

BNZ Online Retail Sales Report



Quarterly in-depth update and sales for October 2014

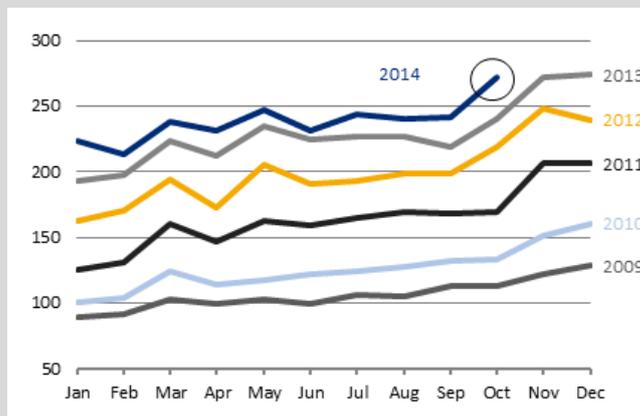
27 November 2014

Highlights

- New Zealand’s online retail sales in October showed more of the strength we’ve been seeing recently. Total online spending in October was up 13% on October last year.
- The stand-out performer this month was spending at overseas merchants. This was up 28% on October last year.
- A core driver of the strong international growth figure was a surge in purchases of electrical and electronic goods:
 - This category includes goods such as TVs and mobile phones.
 - Sales in this category by domestic merchants were also up very strongly on last October, but not to the same extent as international.
 - It’s possible that some spending on electronic goods that we previously saw in November has shifted forward to October this year. If that’s the case we could see the growth rate pull back in the November figures.
 - We note that last year Apple released new devices to the NZ market on 25 October and spending in this category peaked in November. This year Apple released new smartphones to NZ one month earlier, on 26 September.
 - Other factors could also be at play.
 - If we exclude this category, growth in international purchases is sub-20%.
- Total online purchases from domestic merchants grew far more slowly – they were up 4% on October last year. This is similar to the growth rates we are seeing from bricks & mortar stores.
- The “Groceries, Liquor and Specialised Food” category (which includes health foods and supplements) continues to show double-digit growth.
- The online sales split between domestic and international merchants was 57% / 43% in the month of October. Using 12-monthly totals, international merchants have made a 2.5% gain in market share over the past year.

NZ Online Retail Sales Index

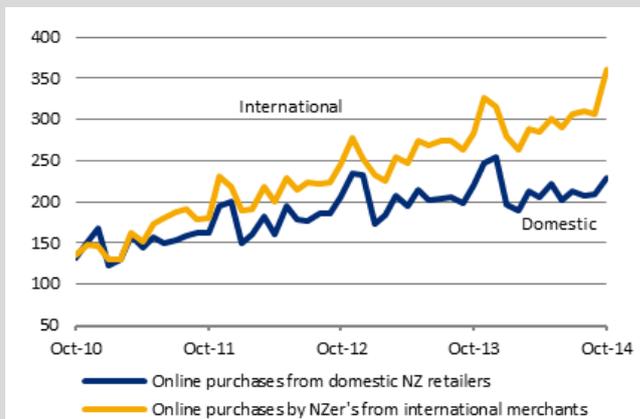
January 2010 = 100



Data source: BNZ/Marketview

NZ Online Retail Sales Index by retailer location

January 2010 = 100



Data source: BNZ/Marketview

Annual growth versus same period prior year

	3 Months ended			Month ended		
	Aug-14	Sep-14	Oct-14	Aug-14	Sep-14	Oct-14
Total Online Index	5%	8%	10%	6%	10%	13%
Domestic purchases	2%	4%	3%	1%	6%	4%
International purchases	11%	14%	19%	13%	17%	28%

Data source: BNZ/Marketview.

*General data notes: Online sales data is sourced from BNZ and 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. \$45 billion.

