

17 October 2013

Introducing the new index....

- Online shopping is transforming the retail landscape and continues to grow at pace, but there is very little concrete information around the value and trends in this sector. To improve market information, we have worked with Marketview (specialists in managing and analysing transactional data) to develop the monthly BNZ Online Retail Sales Index.
- The Index, and related analysis, draws on data from millions of monthly card transactions, scaled up to represent the broader New Zealand economy.
- We include online purchases from New Zealand retailers, and online purchases made by New Zealanders at overseas sites.
- Our goal is to provide important insights into purchases made at both domestic and international merchants. Future reports will expand the analysis to cover other aspects such as age, demographic and retail category trends in more detail.
- Our initial focus is on retail goods, which can be benchmarked against Statistics New Zealand's Retail Trade Survey (RTS). The index includes purchases of groceries, liquor, clothing, footwear, hardware, electronic goods, homewares and recreational goods, among other store types (a full list is included on page 6). In time we may expand the scope of this report to cover analysis of wider ecommerce industry categories.

Annual value estimated at \$2.7 billion, with \$1.0 billion at overseas merchants

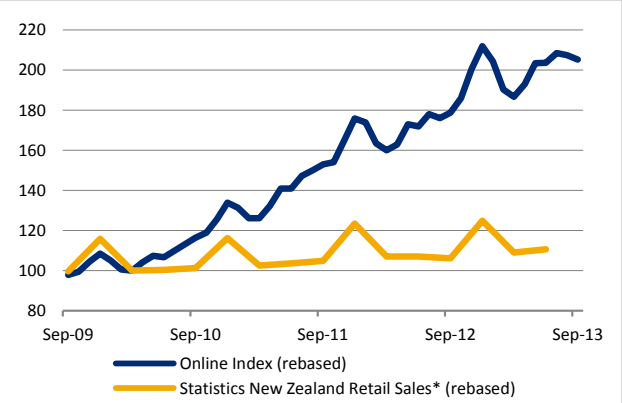
- For the 12 months to 30 September 2013, online retail sales across the categories we monitor* were estimated to be \$2.7 billion (excl GST).
- Close to 60% of online retail purchases were made at domestic retailers. However, purchases from offshore sites are growing at a faster rate. The growing market share of overseas retailers is illustrated in the second chart.

“Online spending is both an opportunity and threat for NZ retailers. This report fills a major knowledge gap in this rapidly changing market place.”

Stephen Bridle, Marketview

Online Index vs index of traditional retail sales*

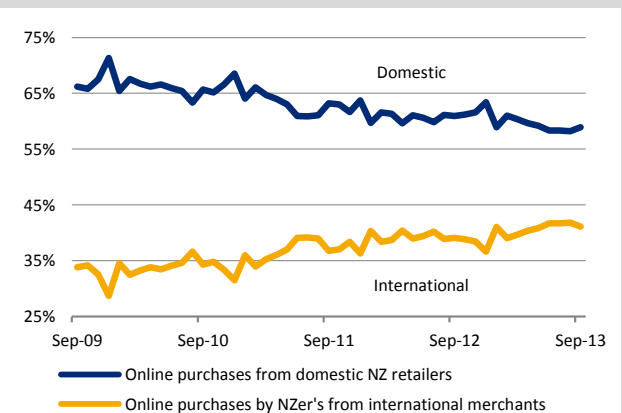
1Q 2010 = 100[^]



[^]The base online index value throughout the report is usually 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.

Share of NZ online retail sales by retail location

(Monthly)



Annual growth versus same period prior year

	12 months ended			3 months ended		
	Jul-13	Aug-13	Sep-13	Jul-13	Aug-13	Sep-13
Online Index	18%	18%	18%	17%	18%	15%
Domestic sales	16%	16%	15%	13%	13%	11%
International sales	22%	22%	21%	23%	24%	21%

*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.

September growth rate double digit, but slightly lower than recent months

- Online sales have more than doubled over the past four years and the September quarter showed further strong growth.
- For the three months ending September 2013 spending was up by 15% on the same time last year. In comparison, traditional retail sales have recorded much weaker growth rates, with the latest June quarter up by 3% on the same quarter last year.
- The latest quarter shows something of a slowdown, however, as the online growth rate had been running at around 17-19% p.a. (3 monthly average compared with the same period in the prior year).

