

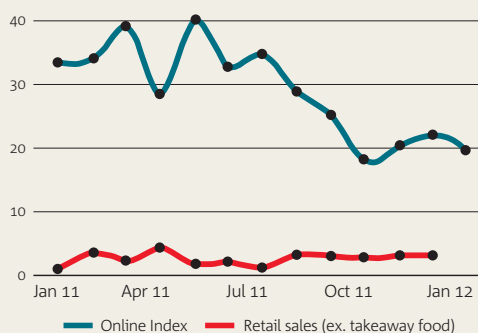


# NAB Online Retail Sales Index

## Indepth report: January 2010 – January 2012

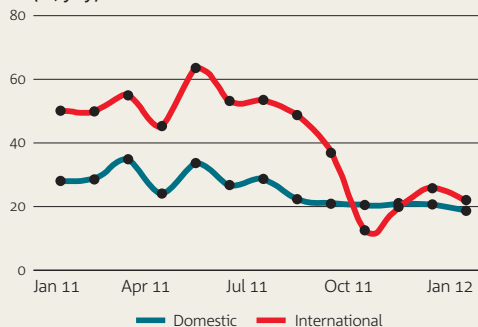
**Chart 1: Growth in online sales slows across H2 2011, but outpaces traditional**

**1 Growth in online sales vs. retail sales (% yoy)**



**Chart 2: Sales growth favours international retailers; domestic retailers hold the largest share**

**2 Growth in online sales by retail location (% yoy)**



**Table 1. Key online retail statistics**

	Index Points			yoy growth (%)		
	Nov 11	Dec 11	Jan 12	Nov 11	Dec 11	Jan 12
Online Index	190.5	184.8	158.9	20.1	21.9	19.4
Domestic sales	182.5	178.6	151.5	20.5	20.6	18.4
International sales	216.5	205.0	182.4	19.4	25.7	21.7

■ In a fast-changing environment, information is critical. To support retail industry participants we have created a unique tool in association with Quantum: the NAB Online Retail Sales Index. Based on up to 2 million non-cash transactions per day, scaled up to replicate the broad economy, the Index provides key insights into online spending in the retail goods space, capturing domestic and international trends, as well as regional and age demographic trends.

The data presents the scope of the online retail environment. At \$10.5 billion, online represented 4.9% of traditional retail spending in 2011 and is growing at a rate of 29% per annum (Chart 1), compared with traditional retail sales growth of 2.5%. Although domestic retailers hold three-quarters of online market share, sales growth favours international retailers; for the full year, international sales grew by 40%, while domestic sales increased by 25% (Chart 2). We hope that the detailed analysis the NAB Online Retail Sales Index offers, assists you as you face the challenges and opportunities that lie ahead.

– Alan Oster, Group Chief Economist, NAB

■ A structural change is currently underway in the retail industry as a result of changing consumer preferences and consumer spending. The pace of that change has intensified in the current economic environment, so it is critical for businesses to have access to good quality, timely information to support their decision making. The NAB Online Retail Sales Index can play a critical role in providing this information.

The accessibility, convenience and plethora of choice online gives consumers the opportunity to purchase what they want with relative ease. However, it is important to keep online retail growth in context: online retail sales account for just 4.9% of overall retail spend. The NAB Online Retail Sales Index demonstrates that online does have a role to play in Australia; the decision retailers face is whether to introduce online as a compliment to their existing business model or continue to reinvigorate their physical store presence in the quest to generate sales.

– David Thorn, Managing Director, Head of Consumer Sectors, NAB Institutional Banking

### Online Retail Sales **at a glance:**

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NAB's Index recorded a 29% growth in online retail sales in 2011. International sales rose 40% – although they slowed later in the year – and domestic sales lifted 25%. The Index values online purchases by Australians at \$10.5 billion in 2011 or 4.9% of traditional retail spending (ex. takeaway food). Domestic online retailers account for three quarters of total sales.