At a glance

Traditional vs Online (3 months ended September 2014)

Growth compared to same period a year ago



6.2% Annual online purchases total \$2.8bn, or 6.2% of the size of traditional* retailing

*Official retail sales reported by Statistics NZ for categories we cover, excl GST

Domestic vs international (3 months ended October 2014)

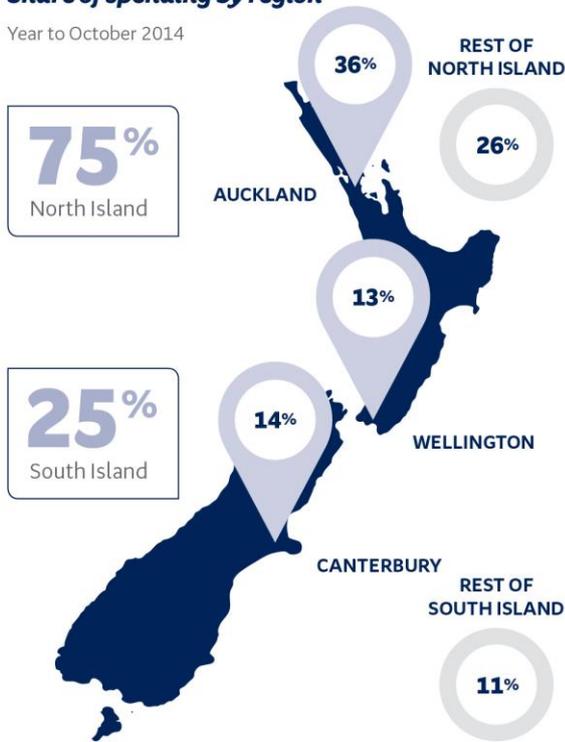
Growth compared to same period a year ago



58% Domestic online retailers accounted for around 58% of total online sales

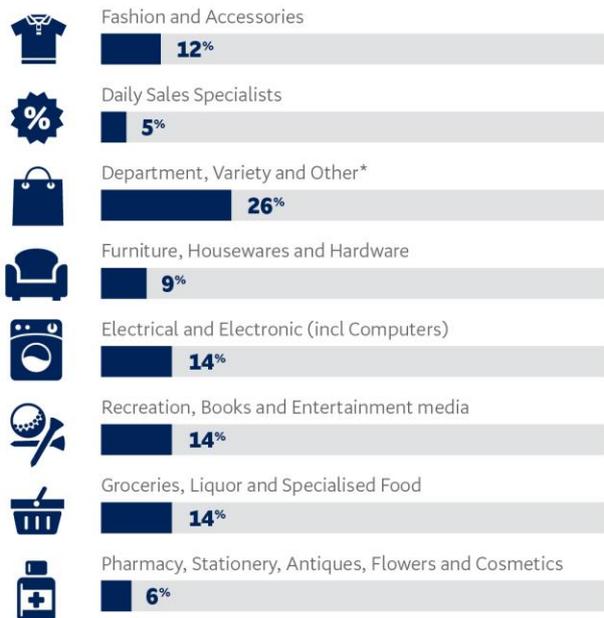
Share of spending by region

Year to October 2014



Share of total online spend by sector

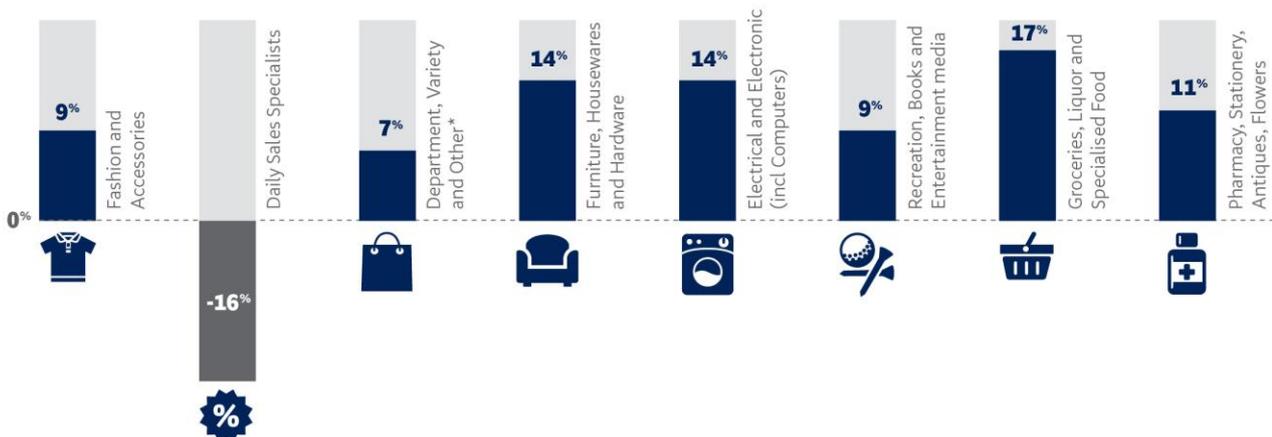
Year to October 2014 share of spend (%)



