

BNZ Online Retail Sales Report



Monthly Update: February 2015 online retail sales

Special feature: Q&A with Mighty Ape

Growth in online retail spending strengthens slightly in February

- Total online retail spending was up 9% on February last year – a solid result, nearly back to double-digits.
- Several sub-categories are enjoying particularly strong growth. We highlight some of the major ones below.

Growth in online retail sales

Sub-category	Change: Feb 2015 vs Feb 2014
“Other” specialised food*	+38%
Entertainment (including downloads)	+23%
Electrical and electronic appliances	+27%
Computers and peripherals	+19%
Clothing	+17%

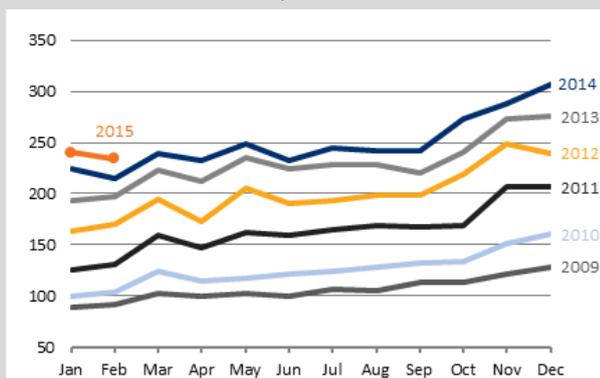
Note: The above categories are at a more granular level than the aggregated categories reported in our quarterly report.
* “Other specialised food” includes items such as confectionery, smallgoods, cakes, and health and sport supplements.

- Online purchases at domestic merchants in February were up 6% on the spending levels a year earlier, which is similar to the growth in spending at physical stores¹. Annual growth in online spending at local merchants seems to have settled into single digits, typically tracking between 4% and 8% pa.
- Spending at international sites was up 13% on the level we saw in February last year. The growth rate has eased in recent months, but remains double that of online sales at domestic retailers.

¹Using Statistics New Zealand data for February 2015 for the value of electronic card transactions (ECT) for “core retail” industries excluding hospitality. These transactions mostly relate to physical stores, but do include an element of domestic online spending. The series is a reasonable comparator with our index of domestic online spending in many respects, but isn't a perfect match.

Total Online Retail Sales Index

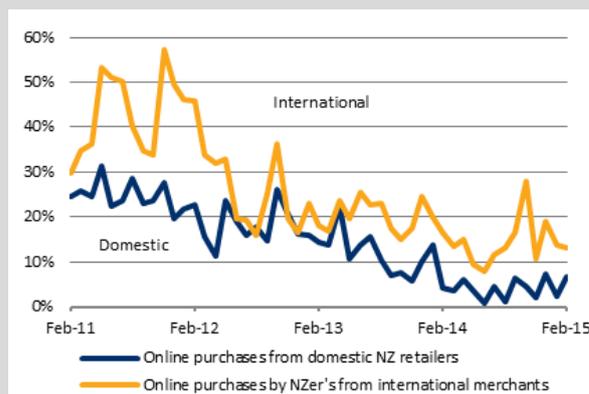
January 2010 = 100



Source: BNZ, Marketview

Growth in NZ online spending by retailer location

Monthly spending compared to same month in prior year



Source: BNZ, Marketview

Growth Rates	Total Online Index			Domestic Online Purchases			International Online Purchases		
	Dec-14	Jan-15	Feb-15	Dec-14	Jan-15	Feb-15	Dec-14	Jan-15	Feb-15
Month ended >>>									
Monthly spending vs Same month prior year	12%	7%	9%	7%	2%	6%	19%	14%	13%
3-monthly average vs Same period prior year	10%	8%	9%	5%	4%	5%	19%	14%	16%

*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 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 approximately \$44 billion.

Categories included in the BNZ Online Retail Index are: 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.

Special feature: Q&A with Mighty Ape

For this month's report we were fortunate to speak with Dylan Bland of Mighty Ape, one of New Zealand's local online success stories. Mighty Ape is a leading local e-tailer, selling computers and electronic games, books, movies, home and office products, toys, music and a range of other goods. Mighty Ape shared their thoughts on a wide range of online retailing issues and we present these below.

Many large international players have substantial resources and scale advantages. How does Mighty Ape successfully compete in this space?

We find that the majority of international e-commerce players have not focused on the New Zealand market and don't have distribution centres located in New Zealand. Local e-commerce retailers including Mighty Ape have an advantage in this area. Stock warehoused locally can be delivered overnight anywhere in New Zealand. High service levels and fast, reliable delivery is an area where all local companies can effectively compete.

What have been the main market developments impacting on your business over the past 1-2 years?

Mighty Ape was early to e-commerce and helped introduce many New Zealanders to the fun and convenience of online shopping. In the past 1-2 years we've seen New Zealanders become increasingly comfortable shopping online at various different online stores - and this increased comfort benefits the entire industry including Mighty Ape. We have also seen traditional bricks-and-mortar competitors respond to online shopping with mixed success. Some have competed head on and built websites of their own, while others have used their market power to lure customers in store with lower prices. Overall though, the market we operate in is quickly maturing and becoming more competitive.