Online sales equivalent to 6% of reported retail sales; 9.5% if we remove groceries and liquor

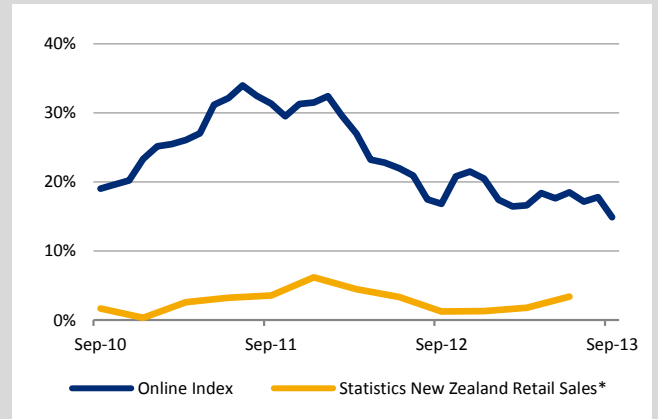
- Comparing with latest figures reported in Statistics New Zealand's RTS, online retail spending for the 12 months ended 30 June 2013 was equivalent to 6.0% of reported retail sales.
- The grocery and liquor sectors comprise approximately 45% of traditional retail sales in categories we monitor, but only about 12% of online sales.
- Excluding the grocery and liquor sectors from both the RTS and our Index, we estimate the remaining online spending equivalent to around 9.5% of traditional retail sales.

Following a similar growth trend to Australia

- Growth in New Zealand's online retail sales is tracking very similar to that of Australia's, as measured using the NAB Online Retail Sales Index. (The NAB index incorporates a very similar retail category set to that used in our Index.)
- For the 3 months ended August 2013, the NAB index was up 13% on the same period a year earlier. This compares with corresponding NZ figures of 18% for August and 15% for September.
- Australian online retail sales for the 12 months ended August 2013 were at a level equivalent to 6.3% of officially reported retail spending. For the 12 months ending June 2013, the Australian figure was 6.2%, compared to our estimate of 6.0% for New Zealand in the same period.

Growth in online sales vs reported retail sales*

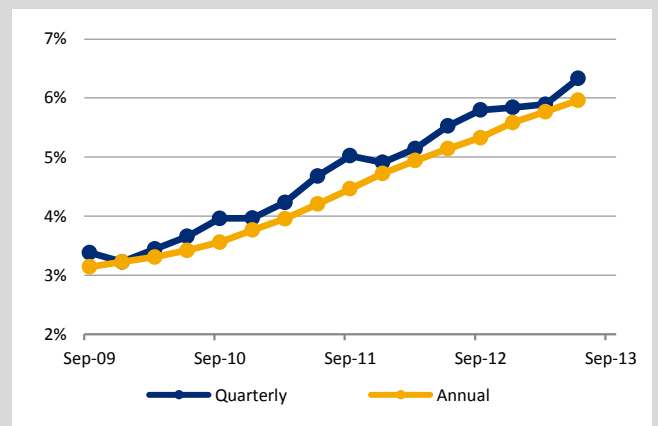
(3 month average compared to same period in prior year)



Official retail sales statistics are sourced from Statistics New Zealand

Online as a % of reported retail sales*

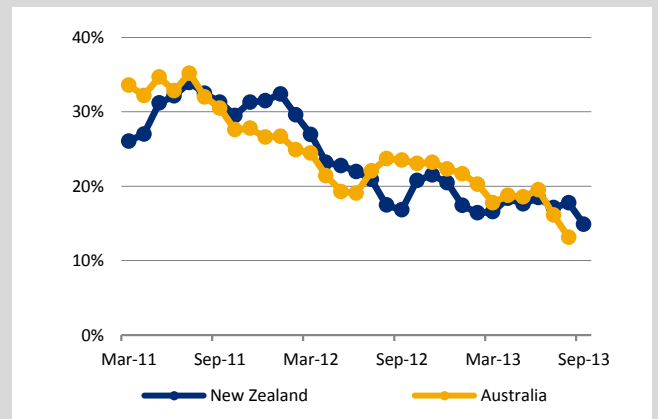
Online retail sales / Traditional retail sales



Official retail sales statistics are sourced from Statistics New Zealand

NZ vs Australia^ online growth rates

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



* Please refer earlier notes and the detailed notes on page 6 for a description of what store categories are included in the analysis.

