

The rapid growth of online shopping is driving structural changes in the retail model





Executive overview

The retail landscape has attracted considerable attention since we brought you the Digital Media Research for 2011. The results of our research reveal that retail is at a critical juncture. Businesses looking to maintain a foothold within the industry need to act now to integrate and adopt a new model of retailing to leverage the significant projected growth within this sector.

We expect online shopping expenditure in Australia to reach \$16 billion, a growth of 17.6% from the \$13.6 billion expenditure in 2011. This equates to 6.3% of total retail sales, which is projected to reach \$253.8 billion for 2012.

Australian online shopping expenditure is predicted to be worth \$26.9 billion by 2016, with a Compound Annual Growth Rate (CAGR) of 14.1%. This growth is likely to be stimulated by a number of factors including:

- the entry of more online retailers
- an increasing number of manufacturers going direct to consumer
- product and service expansion by current online retailers and pure plays
- continual growth in consumers using mobile devices to browse and purchase products anywhere, any time and any device.

In 2012, 9.6 million Australians aged over 15 will make online shopping purchases. Over the next 12 months, 88% (86% in 2011) of online shoppers in Australia are expecting to maintain or increase their online expenditure, indicating that there is solid momentum in online shopping uptake.

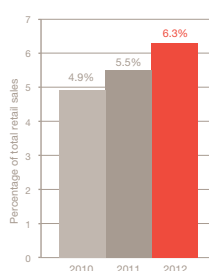
Retail categories predicted to display the strongest growth over the next five years are the:

- clothing
- footwear
- jewellery
- fashion accessories.

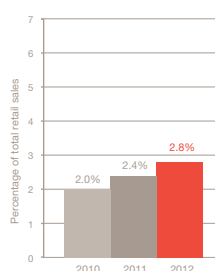
These are driven by the proliferation of specialist online stores and traditional bricks and mortar retailers improving their online offerings. Growing categories include Food/Groceries and Alcohol – indicating a change within the consumer online shopping habits, where common place tasks such as buying groceries are increasingly being transacted through digital channels.

Online expenditure as percentage of total retail sales – 2012

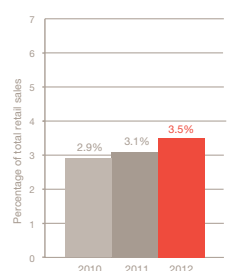
Total online sales



Sales from offshore websites



Sales from onshore websites



Key statistics

6.3%

Online expenditure as a percentage of retail sales (up from 5.5% in 2011)

\$16b

Expected online shopping expenditure in 2012

57%

Australian online shoppers have increased their level of spending over the last 12 months via mobile devices

88%

Online shoppers in Australia expected to increase or at least maintain their online spending

14.1%

Expected Compound Annual Growth Rate by 2016

55%

Online shoppers indicated lower prices as the reason they shop online (up from 50% in 2011)

\$26.9b

Predicted online shopping expenditure by 2016

59%

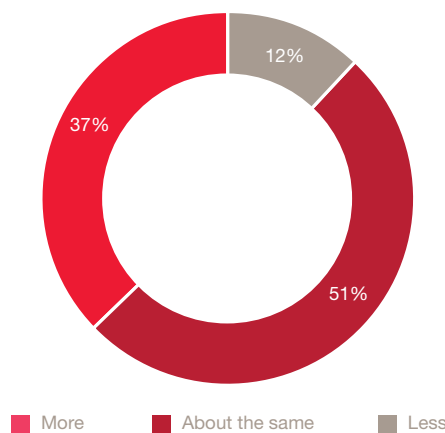
Online shoppers who purchased from offshore retailers indicated that lower prices were the main reason (up from 53% in 2011)

What is driving the growth of Online Shopping?

A number of factors are stimulating growth and usage of the online channel for retail purchases by consumers in Australia:

- consumers seeking greater value in their purchases
- greater variety/choice of goods
- widespread usage of mobile devices
- continued strength of the Australian and New Zealand dollars
- increasing level of sophistication and comfort amongst consumers across all age groups
- use of social media by both consumers and retailers to drive brand awareness
- proliferation of group buying sites.