* "Other" includes unclassified stores and specialty stores that don't neatly fit into defined ANZSIC categories. Figures may not add to 100% due to rounding. Trade Me spending (estimated "retail" component, as per the retail categories we include in the online index) is included with Department Store spending.

Annual growth in online retail sales

Year to October 2014 (%)



Bricks and mortar sales nudge up. Online sales kick up.

- Across the categories we monitor, officially reported retail sales in the September quarter (which are mostly bricks and mortar stores) were up by 3.4% on the same quarter a year earlier.
- The growth in total online sales was more than double that. Online sales for the September 2014 quarter were nearly 8% higher than they were a year earlier.
- Interestingly, the growth in online purchases from domestic merchants was up 3.6% on the September quarter last year – almost the same as the growth rate experienced by bricks and mortar.

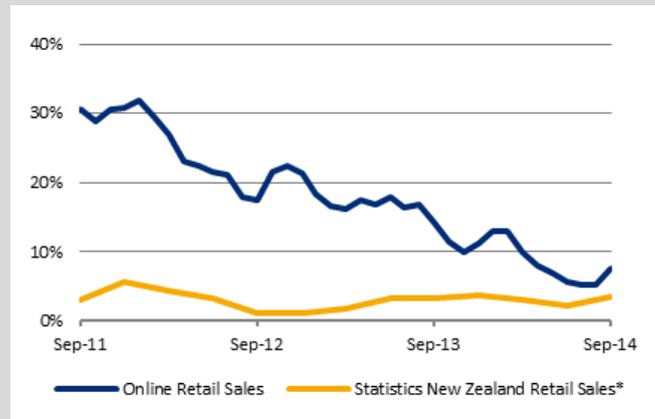
Online sales equivalent to 6.2% of reported retail sales; 9.5% if exclude groceries & liquor

- For the 12 months to 30 September 2014, online retail sales across the categories we monitor were approximately \$2.8 billion (excluding GST).
- Comparing with latest figures reported in Statistics New Zealand’s RTS, online retail spending for the 12 months ended 30 September 2014 was equivalent to 6.2% of reported retail sales. This ratio continues to slowly climb - for the September quarter, online sales were equivalent to 6.4% of reported retail sales.
- The Groceries and Liquor category accounts for 14% of online sales but 44% of reported retail sales, across the categories we monitor. If we exclude the grocery and liquor sectors from both the RTS and our Index, annual online spending is equivalent to around 9.5% of traditional retail sales.

Online growth rates also rising in Australia

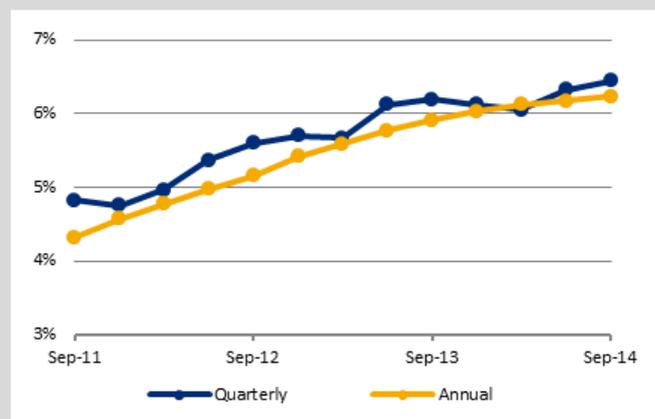
- For measuring online retail sales in Australia we use the NAB Online Retail Sales Index, which incorporates a very similar retail category set to that used in our Index.
- The annual rate of growth in online retail spending in Australia has been rising in recent months, following a drop to just below 10% pa earlier in the year.
- For the 3 months ended September 2014, Australian online retail spending was up 12% on the same period a year earlier. The equivalent annual growth rate in New Zealand was around 8%, but it has since lifted to 10% for the 3 months ended October.
- NAB’s report on Australian online retail sales in September showed particularly strong year-on-year growth in Homewares and Appliances (36%) and Electronic Games and Toys (35%).
- Australian online retail sales for the 12 months ended September 2014 were at a level equivalent to 6.7% of officially reported retail spending.