^Australian figures are calculated using index figures supplied by National Australia Bank Limited.

Growth in international purchases continues to outpace domestic

- Although the growth rate gap converged in mid-2012, international purchases have grown at much faster rates than domestic purchases, particularly over 2011.
- Online purchases made by New Zealanders at international merchants are currently growing approximately 10% pa faster than online purchases at domestic merchants.
- After January this year we have seen the rate of growth in sales at domestic online merchants slow, whereas the rate of growth in purchases at international merchants has increased.

High NZD a likely contributor to stronger growth in online purchases from overseas merchants

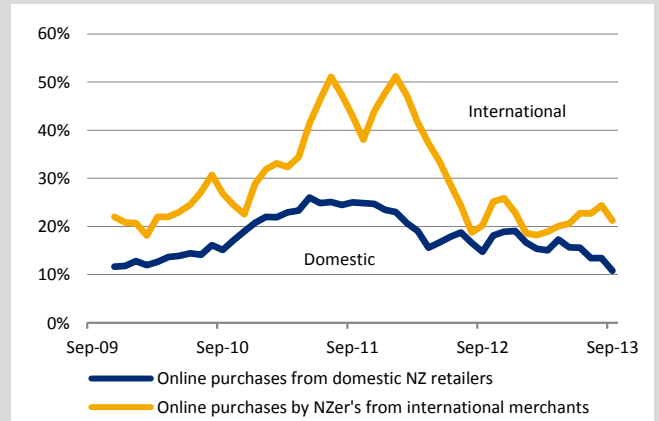
- The NZD has appreciated against the USD since mid-2010. The exchange rate of 0.81 at the end of September 2013 was 17% higher than the level of 0.69 prevailing at the end of June 2010.
- The strong NZD reduces the costs of overseas goods and is likely to have been a factor contributing to international retailers increasing their share of New Zealand online spending.
- We'd note that marketing tactics, such as free or low-cost shipping and no obligation returns, which are now offered by many international sites, are also likely to have been a factor in the increase in spending with international retailers.

International purchases tend to peak in November

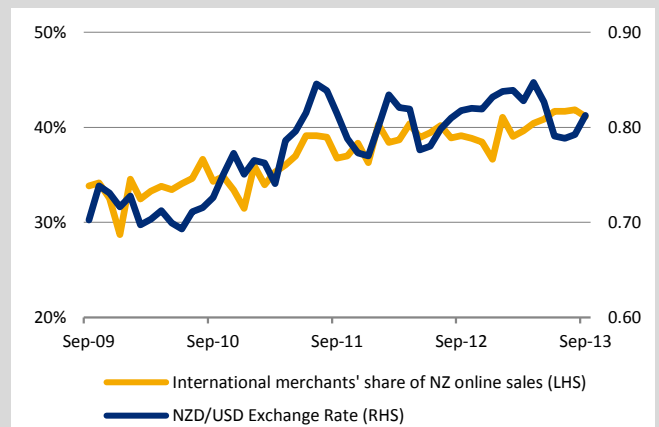
- The seasonal pattern for international online purchases tends to show a peak in November. This would be consistent with people placing overseas orders well in advance of Christmas to allow for international shipping times.
- Purchases online at domestic retailers tend to peak in December, although build up throughout November. Greater certainty around local delivery is likely to be a factor in the later seasonal peak for domestic purchases compared to international.

Growth in online sales by retail location

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



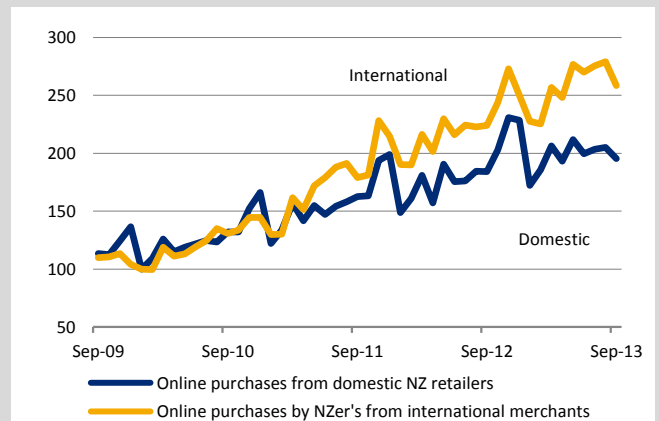
International share of online vs NZD/USD



NZD/USD values are as at month end and are sourced from the Reserve Bank of New Zealand. Figures for the international share of total NZ online spending are on a monthly basis.

