

BNZ Online Retail Sales Report



Quarterly in-depth update and sales for January 2015

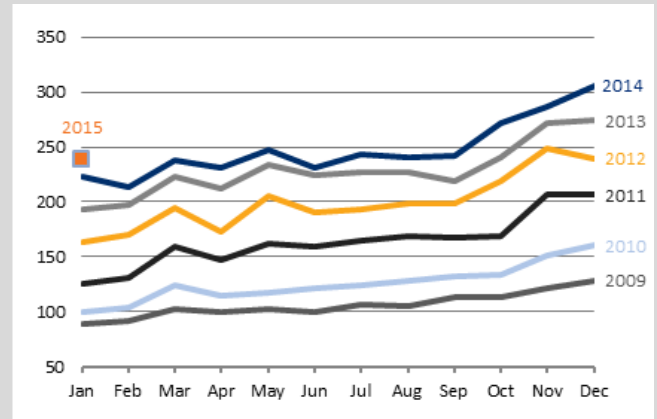
26 February 2014

Highlights

- New Zealand’s online retail sales in January were pretty typical of what has been the trend over the last 12 months. New Zealanders’ total online spending in January was 7% higher than in January last year.
- For both the 3-months ending January 2015 and for the year ending January 2015, online sales were up 8% on the prior corresponding period.
- With Christmas in the rear-view mirror, online spending takes a step backwards in January. The seasonal drop in online spending between the months of December and January is typically between 18% and 22%, and this year’s move was in line with that range.
- The value of online spending at domestic online merchants was only 2% above what was spent in January last year.
- Spending at international online merchants continues to show stronger growth – it was up 14% on January last year.
 - Electrical and Electronics goods (including computers) is one the largest areas of international online purchases by Kiwi’s, with annual spending running at around \$260m (up 20% on the same 12 months a year earlier).
 - Clothing, Footwear and Accessories is another large category for international online purchases, with spending running at around \$185m (up 13% on the same 12 months a year earlier). Sales at domestic online retailers for this category were only up around 0.5% over the same period.
- The online sales split between domestic and international merchants was 57% / 43% in January. This is the same as in October, and tied for the largest monthly proportion of total online spending that goes to international retailers.
- For the 2014 calendar year, online spending accounted for 6.3% of total retail sales (across the categories we monitor).

NZ Online Retail Sales Index

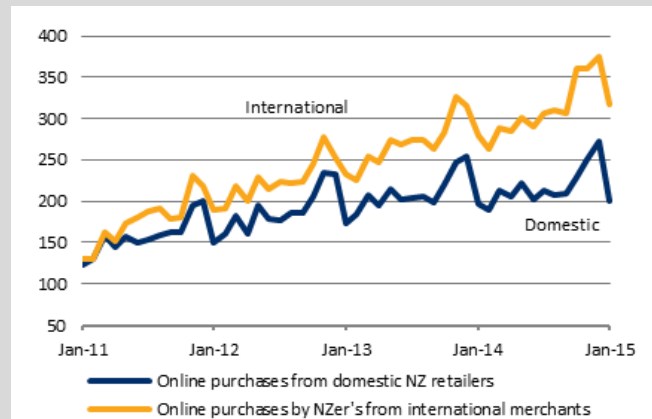
January 2010 = 100



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		
	Nov-14	Dec-14	Jan-15	Nov-14	Dec-14	Jan-15
Total Online Index	9%	10%	8%	5%	12%	7%
Domestic purchases	4%	4%	4%	2%	7%	2%
International purchases	18%	19%	14%	11%	19%	14%

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 December 2014)

Growth compared to same period a year ago



6.3% Annual online purchases total \$2.9bn, or 6.3% 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 January 2015)