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**In 2011 there was a notable slowdown in the growth of online spending across the second half of the year, with the year-on-year growth rate pulling back to around 20% by year end (Chart 1). In contrast, the growth rate for traditional retail sales has remained more stable, but averaged around 2.5%.**

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Despite the perception that online sales are dominated by international websites, the share of domestic sales far exceeds that of international sales (Chart 5). In 2011, domestic online retailers accounted for around 73% of total sales. Year-on-year growth rates of domestic sales trended lower than their international competitors across 2011; however this was partly due to a surge in international sales in late 2010. Growth rates converged across the second half of 2011.

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**The largest share of sales is 'Online Auctions, Department Stores, Fashion, Cosmetics, Variety Stores', accounting for around 47% of the total spend. In traditional retail, the largest share is food retailing, where the penetration of online retail has been comparatively weak – reflecting the importance of fresh and perishable items within this category.**

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The bulk of online spending is concentrated among those aged in their 40s, 30s and under 30s – with each of these age groups accounting for around 23% of the total. However, in per capita terms, people aged in their 30s and 40s dominate online purchases – with under 30s below average – likely reflecting the relatively weaker purchasing power of this age group. However, under 30s have recorded the strongest rates of growth in the past two years.

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**NSW has the largest share of online retail spending (at 34%), followed by VIC and QLD. However, on a per capita basis, the ACT and the NT clearly outperform the rest of the country. In growth terms, WA recorded the strongest growth over the past year.**

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The majority of online purchases in 2011 were by metropolitan residents – accounting for 72% of the total over this period. However, on a per capita basis this distinction largely reduces – with regional residents only slightly below average. This trend diverges for WA, where regional residents have a larger per capita spend than their metropolitan peers. Over the last year, growth in regional spending has outstripped that of metro spending, with the share of regional spending slowly increasing since the start of 2010.

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**The NAB Online Retail Sales Index has a significantly different seasonal pattern to normal retailing, with peak purchases in November and a sharp slowing into December/January. However, 12-month-to growth rates (which should better account for online seasonality) suggest that January online purchases were seasonally weak – with the growth rate slowing to 19.4%.**

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## Online sales exhibit stronger growth and less seasonality than traditional retail

The NAB Online Retail Sales Index declined relatively sharply in January 2012 – pulling down to 159 points. However, this decrease was in line with observed seasonal trends.

Much like traditional retail sales, online retailing is very seasonal – albeit this trend is not nearly as significant as it is for ‘bricks and mortar’ retailers (Chart 3). The lead-up to Christmas is the peak period for both traditional and online retail; however November tends to record stronger spending levels in our online series – reflecting the additional time required to allow for the shipment of purchased goods.

In 2011, Australia’s total online retail spend was around \$10.5 billion. In contrast, traditional retail sales in Australia (excluding cafés, restaurants and takeaway food to create a like-for-like comparison) were almost \$216 billion over the same period. Consequently, online retail spending is approximately 4.9% the size of traditional retail spending

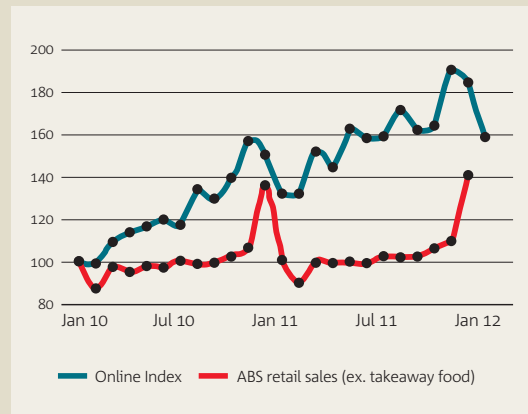
## Growth in online sales slows across H2 2011, but outpaces traditional retail

In dollar terms, online spending grew by around 29% in 2011. However there was a notable slowing in the rate of growth across the second half of 2011, with the year-on-year growth rate dipping sharply, before stabilising at around 20% by the end of the year (Chart 4). The year-on-year growth rate for January 2012 was 19.4%.