Online Index by retail location (monthly)

January 2010 = 100



Composition of online sales significantly different from traditional

- The composition of New Zealanders’ online retail sales differs significantly from traditionally reported retail sales.
- In particular, the Groceries and Liquor category accounts for 12% of online sales but 45% of reported retail sales, across the categories we monitor.
- Please note that the Groceries and Liquor category includes “Other specialised food”, which is where Statistics New Zealand categorises many health food supplements (a popular online category).
- The report will evolve into more granular analysis over time.

Growth rates have varied across sectors, although most have now converged into the 10-20% pa range

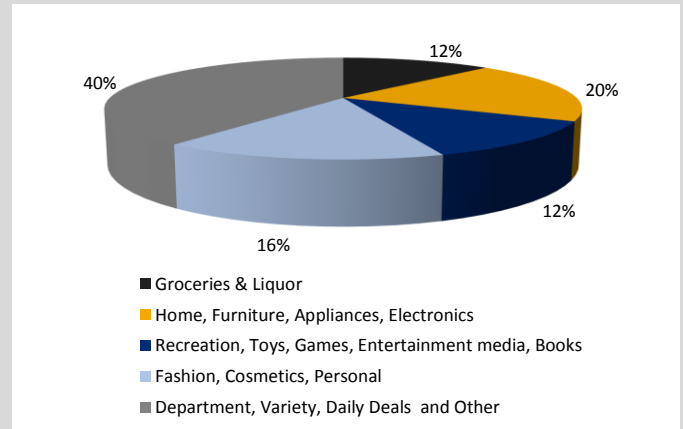
- The uptick in electronic sales (yellow line) in the second quarter of 2011 coincides with the release of a range of new flagship tablets. A similar lift in this category was seen in late 2012 when Apple released a suite of products.
- The recreation/books/media category (dark blue line) enjoyed exceptionally strong growth over 2011.

Metro regions have a higher per-capita online spend than the country average

- The bottom chart shows provisional analysis into online spending, looking at the region of the shopper.
- The regions dominated by New Zealand’s largest cities – Auckland, Wellington and Canterbury – demonstrate higher than average online retail spending per capita. (Their share of online spending is higher than their share of the population.)
- This may partly reflect different age compositions across regions, rather than a “metro” effect (e.g. amongst the age groups, 35-54 year olds have the highest level of online spending per capita). We will look into this in more detail in future reports.

Share of Online Spending by Sector

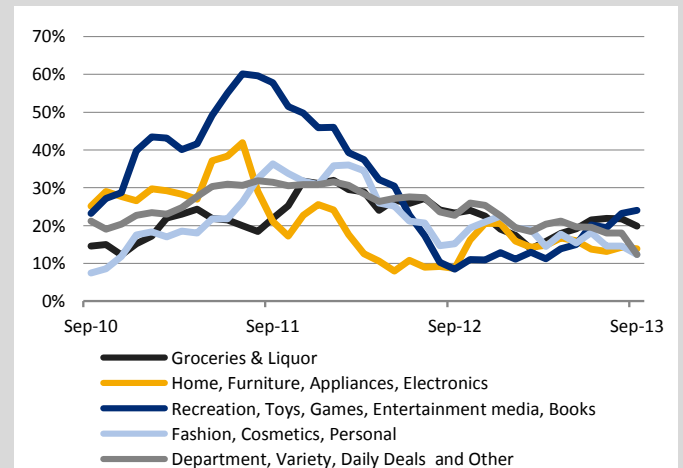
Composition of online spend for the 12 months to 30 Sep 2013