Growth in online retail sales vs reported retail sales*
Quarterly spending compared to same period in prior year



*Official retail sales statistics are sourced from Statistics New Zealand
Online data is from BNZ/Marketview.

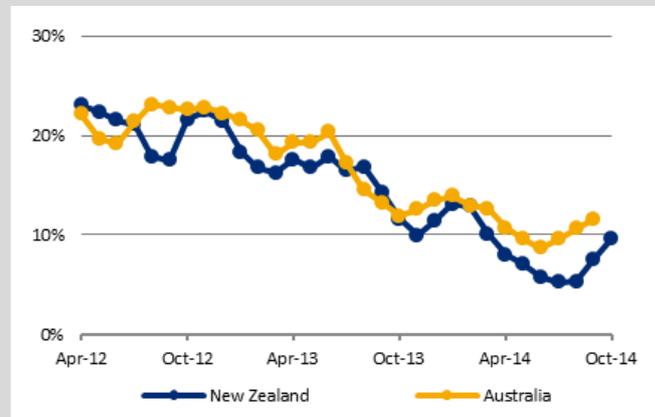
Online as a % of reported retail sales*
Online retail sales / Traditional retail sales



Official retail sales statistics are sourced from Statistics New Zealand
Online data is from BNZ/Marketview

NZ vs Australia* online growth rates

3 month average compared to same period in prior year



New Zealand data is sourced from BNZ/Marketview. Please refer earlier notes and the Technical Notes section later in this report 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.

Online purchases from *domestic* merchants are up 4% on October last year

- The 4% annual increase in domestic online purchases is slightly lower than the increase in electronic sales at physical stores in October. The value of Electronic Card Transactions reported by Statistics New Zealand for October is up 4.9% on October last year, for retail industries broadly comparable with those used in our online index (“core retail” industries excluding hospitality). While the two series are not a perfect match, it is interesting that their growth rates have been tracking similar levels for several months now.
- The annual growth rate for online purchases from local retailers has been running below 6% since Feb.

Online purchases from *international* merchants are up 28% on October last year

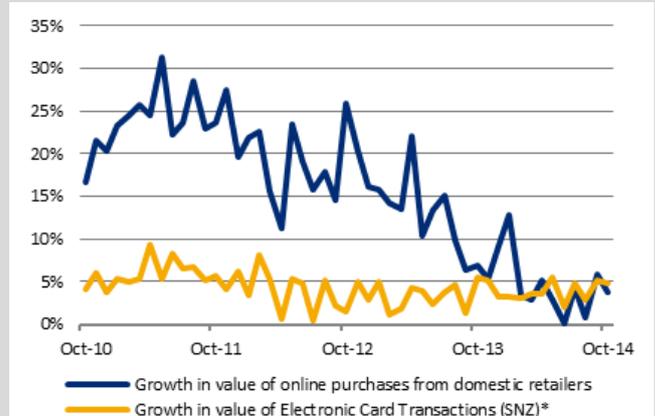
- Online purchases made by New Zealanders at international merchants surged in October.
- The NZD weakened in October, and was down 6% against both the US dollar and UK pound compared to October last year. This makes goods purchased from overseas merchants more expensive, which can lead to higher reported spending (at least initially) if people don’t adjust the quantity of what they buy. However, the large rise in international spending in October is far more than what might be attributed to exchange rate moves.
- Spending on “Electrical, Electronic and Gas Appliances” at overseas sites jumped significantly in October. This is ANZSIC category 4221, which includes mobile phones, TVs, etc. The rise in this category was responsible for just under half of the 28% rise in online spending at offshore merchants compared to October last year.
 - The strong rise may be partly due to a timing effect. For example, in 2013 Apple released new devices to the NZ market on 25 October and spending in this category peaked in November. This year Apple released new smartphones to NZ one month earlier, on 26 September. So it is possible that some spending has shifted forward from November to October this year, and we could see the growth rate pull back in November figures. Other factors may also be at play.