Online spending outlook over next 12 months – 2012



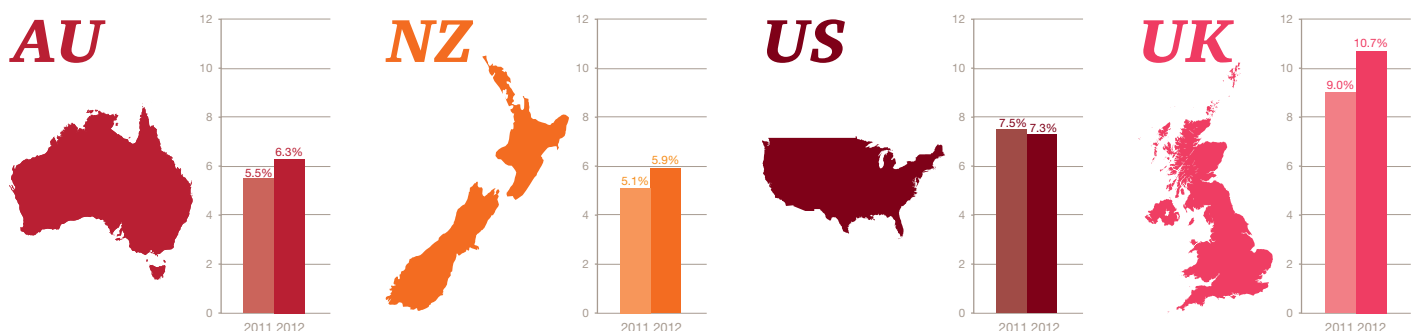
88%

Online shoppers in Australia expected to increase or at least maintain their online spending

Australians continue to shop online from offshore retailers

The Australian online shopping market continues to lag the USA and UK markets, although it is on a par with New Zealand.

Online spending outlook over next 12 months – Australia



Currently 75% of Australians who shop online make purchases from offshore sites, with around 45% of online expenditure going overseas. By far the main consumer reason for shopping through international sites is to obtain lower prices than available locally, followed by access to a greater variety of goods.

In the short term the growth rate of overseas expenditure is expected to continue, however in the long term this may drop as domestic retailers continue to strengthen their offer or there are material changes to the Australian currency.

Lower online prices is increasingly important to consumers

Lower prices are the key driver for shopping online, with 55% of Australian online shoppers indicating that lower prices than in physical stores is the most important reason why they shop online. The percentage was even higher for Australian consumers who purchased from offshore sites with 59% of respondents citing that lower prices was the key driver. This driver was consistent both genders and all demographic groups.

Also, improved search engine functionality, price comparison sites and a rising penetration of smartphones, which allow anytime, any location accessibility as well as barcode scanning,

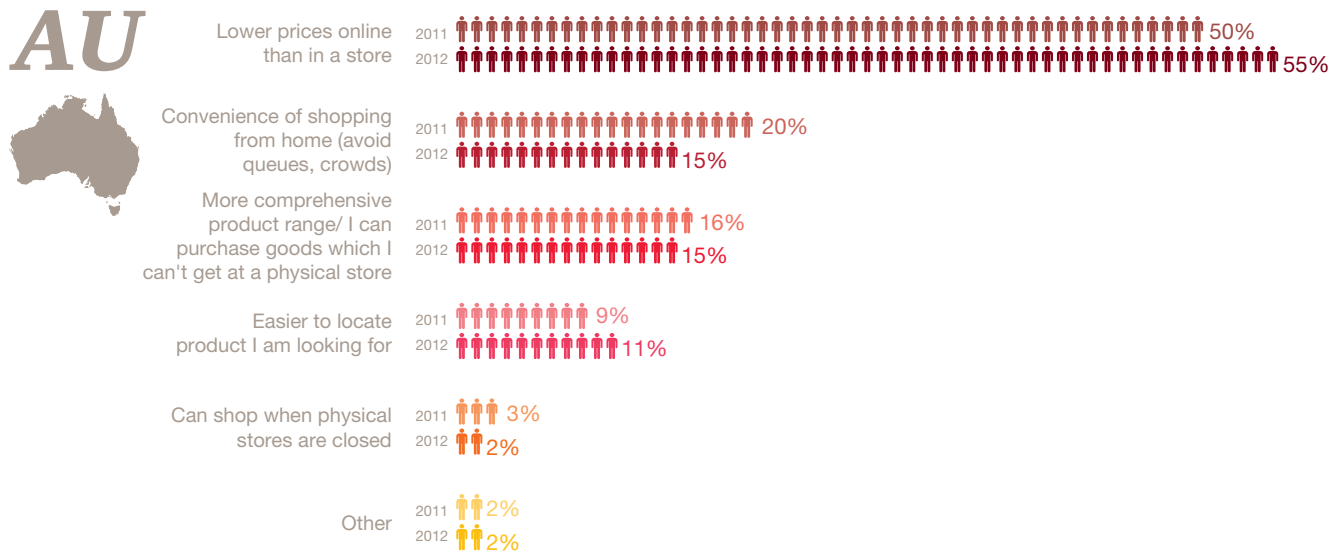
are all increasing pricing transparency and allow consumers to obtain easily the best value proposition in their market.