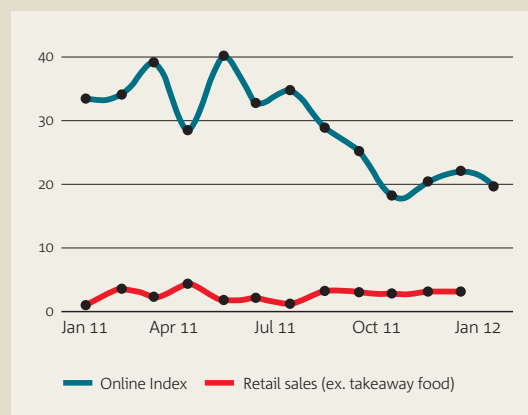
In contrast, the growth rate for non-takeaway retail sales has remained more stable – averaging around 2.5% year-on-year over 2011.

Contrary to the perception that online sales are dominated by international retailers, the share of domestic sales considerably exceeds international sales and has done so since the Index commenced. In 2011, domestic online retailers accounted for around 73% of total sales, with this level remaining relatively stable across the year (Chart 5).

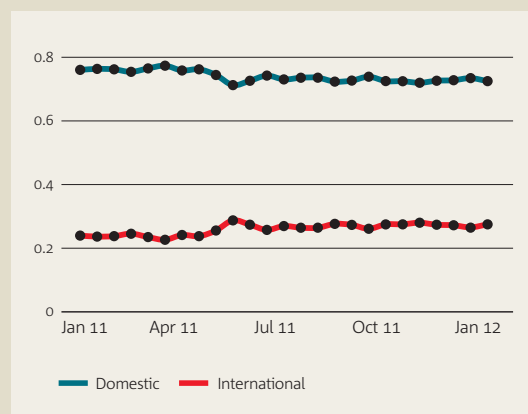
**Chart 3: Online Index vs. retail sales**  
(nsa, monthly)



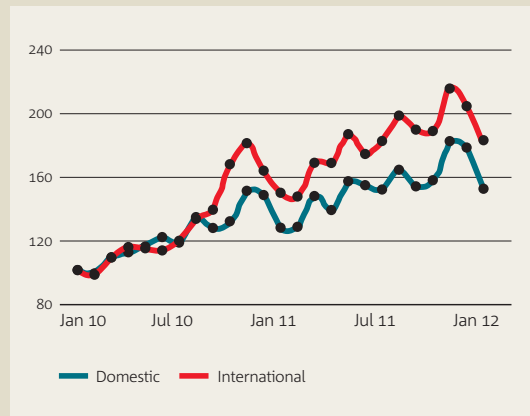
**Chart 4: Growth in online sales vs. retail sales**  
(%, yoy)



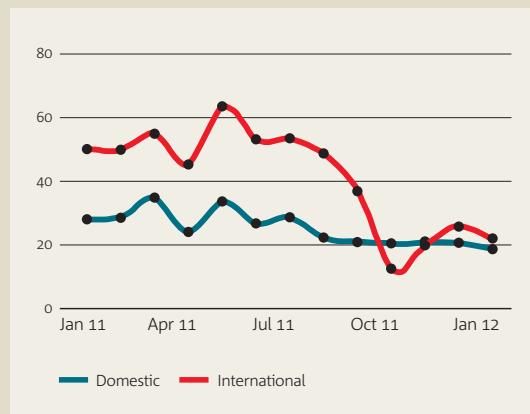
**Chart 5: Share of online sales by retail location**  
(nsa, monthly)



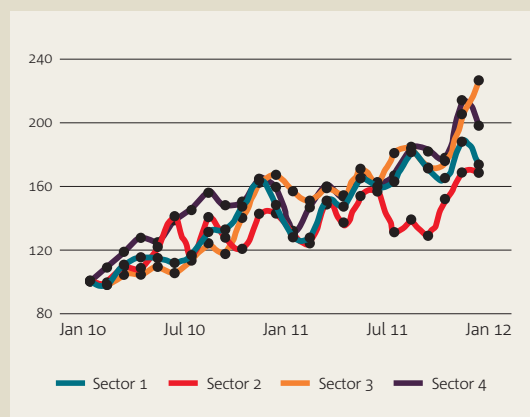
**Chart 6: Online Index by retail location**  
(nsa, monthly)