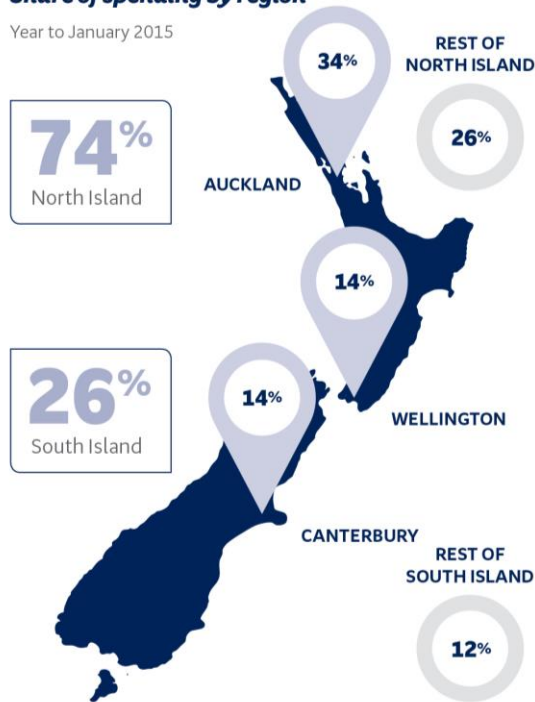
Growth compared to same period a year ago



59% Domestic online retailers accounted for around 59% of total online sales

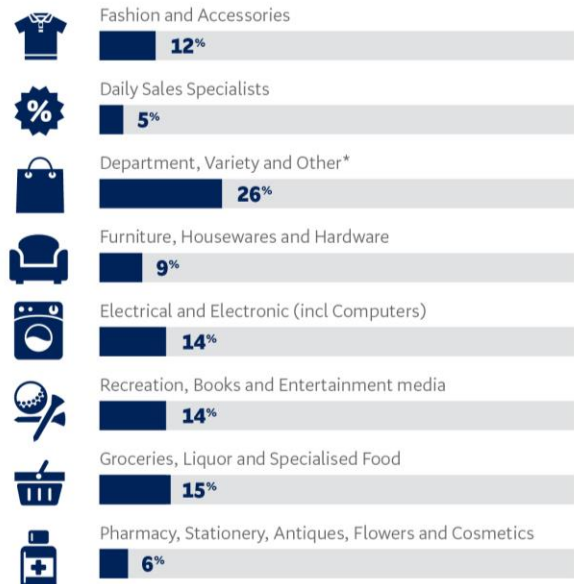
Share of spending by region

Year to January 2015



Share of total online spend by sector

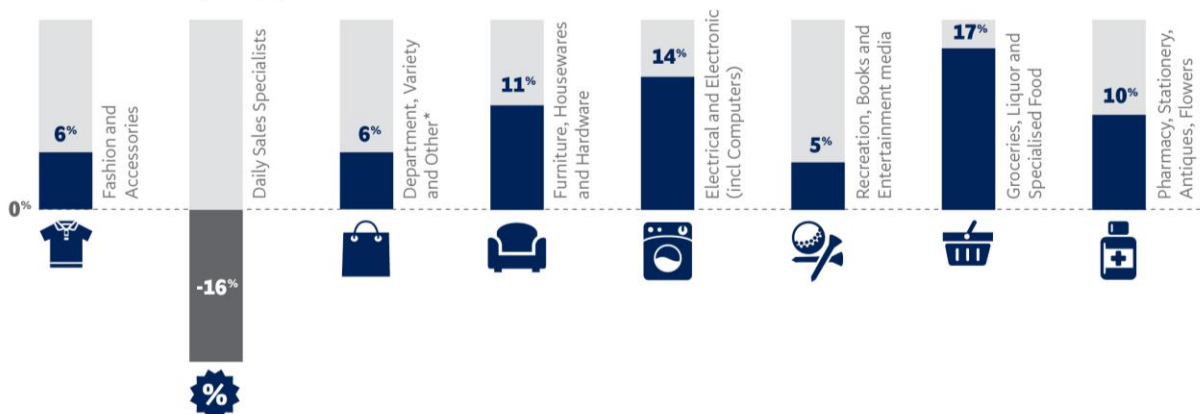
Year to January 2015 share of spend (%)



* "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

12 months to January 2015 (%)



Domestic online and Domestic physical stores track similarly

- Across the categories we monitor, officially reported retail sales in the December quarter (which are mostly bricks and mortar stores) were up by 3.9% on the same quarter a year earlier.
- Of note, the growth in online purchases from domestic merchants compared to the prior December quarter (3.7%) is almost identical to the growth rate experienced by bricks and mortar retailers.
- Total online retail sales for the December 2014 quarter were up 10% over the comparative 2013 quarter. This figure is slightly up from the 9% rise for the November quarter.