International merchants make further gains in market share

- International online retailers accounted for 43% of online retail sales in the month of October.
- Using 12-monthly totals, international merchants have made a 2.5% gain in market share over the past year.

Domestic Online vs SNZ Electronic Card Transactions*

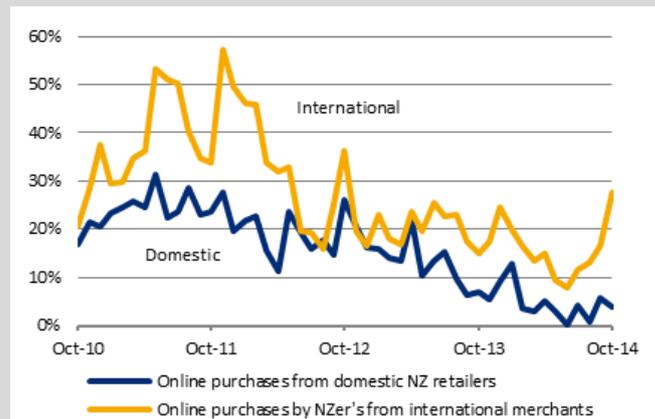
Monthly spending compared to the same month in prior year



*"SNZ" refers to official figures released by Statistics New Zealand. The SNZ ECT data used is for core retail excluding hospitality. Growth rate calculations performed by BNZ. Online sales data is from BNZ/Marketview.

Growth in online sales by retail location

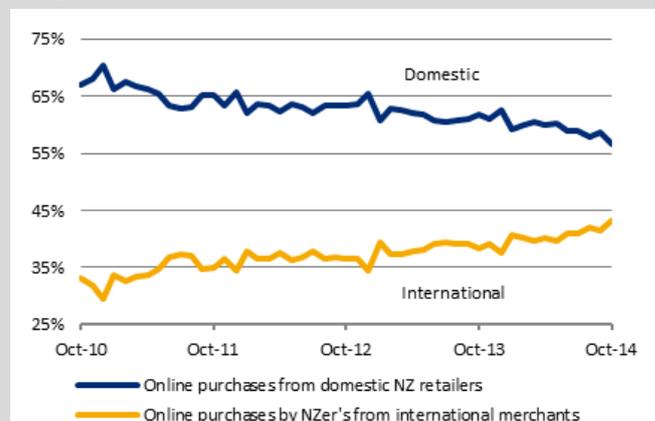
Monthly spending compared to the same month in prior year



Data source: BNZ/Marketview

Share of online sales by retail merchant location

Monthly shares



Data source: BNZ/Marketview

The composition of online sales is very similar to what it was 3 months ago

- The sector mix of annual online spending is similar to what it was in our previous in-depth report.
- Compared to a year ago, the biggest gains in annual online market share have been in: “Groceries & Liquor (including health food supplements)” and “Electrical & Electronic goods”. These broad category groups have increased their shares by just under 1% over the last 12 months.
- The “Daily Sales” specialist sector, now represents approximately 5½ % of annual online retail sales, down from a peak level of nearly 7% a year ago.

“Electrical and Electronic goods” surge.

- Comparing online sales in the 3 months ended October with the same period a year earlier:

Groceries and Liquor, etc	+17%
Furniture, Housewares, etc	+11%
Entertainment media, etc	+2%
Electrical and Electronic	+29%
- As per the discussion on the previous page, some of the surge in growth in Electrical and Electronic goods may be due to timing effects.
- “Groceries, Liquor and Specialised Food” (which includes health supplements) continues to demonstrate strong double-digit growth.

