



**THE STATE OF
ECOMMERCE REPORT
THE CHANGING
FACE OF RETAIL
IN AUSTRALIA**

2017 year in review

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INTRODUCTION

2017 has been a year of 'digital disruption', where technology has continued to present both challenges and opportunities for almost every industry from transportation and hospitality, to finance and health. And retail has not been immune.

Artificial intelligence, voice recognition, virtual reality and the Internet of Things (IoT) have all had a huge impact on both bricks and mortar and ecommerce retailers. Hyper-connected consumers can now research, try, buy and return products from their mobile devices in just a few clicks, no matter where they are in the world. A customer can be shopping in your store, use their mobile phone to compare your product online, have their questions answered by a virtual sales assistant or a chatbot, and have purchased the product from a competitor before they've even stepped outside of your doors.

Although consumers are spending more time online, and spending more money online, this doesn't spell the demise of the bricks and mortar retail store. Instead, consumers expect a seamless and personalised experience across all retail channels, and it's up to retailers to adapt, and adapt fast.

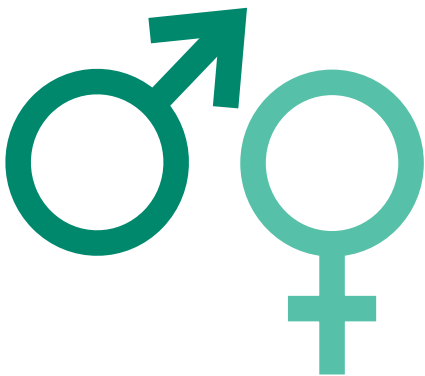
In this report we chart the transformation of ecommerce over the past year with vital research on Australian consumers conducted by Telstra and Neto in a survey of 1001 online shoppers earlier this year, and data from a sample of 1000 merchants across a range of industries.



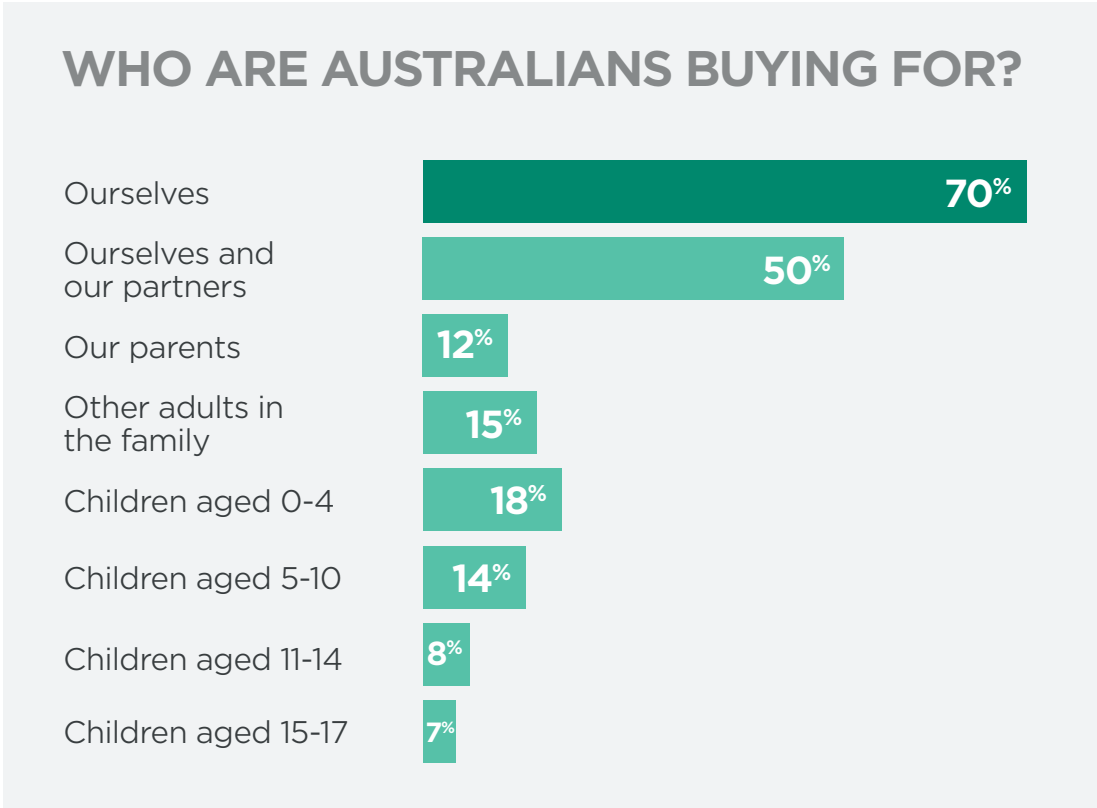
CONSUMERS AND CONSUMER HABITS ARE CHANGING



In our survey with Telstra of **1001 active online shoppers**, we found that:



Interestingly, a greater percentage of males (27%) fall into the most frequent shopper category than females (23%) - challenging traditional stereotypes. It's no surprise that women shop more for their children than men, but it may raise a few eyebrows that men shop more for their partners online than women do.