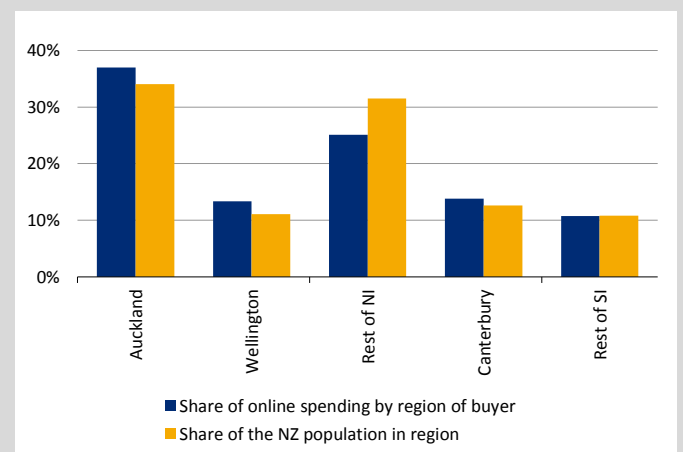
Note: “Other” includes unclassified stores and specialty stores that don’t neatly fit into defined ANZSIC categories. Unclassified Trade Me spending (estimated retail component) is included with Department Store spending.

Growth in online spending by sector

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



Share of annual online spending, by region



Share of spending is for the 12 months ended 30 September 2013. Population figures are derived from Statistics New Zealand data and are as at June 2012.

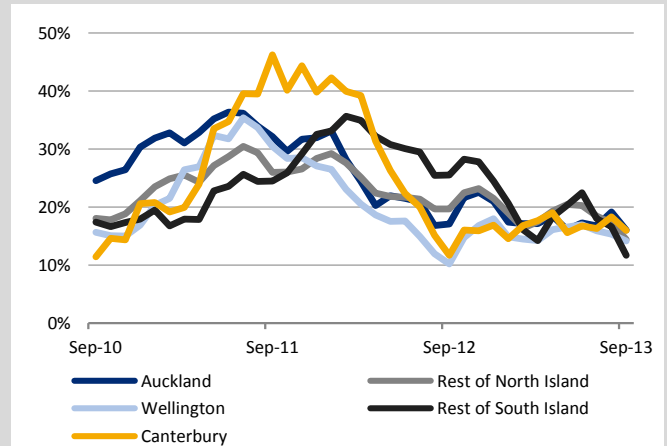
Quake effect?

- The broad regions of New Zealand shown in the adjacent chart have generally followed similar growth paths.
- A salient exception is the very strong increase in growth in online spending in the Canterbury region following the Christchurch earthquake in February 2011.
- In January 2011, online retail sales in the Canterbury region were around 20%* higher than a year earlier. By July 2011, Canterbury online retail sales were 40%* higher than a year earlier.
- While the rates of growth in other regions also rose after January 2011, none rose to the same extent as Canterbury.

* Growth rate measured as the 3 month moving average compared with the same period a year earlier.

Growth in online spending by region of shopper

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



Summary points

- **New monthly index to track New Zealand online retail sales.**
- **Measures online sales at NZ retailers and online purchases made by New Zealanders at overseas merchants.**
- **Close to 60% of New Zealand online retail sales are from domestic merchants, but offshore merchants have been gaining market share.**
- **Online retail sales, in the categories monitored, were equivalent to 6% of traditional sales over the 12 months to 30 June 2013.**
- **Similar online sales growth trend to that observed in Australia.**

“We’re a billion dollar export market for international online retailers. It’s worthy of attention, hence the increasing number of sites offering free or low-cost shipping and no-questions-asked returns.”

Stephen Bridle, Marketview

Technical Notes and Q&A

How often will you publish the Online Index?

We plan on publishing the index monthly in a 1 to 2 page note, with more detailed reports on a quarterly basis.

Will you be providing more detailed analysis in future issues?

Certainly. More detailed breakdowns by age and spend category will be added in a few months. We will sometimes take a closer look at topical items of interest, and also review feedback regarding data requests. We don't expect future reports will cover highly detailed market segment or market share analysis, but this can be supplied by Marketview on a bespoke basis.

What retail categories are covered by the report?

