

Underlying growth in online sales remains strong, but slowed again in October

The October 2013 BNZ Online Retail Sales index was up approximately 10% on October last year

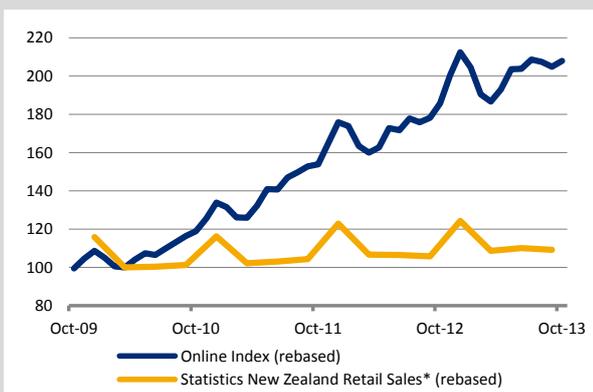
- Spending in October 2013 increased more slowly than the rolling 12 month growth rate. This was largely due to particularly strong spending in October 2012.
- Growth in online spending at offshore merchants is running around 10% higher than the growth rate for online purchases from domestic merchants.

Online spending continues to outpace traditional store-based retail spending

- Retail sales figures for the September quarter released by Statistics New Zealand (“SNZ”) last week showed that spending in categories we monitor (listed below) was up 3.3% over the 2012 September quarter. The BNZ Online Retail Sales Index was up by 15% over the same period (%Q/Q-4).
- In the year to September 2013, online retail spending across the categories we monitor was approximately \$2.7 billion (excl GST). This represents 6.1% of SNZ reported retail sales.
- Retail spending reported by SNZ at clothing, footwear and personal accessories stores was down 6.6% on the September quarter last year. Our measure of online sales at NZ sites, for the same categories and period, was up 5% on a year ago (mainly due to a strong July). Purchases at offshore sites were up more than 15%. This is a strong result for online purchases, and offsets a small part of the drop in ‘bricks and mortar’ sales for clothing, footwear and accessories in the September quarter. In Oct 2013 domestic online sales in these categories contracted, but again that’s largely due to a strong Oct 2012.

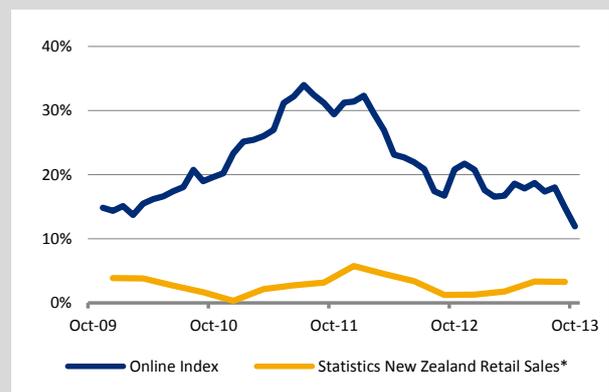
Online Index vs index of traditional retail sales*

1Q 2010 = 100^



Growth in online sales vs reported retail sales*

(3 month average compared to same period in prior year)



^The base online index value we often use is Jan 2010 = 100. However, in this chart we use figures adjusted so that the March 2010 quarter = 100, to facilitate a comparison with Statistics New Zealand figures, which are quarterly.

Official retail sales statistics are sourced from Statistics New Zealand

Growth Rates	Total Online Index			Domestic Online Purchases			International Online Purchases		
	Aug-13	Sep-13	Oct-13	Aug-13	Sep-13	Oct-13	Aug-13	Sep-13	Oct-13
Month ended >>>									
Growth versus same month in prior year	17%	9%	10%	11%	5%	7%	26%	16%	15%

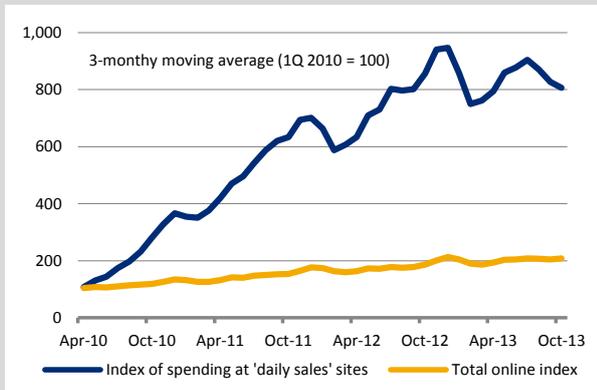
*Data notes: Online sales data is produced by Marketview. Traditional retail sales data is from Statistics New Zealand quarterly releases. For both data sets, the figures we use in this report correspond to Statistics New Zealand’s ANZSIC Division G (Retail Trade) excluding fuel, motor vehicles and parts, and marine. The annual value of official retail sales in the categories we monitor is approx. \$44 billion
 Categories included in the BNZ Online Retail Index = supermarket and grocery stores; specialised food and liquor; furniture, floor coverings, houseware and textile goods; electrical and electronic goods; hardware, building and garden supplies; recreational goods; clothing, footwear and personal accessories; department stores; pharmaceutical and other store-based retailing; non-store retailing; and retail commission-based buying and/or selling.