CONSUMERS SHOP ONLINE FOR PRICE AND CONVENIENCE

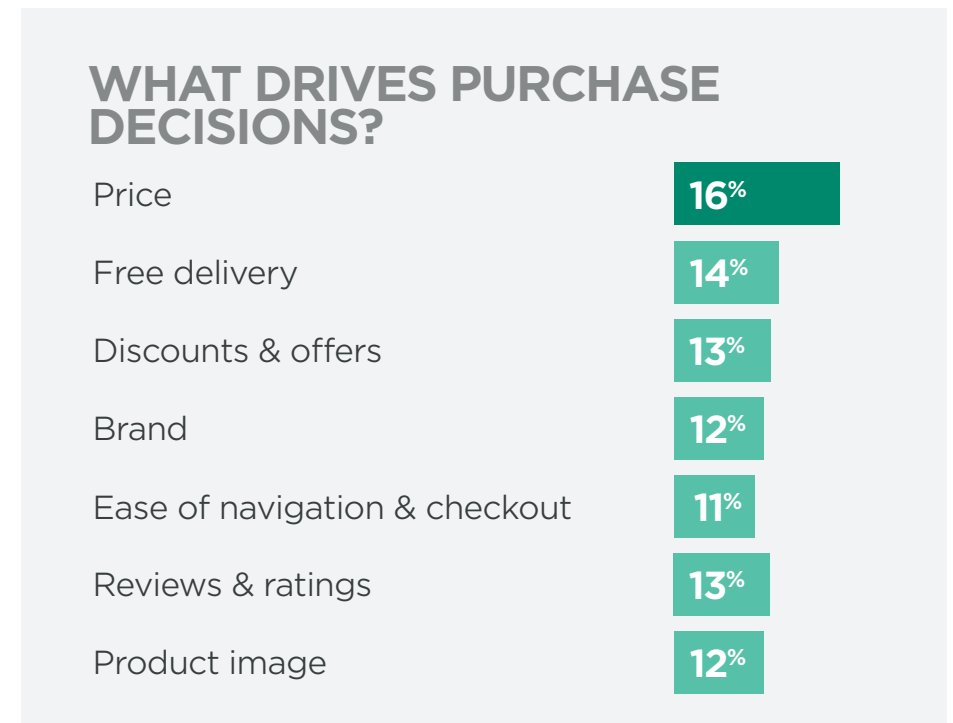
Consumers shop online for a variety of reasons, but ease and convenience is a clear number one, with 82% of those surveyed ranking this as the most important.

The search for unique products or those not available in Australia also drive people online, as well as sales and promotions (there's nothing like a discount voucher delivered direct to your email inbox to make you buy).



In fact, discounts will be more important than ever for retailers to win back customers in 2018, with 65% of consumers predicting that discounts will persuade them to shop directly with retailers rather than on marketplaces like eBay and Amazon.

So that's why consumers shop online, but once they get there, what factors drive the decision to purchase from one retailer over another? In order of rank, here's what we found:

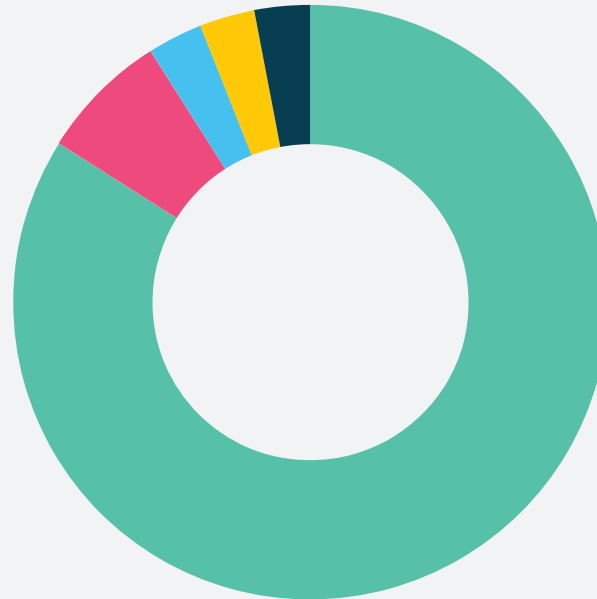


SIGNED, SEALED DELIVERED: SHIPPING AND RETURNS

If ease and convenience is the top priority for consumers, then an efficient fulfilment, shipping and returns process is a must for retailers. 84% of consumers still prefer to receive their goods at home, and despite many e-tailers pushing 'click and collect' in store, this only 3% of consumers first preference. However, it's likely that consumers expect this as an option. The majority of consumers surveyed expected either to be able to return/exchange an item in-store, send it back via post or both.