Most sectors are showing moderate to strong growth

- Comparing online sales in the 3 months ended October with the same period a year earlier:

Clothing, Footwear, etc	+10%
Pharmacy, Cosmetics, etc	+10%
Variety, Department, Other	+7%
Daily sales specialists	-16%
- The rate of decline in online sales at “daily sales” or “one day sales” websites has eased in recent months. As per previous reports, please note that this series only includes sales at specialist “daily sales” sites, and does not include spending at online retailers that offer “daily deals” as part of a wider retail offering.

Composition of online spending by sector

Composition of online spending for the 12 months to 31 October 2014

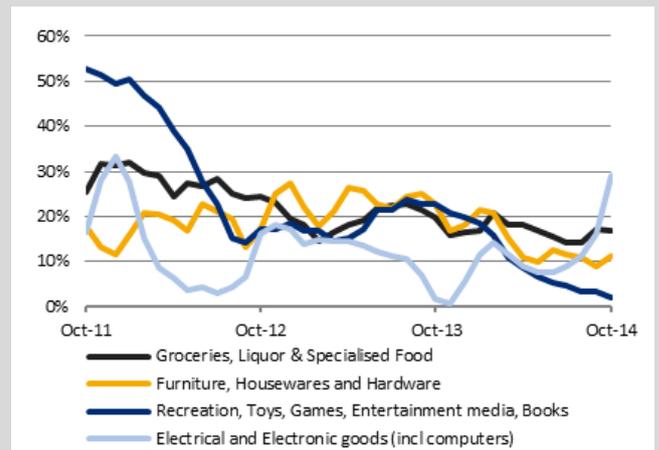
14%	Groceries & Liquor (incl health food and supplements)
9%	Furniture, Housewares and Hardware
14%	Electrical & Electronic goods (incl computers & appliances)
14%	Recreation, Toys, Games, Entertainment media, Books
12%	Clothing, Footwear and Accessories
5%	Daily Sales (at specialist sites)
26%	Variety, Department and Other*
6%	Pharmacy, Cosmetics, Stationery, Antiques, Flowers

Data source: BNZ/Marketview

*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. Figures may not add to 100% due to rounding.

Growth in online spending by sector (chart #1)

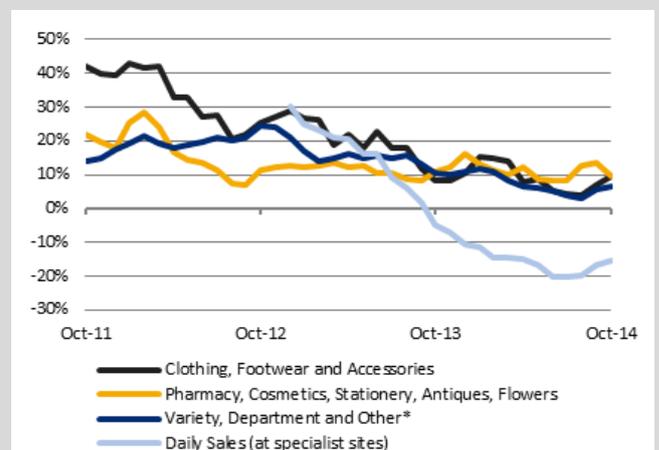
(3 month average compared to same period in prior year)



Data source: BNZ/Marketview

Growth in online spending by sector (chart #2)

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



Data source: BNZ/Marketview

Note: Growth rates in the daily sales sector were very high over 2010-2011 (e.g. over 200%), so we’ve only included that sector’s figures from early 2012 onwards, to help readability.

Technical Notes and Q&A

How often do you publish the Online Index?

We currently publish the index monthly in a 1 to 2 page note, with more detailed reports every 3 months.

Will you be providing more detailed analysis in future issues?

Additional breakdowns and analysis will be added over time. 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 \$45 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 \$1.2 billion in the retail categories we monitor. That's why we endeavour to 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 a 12 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?

Please refer to our report published in February 2014 for a detailed comparison of our Index and other NZ online sales measures.

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.

Reports can be downloaded here:

www.bnz.co.nz/onlineretailindex

www.marketview.co.nz/our-reports/

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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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