



John Albertson

# On-line retail

What is the current status? Where is the tipping point?  
John Albertson, CEO of the New Zealand Retailers Association shares some statistics.

**W**e hear a lot these days about the importance of the on-line channel and the growth that is being achieved. We often hear comments such as:

- 'My kids buy all of their clothes from overseas websites – it's much cheaper';
- 'I know young people who go into shops, try on products and then go home and buy them on-line';
- 'Most people go on-line and do their research on the product they want and then go and buy it from whoever has the cheapest price';

or, from many retailers

- 'Shopping on-line only accounts for around five per cent of sales' – meaning that 95 per cent of sales are still being done through real bricks-and-mortar retailers.

Up to a point, all of these comments are true. There are many young people who do a lot of their shopping on-line. So, what is their impact on total retail spending – now, and in the future? Equally, the fact that just under 95 per cent of retail sales still go

through traditional channels could suggest that 'this internet thing is just a storm in a teacup'.

## Warning signs

Like any statistics we can, to some extent, put them to work to prove our pet theory. However, I believe there are a number of warning signs (and a number of very real opportunities) that we would be foolish to overlook.

Let's consider a few numbers and see what conclusions we might reach.

The hypothesis that I am trying to prove (or disprove) goes something like this:

if the on-line market is just a few people doing all or most of their shopping on-line then we have little to worry about in the short term. However, if we have many people doing just a little bit of their shopping on-line we might be facing an issue of real significance. When these people (or some, or most of them) decide that on-line shopping gives them a better outcome than bricks-and-mortar shopping, then we could see a sudden shift into the new channel.

The outcome of this is probably

one of the most critical issues facing retailers. Where is the tipping point? When could that five per cent suddenly become 10 per cent or 15 per cent, or even 20 per cent?

The most significant work undertaken in this area has been conducted by Nielsen. With their permission, I have borrowed a few

## 1. Statistics – PENETRATION

% Adult population making an on-line purchase in the last 12 months: 46%

### Comment

Nearly one out of every two adults over the age of 18 has made an on-line purchase in the last 12 months. This compares with 38% making at least one

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of their numbers to investigate my hypothesis. If any reader wants to dig deeper then further details are available from Nielsen.

So, how many New Zealanders are shopping on-line, where are they spending, and how much are they spending?

purchase in 2007 and only 10% in 2001.

## 2. Statistics – FREQUENCY

How many purchases do each of these people make in 12 months?

### Comment

Not only has the proportion of

Proportion Buying	2007	2010
One purchase	15%	10%
2-3 purchases	30%	28%
4-5 purchases	23%	24%
6-11 purchases	16%	22%
11+ purchases	16%	16%



the population using the on-line channel grown since 2007 (38% to 46%), there has also been a significant shift in the number of purchases each has made. At the top end (11+ purchases) the growth has been in line with the total market. It is the middle ground that has shifted the most.

In 2007, 45% made one – three purchases... this is now 28%. However, those making four – eleven purchases have now increased from 39% to 46%.

### 3. Statistics – VALUE

So, how has this reflected in the total value of transactions?

In 2010, the estimated dollar value of internet sales was \$2.335 billion. This was an increase of 12% on the year before. (Note: a secondary source estimated the 2010 market at \$2.68b and the same rate of growth +12%).

#### Comment

This is a significant market. While it includes a number of categories not usually included

in retail sales statistics (airline tickets and second-hand goods TradeMe) we ignore this channel at our peril.

### 4. Statistics – CATEGORIES

So, where is the on-line shopper playing? What are the most meaningful categories?

#### Comment

Over the last year there has been some significant growth

in participation. Of all people making an on-line purchase, half bought airline tickets on at least one occasion. This would probably not be a surprise, but ... would we have expected to find the participation rate for clothes/shoes/accessories to be right up there with books/magazines?

### Concluding comments

Nearly half the adult population over the age of 18 in New Zealand has made a purchase on-line in the course of the last 12 months and the frequency of purchase has risen significantly.

list of the Association – the GST-free status is nothing more than a tax subsidy for off-shore competition).

So, we have a market structure which could well reach a tipping point and expand rapidly. There are many participants making relatively few purchases, but they are starting to expand the categories they will purchase through this channel. Clothing/shoes/accessories, sports goods, music, consumer electronics, vehicle parts and accessories have all increased their participation rates by over 30 per cent in the last year.

“We can’t turn the clock back. We could be on the edge of a tipping point. We all need to consider our forward strategic direction.”

We have seen some really significant increases in participation rates by market sector, with more established markets moving in line with overall growth – and some others really racing ahead.

Further analysis looks at the loss to New Zealand from our shoppers going beyond our borders to make their purchases (this is another issue for another day, but it is high on the priority

We can’t turn the clock back. We could be on the edge of a tipping point. We all need to consider our forward strategic direction.

I have the feeling that there is a wave approaching the beach – are we riding it or are we going to be swamped by it? ■

□ **John Albertson** is the CEO of the New Zealand Retailers Association. He can be contacted on freephone: 0800 472 472.

Top 10 Categories	2010 % of On-Line Shoppers	% Change in Participants 2009 - 2010
Airline tickets	53	+11
Books/Magazines	33	+16
Clothing/Shoes/Accessories	32	+30
Entertainment	29	+11
Travel related services	26	+18
Music CD/DVD/Video/	17	+39
Health & Beauty	14	+22
Movies/DVD (not downloaded)	13	+15
Computer Hardware	12	-1
Sports Equipment	12	+35