Consumers aged 15 to 25 identified this factor as their most important reason for shopping online. This not only has implications for retailers currently targeting this demographic, but is perhaps an indication of the changing habits of future consumers.

The 'price factor' in combination with the continued strength of the Australian dollar is driving growth in online shopping overseas, where economies of scale and other structural differences allow consumers to access a wider variety of goods at lower prices.

Over the past year, online shopping has received significant mainstream media attention, particularly with regard to substantially lower pricing from international retailers representing a threat to local multi channel retailers. This has undoubtedly raised consumer awareness about online shopping locally and overseas. Retailers are also now giving more prominence to online channels through various marketing efforts, which is also likely to be contributing to consumer awareness and uptake. This will continue to drive future growth in this channel.

Most important reason for shopping online



Mobile devices are a key enabler to growth in online shopping

The research also indicates that mobile devices usage is gradually shifting across a broader range of age groups, with the primary shopping activities being 'finding a nearby store' (50%) and comparing prices while shopping in store (36%).

Shopping on a tablet device is still in its infancy; however there has been a notable rate of uptake in 2012 compared to 2011. This will continue to grow over the next 12 months as a greater range of tablet devices come onto the market with lower prices.

62%

Australians aged between 15 and 65 who currently use the Internet, own a smartphone.

34%

Australians who have shopped online via a mobile device during the past 12 months.

57%

Australian online shoppers who have increased their level of spending over the last 12 months via mobile devices.

Online delivery service improves

Although delivery has represented a significant barrier for the uptake of online shopping, recent improvements in local delivery service is also instilling greater confidence amongst consumers. This has been driven by the major logistics providers investing in infrastructure and improving their online shopping delivery processes.

Australia Post has also taken significant progress in improving its processes, investing in infrastructure and has announced plans to rollout 30 superstores across the nation that will offer vending machines, parcel lockers and self-service terminals.

Advancements in technology, such as high resolution imagery, video content, detailed descriptions, product recommendations and reviews are also bridging the gap between shopping online and the in-store experience.

The future

With online retailing now a mainstream sales channel, new competitors entering the market, pure plays expanding their offer and consumers putting increasing pressure on local retailers to provide an increasing competitive multi channel offer to match offshore retailers, the traditional retail operating model is now at a critical junction.

Many of Australia's retailers have now commenced the online journey with new strategies and major investment in supporting technology, infrastructure and teams. However the consumer is continually changing, adopting new devices, and engaging with them is increasingly complex. Technology is also continuing to evolve at a rapid rate from both a consumer and retail perspective.

The only constant is the rate of change and the ever increasing level of change.

Retailers are going to have to adapt the current retail operating model if they are going to meet the demands and engage with consumers.

The raft of new competitors are bringing new value propositions, whether they are pure plays, manufacturers, or other global retailers entering the Australian market. Consumers have shown they are more than happy to embrace these new offers.

Australian retailers need to not only embrace and invest now in online shopping but they need to understand, plan and invest in developing a new retail operating model.

In the future we are likely to see a new retail model which we have labelled 'Consumer Adaptive Retailing', which may well supersede traditional approaches. This new model will evolve the marketplace to meet the needs of the increasingly sophisticated consumer and to accommodate the rapid development of technologies.

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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