HOW AUSTRALIANS WANT THEIR GOODS DELIVERED

At home	84%
Mailbox	7%
At work	3%
Pick up from store	3%
All delivery methods	3%



CONSUMERS EXPECT A SEAMLESS OMNICHANNEL EXPERIENCE

Shoppers are making purchases from online marketplaces like eBay, Amazon and Etsy as well as social media sites and web stores, and they do it anywhere from the bathroom, to driving (hopefully as a passenger), to during meetings at work.

They expect a seamless, multi-faceted and personalised experience from retailers that delivers the best value.

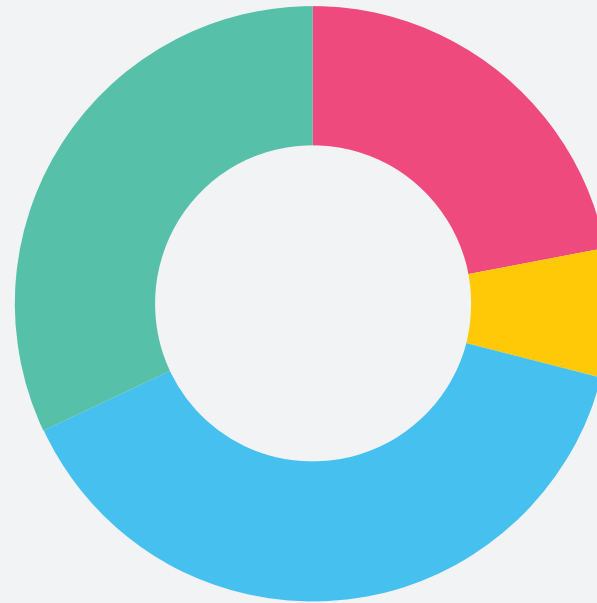
24%

of consumers have shopped online in the bathroom.



WHICH CHANNELS ARE AUSTRALIANS USING TO BUY ONLINE?

Online marketplaces	39%
Company website	32%
Social media	7%
Across them all	22%



The most popular channel to buy on is marketplaces.

64% of consumers will search for products online after having seen them in-store, and 46% expect retailers to be able to check the availability of a product online if they can't find it in-store.

This means that having integrated technology across all channels that can manage stock and inventory in real time is absolutely critical.

While we know shoppers are spending more time online and spending more frequently online, we also know that they are spending more in each transaction (which is great news for ecommerce retailers!).

We have seen basket value for the majority of sectors grow steadily in 2017 - at an average of 16% over the year.