What do you see as the key online retail trends for 2015?

Distribution networks will continue to improve with more products being made available to New Zealand consumers in a fast, reliable manner. Local retailers, both online and offline, will continue to put pressure on local suppliers and distributors to reduce the pricing arbitrage that exists in many categories. New Zealanders will continue to spend an increasing amount online and local players will work hard to keep as much of that spend within New Zealand as possible.

How does Mighty Ape use social media to engage new and existing customers?

Mighty Ape has always preferred to talk directly to customers rather than through a proxy like the media. For this reason we've invested early in Facebook, Instagram and Twitter - to ensure we are where our

customers are. We don't rely on the media or other 3rd parties to communicate important information about our business to our customers.

We've built our social audience by engaging with customers on topics that are relevant to their interests - and not strictly on a "selling" basis. For example, our Games Facebook page informs our customers about the latest gaming rumours, product announcements, competitions and giveaways - without the pressure of a hard sell. This daily interaction with our brand, in an environment that is comfortable, helps us to build an authentic relationship with our customers.

What are the critical success factors for retailers establishing an online presence?

Don't bite off more than you can chew. Online shoppers in 2015 have higher expectations than they did 5 years ago. If you build a website and showcase your products - customers will expect to be able to buy them and have them delivered in a reasonable timeframe. This means all your products need to be well photographed. It means you need to have accurate stock data. It means having a reliable distribution system that can pick, pack and ship your orders quickly. These systems take time and resource to build - and if you're successful - they'll have to scale.

If you're not ready for that - take a step back and use your website to solve easier problems. i.e. perhaps use your website as a showcase of what customers can expect to find in store. Showcase your store with beautiful photographs and entice customers to visit in person. Make your phone number and email address easily visible. Publish your opening hours. Whatever you do - do it well and build from there.

People get a lot of emails these days. How do you keep promotional emails effective?

Despite the growing number of digital channels available to online retailers email still remains the primary means to communicate and maintain relationships with customers. Ensuring email is relevant and interesting is more important than managing volume or frequency. Keeping email content relevant to their order history is key to maintaining effectiveness. This is challenging for online stores that offer a wide variety of products.

How essential is it for retailers with established physical stores to also have an online offering?

It depends - some products are more suited to selling online than others. Physical stores selling small, easily transportable products are more open to disruption than stores selling large, difficult to ship products. Price is also a factor. Customers have less comfort purchasing high value items they cannot see or touch. The important point for retailers is to understand their particular market and the options there customers have when making a purchasing decision. These insights are best achieved by being a shopper in that category yourself, and talking to your customers about their shopping habits.

Is there much room left in the market for new New Zealand online retailers to establish themselves?

It's difficult to get scale in the New Zealand market but there are still opportunities for niche players to use online to reach more customers both locally and internationally. There will always be room for new players offering different products at better price points and with a higher level of service. Technology costs are lowering and distribution networks are becoming more efficient and more accessible - which opens the door for more retailers to embrace online and do it well.

Does Mighty Ape have an eye to the Australian market?

Australia is an important market for Mighty Ape. We have a dedicated website in Australia and dispatch orders from here in New Zealand. Australia is a big market with lots of opportunities for online businesses like Mighty Ape to offer a compelling service from here in New Zealand.

What sort of developments do you expect in the areas of "click and collect" and e-tailers opening physical stores?

Online retailers who can offer a fast, efficient delivery service will have less need for "click and collect" than those who don't. Click and collect is more important for retailers who struggle with multiple stores or distribution points, and who can't make a consistent stock or delivery promise to customers. That being said - some customers will always prefer to pick up in person, whether it be to inspect a product, or perhaps their address is inaccessible by courier - so it's an area that will no doubt grow as the market matures.

With competitors only a click away, how do you drive customer engagement and loyalty?

Mighty Ape drives engagement and loyalty with a strong, repeatable delivery promise. Our website provides real-time stock statuses for each product, and estimated delivery times based on the customer's delivery address. We work very hard to ensure we meet those promises - and when we do - customers reward us with their loyalty and are more likely to purchase from us again in the future. Online can sometimes feel like the wild west - a lot can go wrong. Ensuring customers get what they want in the timeframe they were expecting to get it - you are most of the way there. This level of reliability and predictability is more valuable than any off-the-shelf loyalty programme or other incentive based programme.

Thank you Dylan for sharing some of Mighty Ape's experiences.

Reports can be downloaded here:

www.bnz.co.nz/onlinetailindex and www.marketview.co.nz/our-reports/

For technical notes, please refer to one of our “Quarterly update” reports.

For details on how our measure compares with other studies of online sales in New Zealand, please refer to the “Quarterly update” report we released in February 2014.

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