Online sales continue to grow as a proportion of overall retail spending

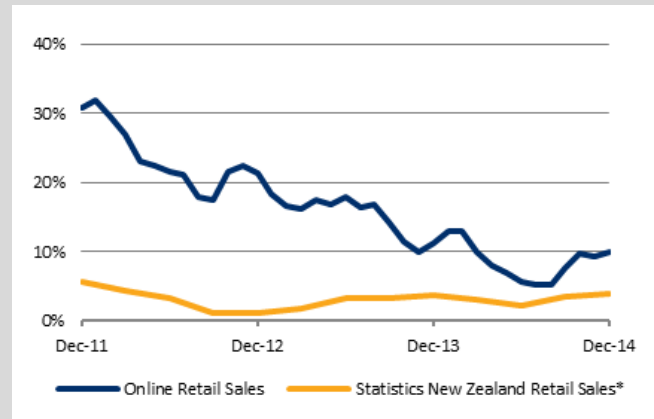
- For the 12 months to 31 December 2014, online spending accounted for 6.3% of total retail spending. This figure increases to 9.6% if we exclude groceries and liquor retailing.
- Looking at data for the December 2014 Quarter, 6.5% of total retail was completed online (9.4% if groceries and liquor is excluded). Notably, many online retailers are shortening their delivery times, in order to increase their presence in this period of the year.

Growth in Australian Online spending eases

- 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.
- For the three months ending December 2014, online spending by Australians was up 8% compared to the same period a year earlier. This annual rate of growth is down slightly from its recent peak of 12%.
- In year on year terms to December, all categories except Daily Deals recorded growth in online sales. Groceries and Liquor (+19%) saw the highest year on year growth in online sales in Australia, followed by Electronic Games and Toys (+14%).
- Australian online retail sales for the 12 months ended November 2014 were at a level equivalent to 6.8% of spending at traditional bricks & mortar retailers.

Growth in online retail sales vs reported retail sales*

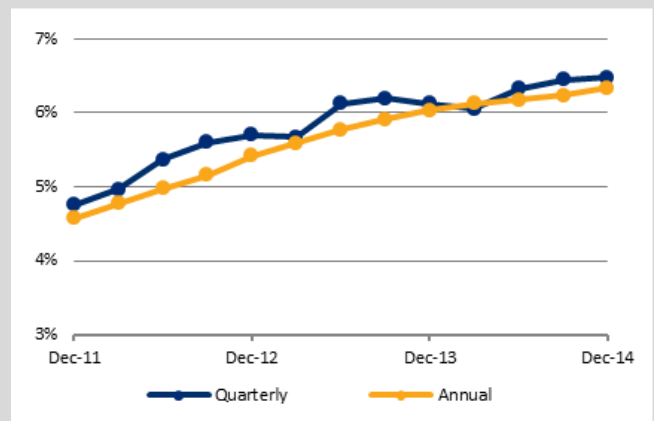
Quarterly spending compared to same period in prior year



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

Online as a % of reported retail sales*

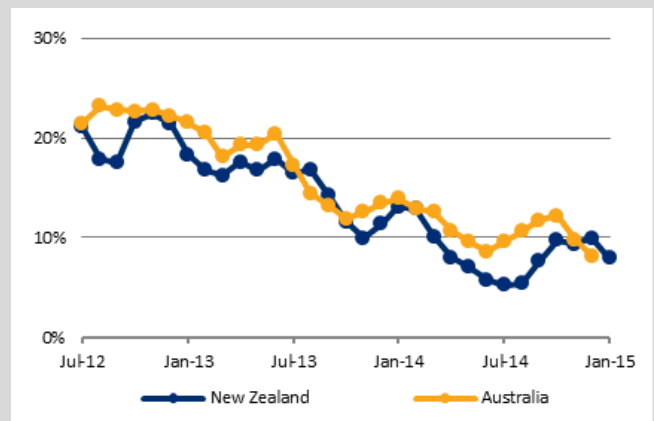
Online retail sales / Traditional retail sales



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.