**Chart 7: Growth in online sales by retail location**  
(%, yoy)



**Chart 8: Online Index by category**  
(nsa, monthly)



## International sales surged in October 2010 – diverging away from domestic

For the first half of 2010, sales for domestic and international online retailers followed a similar trend.

A notable divergence between the two series commenced in late 2010, with international sales surging around October – compared with relatively muted growth in domestic sales (Chart 6). Around this time, the Australian dollar moved towards parity with the US dollar, while media focus on the online retail sector intensified. The share of international sales peaked at this time at around 29%.

Month-on-month growth trends for both series have been broadly similar since this time – slightly favouring domestic online retailers, leading to the slight pull-back in the international share of sales.

## Sales growth favoured international retailers due to the October surge, but rates are converging

The year-on-year growth rate for domestic sales has typically trended lower than their international competitors. For the full year, international sales grew by 40%, while domestic sales increased by 25% (Chart 7).

That said, the scale of the difference between these growth rates in the first half of 2011 was largely due to the surge in international sales in late 2010 – noted above. With similar monthly growth trends since the October surge, year-on-year growth rates have slowly converged.

*“The majority of Australians say they prefer to buy online domestically, and many have never transacted overseas. Not surprisingly we have seen an increasing number of large international players provide a domestic online presence.”*

Simon Smith, Quantum

**Toys & Media and Food & Beverages recorded the fastest growth over the past two years, but Auctions & Department stores dominate spending**

**Share of total spend in 2011:**

**47%** **Sector 1.** Online Auctions, Department Stores, Fashion, Cosmetics, Variety Stores.

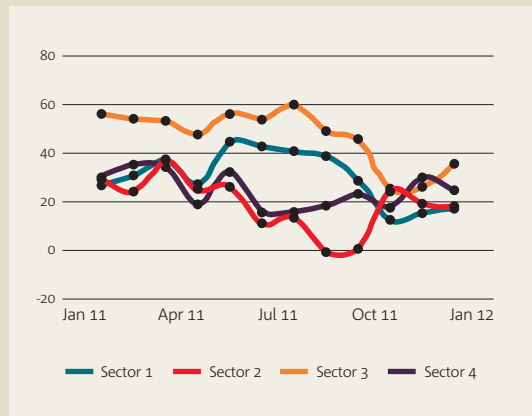
**20%** **Sector 2.** Home, Furniture, Appliances, Electronics.

**20%** **Sector 3.** Recreation, Toys, Games & Hobbies, Music, Movies, Books.

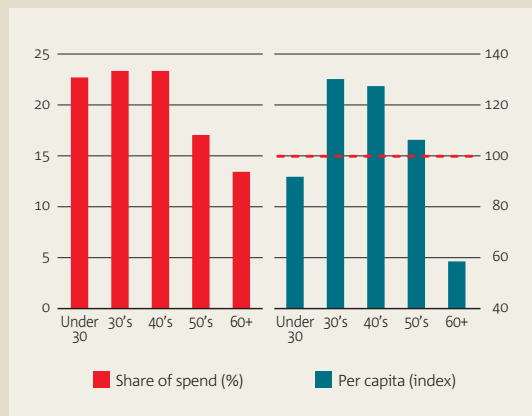
**13%** **Sector 4.** Groceries, Liquor, Specialised Food.

The online retail sector can be divided into four broad sub-categories, noted above. The largest share of sales is sector 1 (broadly analogous to the Department Stores and Clothing & Footwear categories in the ABS), accounting for around 47% of the total spend. In traditional retail, the largest share is Food Retailing, where the penetration of online retail has been comparatively weak – reflecting the importance of fresh and perishable items within this category. Note that the slowing in growth recorded in late 2011 was primarily in sectors 1 and 3 (Chart 9), with these two sectors recording the sharpest increases around October 2010. In contrast, growth in sector 4 (food) remained relatively firm/unchanged during this period.

