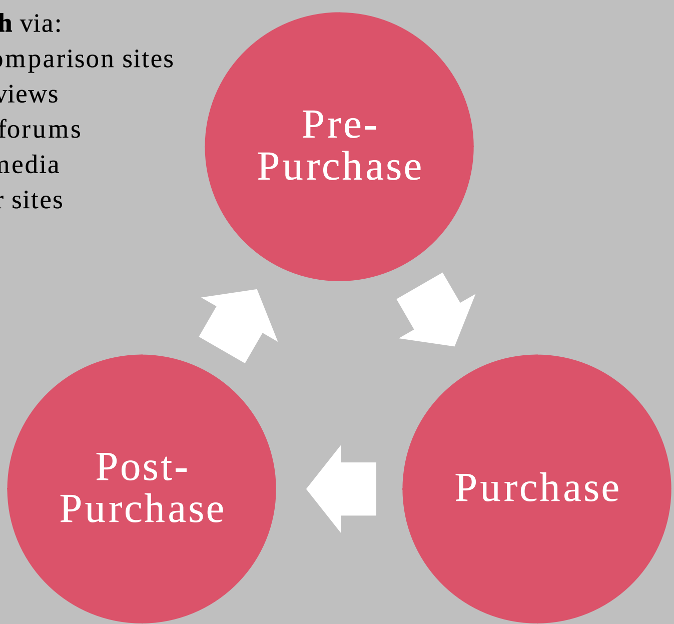
The role of the store has changed and now plays a very important role in focusing on brand engagement and customer value proposition, while at the same time being fully integrated and working seamlessly with all other channels to market.

For retailers, supporting new technologies and infrastructure will be critical to their success as customers will expect and demand the ability to transact with them at any time and anywhere.

Retailers need to consider how they leverage these technologies by integrating digital channels into the total purchase lifecycle.

Customer purchase lifecycle – The impact of digital channels

Research via:
- Price comparison sites
- Peer reviews
- Online forums
- Social media
- Retailer sites



Purchase via:
- Online channel
- Mobile commerce
- Social commerce
- In-store kiosks

Decision support via**:**
- Facebook and Skype
- Price comparisons

Engagement via:
- Personalised offers
- Click to Chat
- Feedback via Social media

PwC's digital offering is comprehensive, coupled with a pragmatic and strategic approach. We assist from strategy development, right through to execution, to make sense of digital change.

For a deeper conversation about making sense of digital change in Retail, contact Stuart Harker or John Riccio

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