Domestic online spending up just 2%

- The value of Electronic Card Transactions reported by Statistics New Zealand for January is up 6.7% on January last year, for retail industries broadly comparable with those used in our online index (“core retail” industries excluding hospitality).
- This growth rate mainly reflects sales at physical stores and is well above the rise in online spending at domestic retailers, which was up just 2%, on sales in January 2014.

Topsy-Turvy quarter for online sales

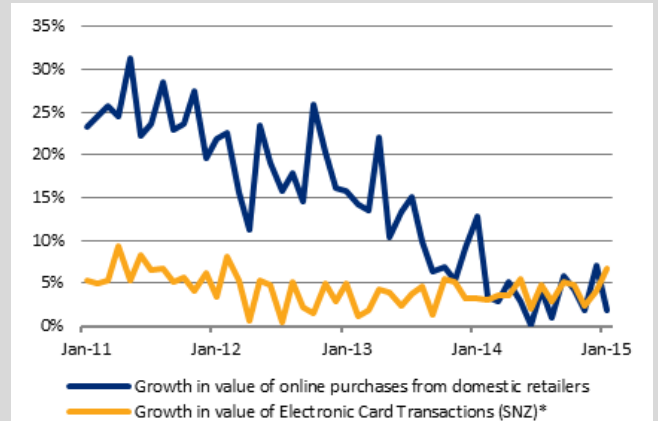
- The change in spending at both domestic and online merchants has been quite variable within the last 3 months. International merchants are still experiencing spending growth at a much higher rate than domestic online merchants.
- The annual growth rate (monthly sales compared to the same month a year earlier) of 2% for online domestic purchases in January was down from a growth rate of 7% in December. The growth rate for online retail purchases from international merchants also softened in January, coming in at 14%, compared to 19% in December.
- The NZD has been strong against the AUD (up 1% on January 2014) but considerably weaker against the USD (down 8% from January 2014). A weaker NZD vs the USD can sometimes inflate spending figures at international online merchants in the short term (because it costs more NZD to buy the international goods). However, the rise in spending at overseas sites is much more than what might be attributed to exchange rate moves.

International merchants’ market share back on the rise after seasonal dip in December

- Since January 2013 there has been a growing preference to do online shopping at international merchants. As of October 2014, the proportion that went to international merchants was 43%.
- As Christmas time approaches, domestic merchants increase in popularity and preference, somewhat due to the quick delivery dates. (Christmas purchases from overseas need to be made earlier and usually peak in November.) In December, domestic merchants accounted for 60% of online spending.
- With Christmas come and gone, consumers have gone back to their former ways. In January, domestic merchants accounted for 57% of online spending.

Domestic Online vs SNZ Electronic Card Transactions*

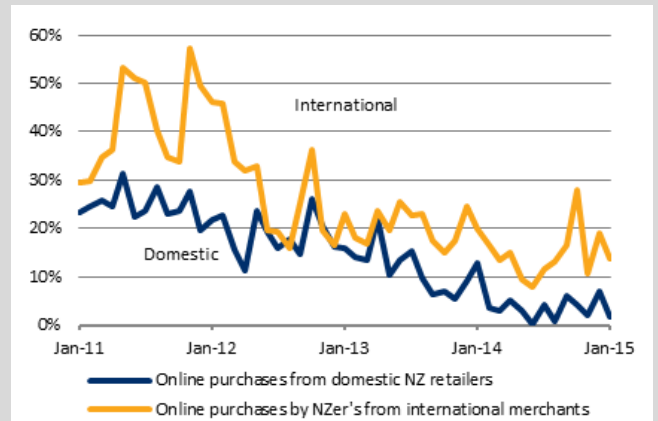
Monthly spending compared to the same month in prior year