**Chart 9: Online Index growth by category** (% , yoy)

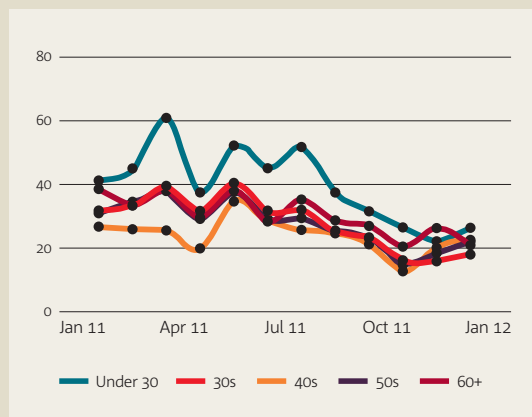


**Chart 10: Share of spending by age group** (% and Index)

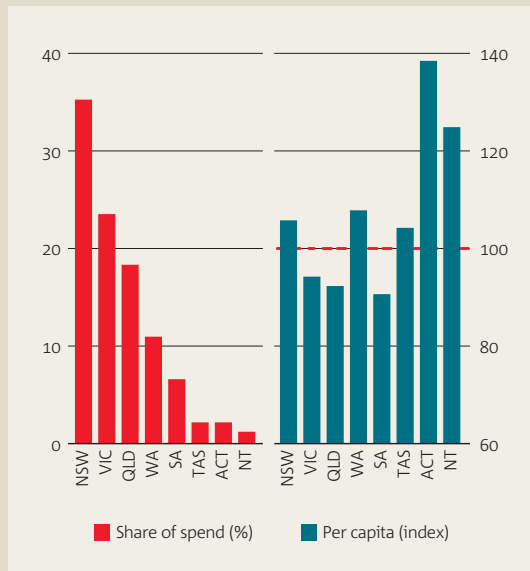


Under 30 consists of ages 18 to 30.

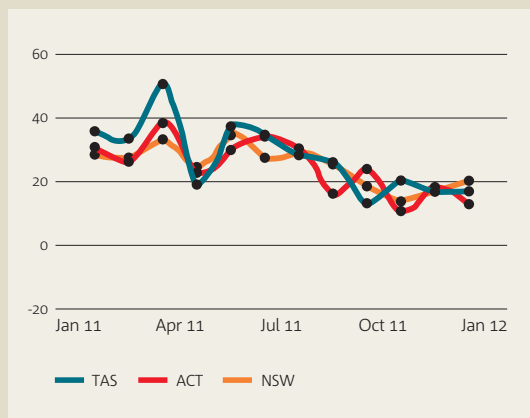
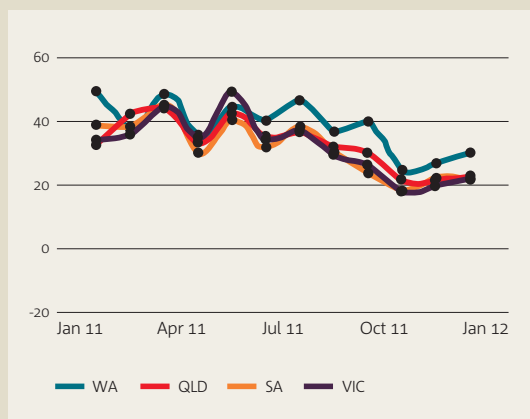
**Chart 11: Growth of spending by age group** (% , yoy)



**Chart 12: Share of spending by state**  
(% and Index)



**Chart 13: Growth of spending by state**  
(%, yoy)



## Online spending is dominated by those in their 30s and 40s in per capita terms, but under 30s have recorded the strongest growth

In terms of share of total spending, the bulk of online spending is concentrated among those aged in their 40s, 30s and under 30s – with each of these age groups accounting for around 23% of the total. However, in per capita terms, people aged in their 30s and 40s dominate online purchases. Under 30s are below average, likely reflecting the relatively weaker purchasing power of this age group (Chart 10). That said, under 30s have recorded the strongest rates of growth over the last two years (Chart 11).