Our benchmark when assigning industry categories to retail stores is the Australian and New Zealand Standard Industrial Classification (ANZSIC) 2006. This classification system was developed by Statistics New Zealand and the Australian Bureau of Statistics and more details about it are available on their respective websites. We focus on stores in ANZSIC Division G ("Retail Trade") and exclude fuel, motor vehicles and vehicle parts. We also exclude marine equipment retailing (annual sales of just over \$300m, according to figures we commissioned from Statistics New Zealand), purely to facilitate like-for-like comparisons with Australian statistics.

All remaining Division G categories are included. These account for annual retail sales of approximately \$44 billion (excluding GST) and include the following categories: 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.

Please note that when Statistics New Zealand releases retail figures they include Division H figures in the release publication. Division H includes accommodation and food and beverage food services (e.g. restaurants, takeaways, pubs and taverns) and we don't include these in our online retail sales index.

What online sales are captured by the Online Index and what sales aren't?

Our primary source of information is card payments (credit and debit cards, including the use of online payment services like PayPal).

We also make estimates of Trade Me sales relevant to our retail category set that aren't picked up via card payments. In doing so, we seek to estimate only sales that would count as "retail" spending in official statistics (which would not include household-to-household sales of second hand goods, for example).

The Index includes goods purchased online from New Zealand retailers and goods purchased by New Zealanders from international online stores. Retail online sales are a subset of wider ecommerce spending.

We don't capture online sales using prepaid gift cards or payments made directly into merchants' bank accounts (other than those picked up through our Trade Me estimates).

Are all the online sales you measure included in the retail sales figures reported by Statistics New Zealand?

No, the official Statistics New Zealand figures do not include online purchases bought from overseas merchants, which amount to approximately \$1billion in the retail categories we monitor. That's why we say "online sales are *equivalent to* x% of reported traditional retail sales", rather than "online sales *are* x% of retail sales".

How good is the underlying data?

Marketview has an 11 year history of analysing and categorising New Zealand spending data and has built up a detailed knowledge of the data it deals with. Furthermore, Marketview and BNZ have conducted a range of sample testing and data reviews in producing the Index.

The BNZ Online Retail Sales Index is compiled from millions of non-cash transactions involving hundreds of thousands of people. However, nothing is ever perfect, and as with any indicator, improvements will be ongoing.

How does the BNZ Online Index compare with other studies of the NZ online retail market?

Other online retail studies that we have come across are survey-based snapshots (e.g. annually), often involving a range of detailed questions. Our Index uses actual (rather than surveyed) payment data, across a much bigger population base (hundreds of thousands of people), but with a more narrowly focused parameter set (e.g. it doesn't capture information about what sort of research a person does before they purchase online). We allow for regional and age skews in our data when scaling it up to a measure for the broad economy. Other studies may make similar types of adjustments. We also remove GST from domestic purchases to facilitate comparison with official retail statistics. GST treatment may vary across other studies. We generate a monthly time series, whereas major market surveys are often produced on an annual basis.

Overall, we believe that our Index and other sample surveys both have their place in informing the retail market. We believe one of the key strengths of our Index is that the very large "sample size" of actual online payments helps us produce a robust measure of aggregate online spending across the payment types we cover.

Please note that some online studies produced by other parties may cover "ecommerce" online spending, whereas our data set focuses on "retail". "Ecommerce" captures a much wider set of data (e.g. air tickets, accommodation, cinema tickets, contact lenses) and will result in a much higher figure for online spending. While Marketview has comprehensive data for the wider ecommerce sector and can produce bespoke reports in this area, wider ecommerce is not the focus of our Index.

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About Marketview

Marketview specialises in the management and analysis of depersonalised, debit (EFTPOS) and credit card transactional data. Marketview manages annual transaction volumes of 1 billion transactions and spending worth over \$40 billion. We have spending data across a broad range of industries, dating back to 2002. We cover spending at stores, and online transactions with both domestic and international E-tailers.

Working with our data partners, Marketview converts the raw transactions into high quality, precision market intelligence reports. Our services include Market Performance monitoring, Customer catchment definition and valuation, and Consumer purchase behaviour. Reports are available on a subscription basis or through one off projects, tailored to meet specific requirements.

The first Marketview services were launched in association with BNZ in September 2001. Today our reporting services are used by retailers - national chains and independents, central and local government agencies, as well as a range of professional services consultancies.



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