*"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

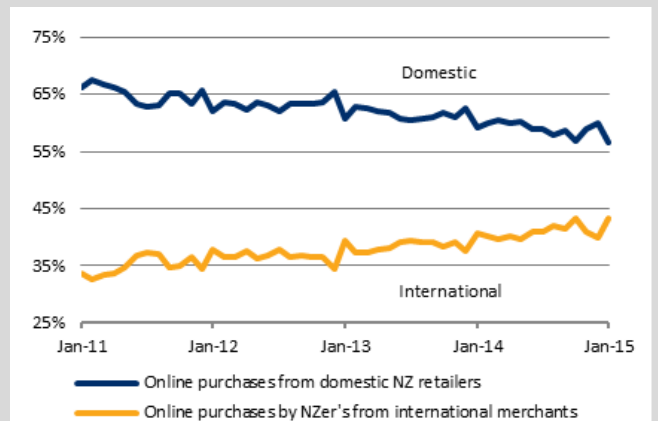
Monthly spending compared to the same month in prior year



Data source: BNZ/Marketview

Share of online sales by retail merchant location

Monthly shares



Data source: BNZ/Marketview

Increase for Groceries & Liquor in the online budget

- Compared to the previous 12-months, the Groceries & Liquor grouping has experienced the highest increase in the proportion of online spending, up 1 percentage point (to 15%).
- Daily Sales continue to decrease in popularity. These sites have a 5% share of annual online spending, down from over 6% for the prior year.

Groceries and Liquor further increase their online presence

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

Groceries and Liquor, etc	+17%
Furniture, Housewares, etc	+11%
Electrical and Electronic, etc	+12%
Entertainment Media, etc	+5%
- The strength in the Groceries and Liquor grouping is predominantly due to growth in purchases from domestic retailers.

Diverse growth rates across sectors

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

Clothing, Footwear etc	+4%
Pharmacy, Cosmetics etc	+11%
Variety, Department, Other	+7%
Daily Sales specialists	-11%
- The Daily Deals specialist sites continue to struggle. However, the rate of decline is continuing to ease - the 11% decline was the lowest annual drop since December 2013.

Composition of online spending by sector

Composition of online spending for the 12 months to 31 January 2015

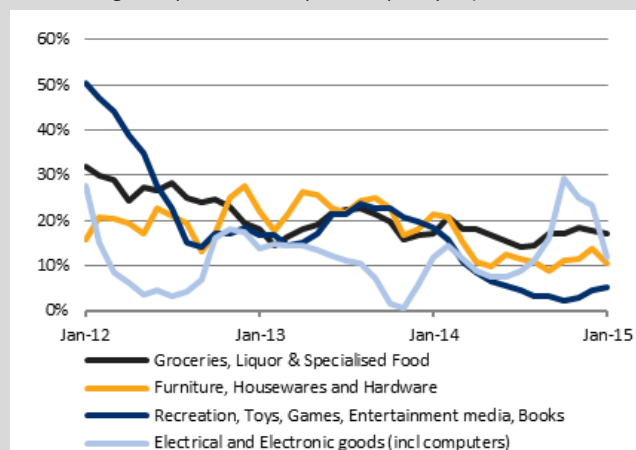
15%	Groceries & Liquor (incl health food and supplements)
9%	Furniture, Housewares and Hardware
14%	Electrical & Electronic goods (incl computers & appliances)
14%	Recreation, Toys, Games, Entertainment media, Books
12%	Clothing, Footwear and Accessories
5%	Daily Sales (at specialist sites)
26%	Variety, 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)

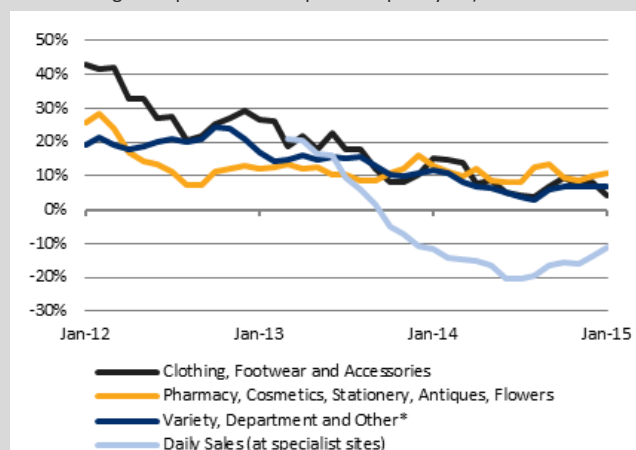
(3 month average compared to same period in prior year)



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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