Focus Topic: Trends in online purchases from “daily sales” websites

- Retail sales at “daily sales” or “one day sales” websites, such as “GrabOne and 1-day, have exploded in recent years. Since the start of 2010 we have seen an 8-fold increase in the amount sold at these types of sites.
- However, the sector now appears to be maturing, with sales contracting in the last two months (RH chart).

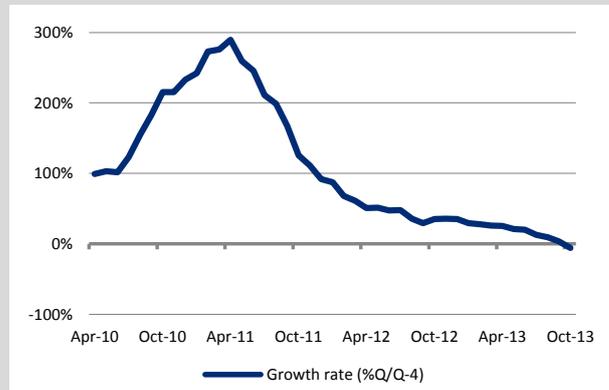
Relative growth: “Daily sales” sites vs Total online spending

1Q 2010 = 100^



Growth in spending at “daily sales” sites

(3 month average compared to same period in prior year)



To gain insights into this sector we spoke with Guy Howard-Willis from Torpedo 7 and Dave Meaney from 3.Zero Finance (Dave and Guy’s new start-up), who kindly made themselves available to discuss trends in the daily sales market. Torpedo 7 is a leading New Zealand online retailer and owner of one of the country’s top daily sales companies, 1-day. We present highlights from our conversation below.

Q&A with Guy Howard-Willis and Dave Meaney

The daily sales sector grew incredibly quickly over 2010-2011 but then the growth rate slowed down dramatically. What was the main factor behind this trend?

Over that period the voucher market was flooded. There were low barriers to entry and there was rapid expansion while a short window was open. There were a limited number of retailers available to source voucher deals from and many of them didn’t benefit from the repeat customer visits they were hoping to experience. The rapid growth in the voucher market simply wasn’t sustainable.

Sales in daily sales sector seem to be reaching a plateau. Where do firms go from here?

They basically have 3 options: consolidate, evolve or die. Some of the smaller start-ups that emerged when the voucher market took off have a common value proposition. They need to evolve and differentiate themselves from the likes of GrabOne.

How are daily sales companies in New Zealand evolving?

Diversification has been very important. In the case of 1-day, we no longer offer just 3 products – we now offer a catalogue of products. Over time we expect to see a trend in the market that extends out from generalist offerings and branches into more specialist ones.

Are there still pockets of growth out there?

Yes. Our biggest growth market is Australia.

Some more generalist online retailers now offer daily deals. Is this having much impact on 1-day?

No, nothing noticeable.

Consumers get bombarded with retail emails these days. How does a retailer maximise the chance that their email will be read?

The key is segmentation, understand what customers want and target them with specific offers.

What trends do you expect to see in the broader online shopping market in New Zealand?

We expect a shift to higher and higher priced items being bought online. Overseas we see that people have a lot more comfort with buying large appliances online. Even if the price isn’t sharp online, people are still attracted by the delivery and convenience.

We also expect websites where people go to browse online before purchasing to take off. We’re likely to see more content development at these sorts of sites.

It is well known that international online shopping, whether by New Zealanders or people in other countries, often incurs lower sales tax, such as GST. How big an influence do you think this has?

A big influence. It makes life harder when selling in your home jurisdiction, but can be an advantage when NZ firms are selling to consumers in other countries.

And finally, what is the key to success in the daily sales market?

Understanding what people want.

Thank you Guy and Dave.

NEXT MONTH

- Early release of *provisional* November figures (circa 12 December)
- New chart showing breakdown of purchases made by NZ'ers at international online merchants, by country of merchant (US, UK, EU, AUS, Other)

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