## NSW accounts for the largest share of spend, but the ACT dwarfs the rest of the country on a per capita basis

In terms of total spending, NSW has the largest share of online retail sales – at around 34% – followed by VIC and QLD. However, on a per capita basis the ACT and the NT clearly outperform (Chart 12). In growth terms, WA has recorded the strongest growth over the past year (Chart 13).

*“Despite slowing growth in the Online Auctions, Department Stores, Fashion, Cosmetics and Variety Stores sector in late 2011, we have seen a large number of domestic clothing and accessories retailers getting serious about online over the last year.”*

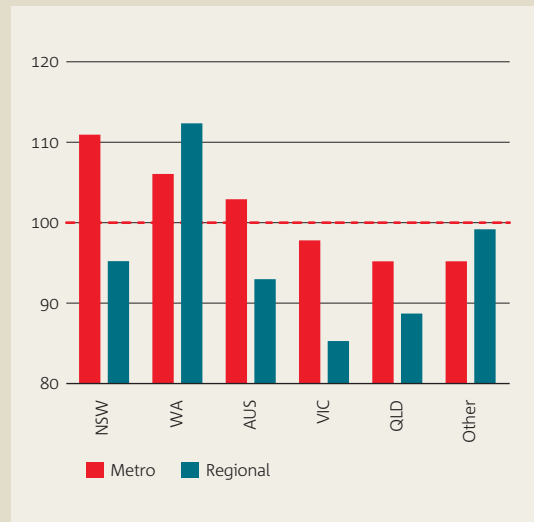
Simon Smith, Quantum

### Metropolitan residents account for the bulk of sales, but regional growth is stronger off a low base

The majority of online purchases in 2011 were made by metropolitan residents – accounting for 72% of the total over this period. However, on a per capita basis there is considerably less distinction – with regional residents at 93 points, compared with 103 for metropolitan residents. However, this trend diverges for WA – where regional residents have a larger per capita spend than their metropolitan peers (Chart 14).

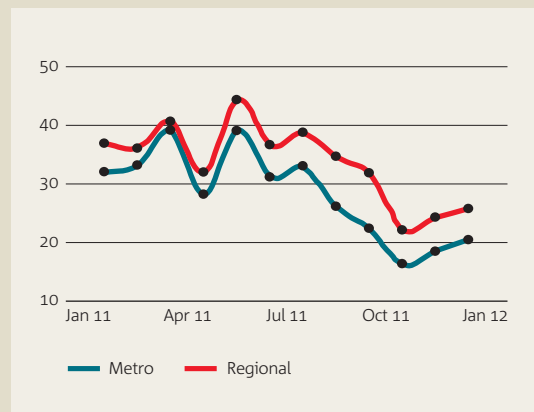
Over the last year, growth in regional spending has consistently outperformed metropolitan spending, with the share of regional spending slowly increasing since the start of 2010 (Chart 15). ■

**Chart 14: Per capita share of spending by region (Index)**



\*Note: Metropolitan NSW includes the ACT in this series.

**Chart 15: Growth of spending by region (% yoy)**



All data is non-seasonally adjusted (nsa). Online sales data is produced by Quantum based on the Market Blueprint service. Traditional retail sales data is sourced from the Australian Bureau of Statistics (ABS).

#### About Quantum

Quantum is Australia’s leading data analytics and marketing strategy firm. Quantum has worked with NAB for more than 4 years, assessing de-identified transaction data to derive insights, trends and shopping habits of different customer groups. The resulting analysis forms Market Blueprint and is used by NAB and other businesses to drive innovation and business performance through customer, distribution and marketing strategies. [www.quantium.com.au](http://www.quantium.com.au)





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