46%

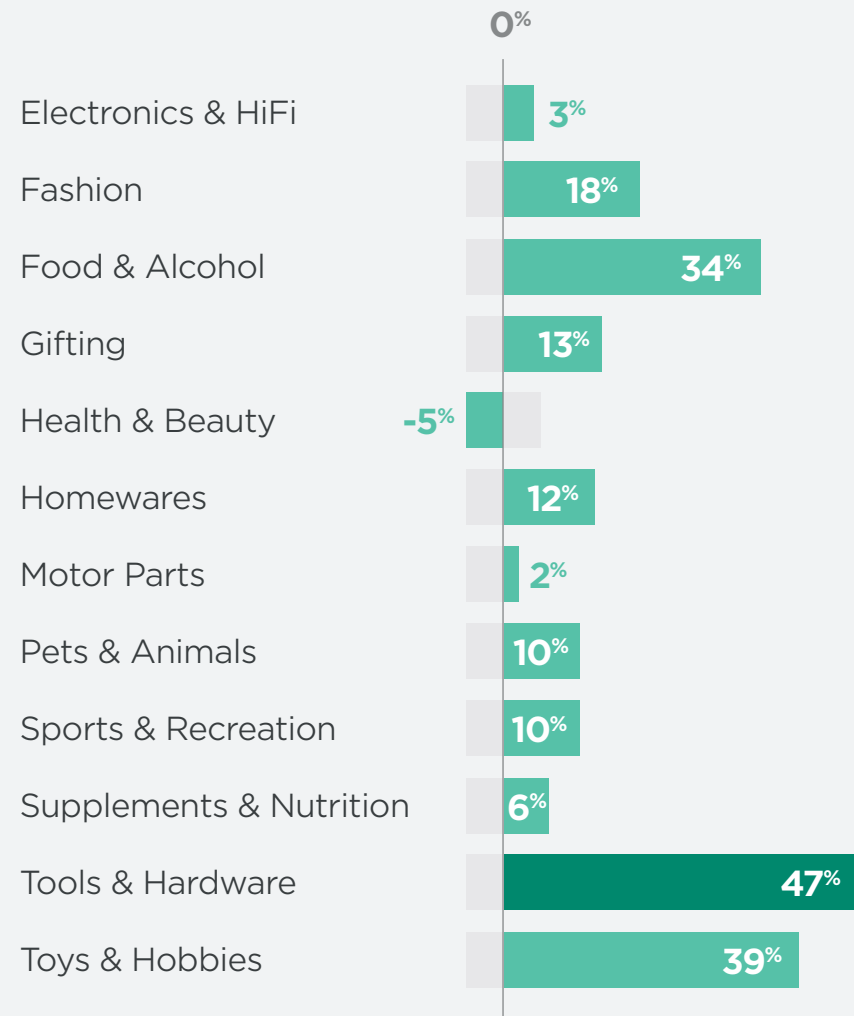
of consumers expect retailers to be able to check the availability of a product online if they can't find it in-store.

64%

of consumers search for products online after having seen them in-store.



GROWTH IN BASKET SIZE





PAYMENT METHODS ARE CHANGING

Over the last decade we have seen a significant change in preferred payment methods across the whole of retail, from Layby, to the [controversial introduction of PayPass tap and go](#), to the recent Buy Now Pay Later - a method that has been a hit with instant-gratification-centric millennials. And whilst some shoppers are still skeptical of PayPass security, other early adopters are wholeheartedly embracing mobile and digital wallet tap and go payments like Apple Pay and NFC.

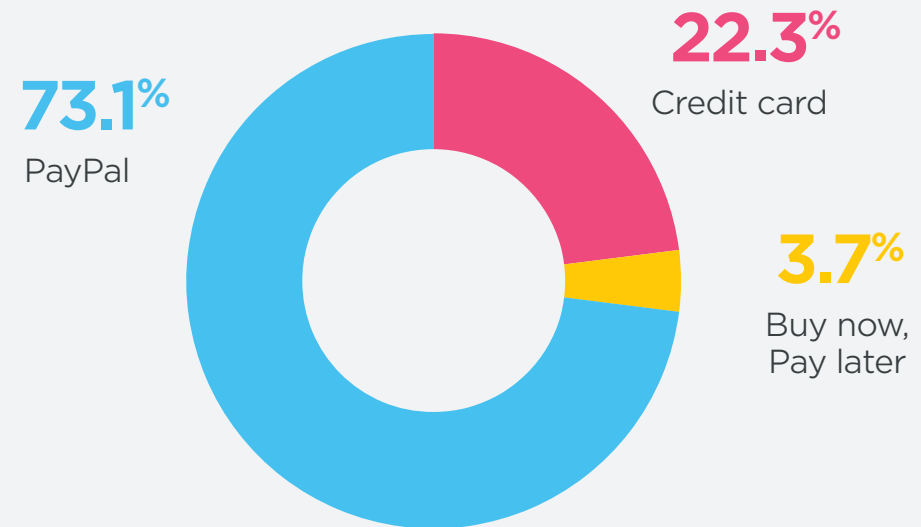
As one of the earliest and most well known entrants to the online payments game, Paypal has become Australia's favourite way to pay online. With 73.1% of payments transacting through PayPal Express, this provider comes in ahead of credit card processors (22.35%) and Buy Now, Pay Later methods (3.7%).

BUY NOW, PAY LATER

This year saw a significant increase in the number of retailers offering delayed payment options like Afterpay and ZipPay, allowing customers to buy now - receive now - pay later. Transactions via Pay Later options increased by 147% in 2017, accounting for 3.22% of the total transaction value.

There are now [5,000 merchants in Australia offering Afterpay](#) and over 700,000 Aussies reaping the rewards of the service instantly - rather than having to wait like LayBy. Most Neto merchants offering buy now pay later solutions offer all three - Afterpay, ZipMoney and ZiPay - and we have seen a sharp increase in the number of merchants offering these services, particularly in the pets, sport, homewares and fashion sectors.

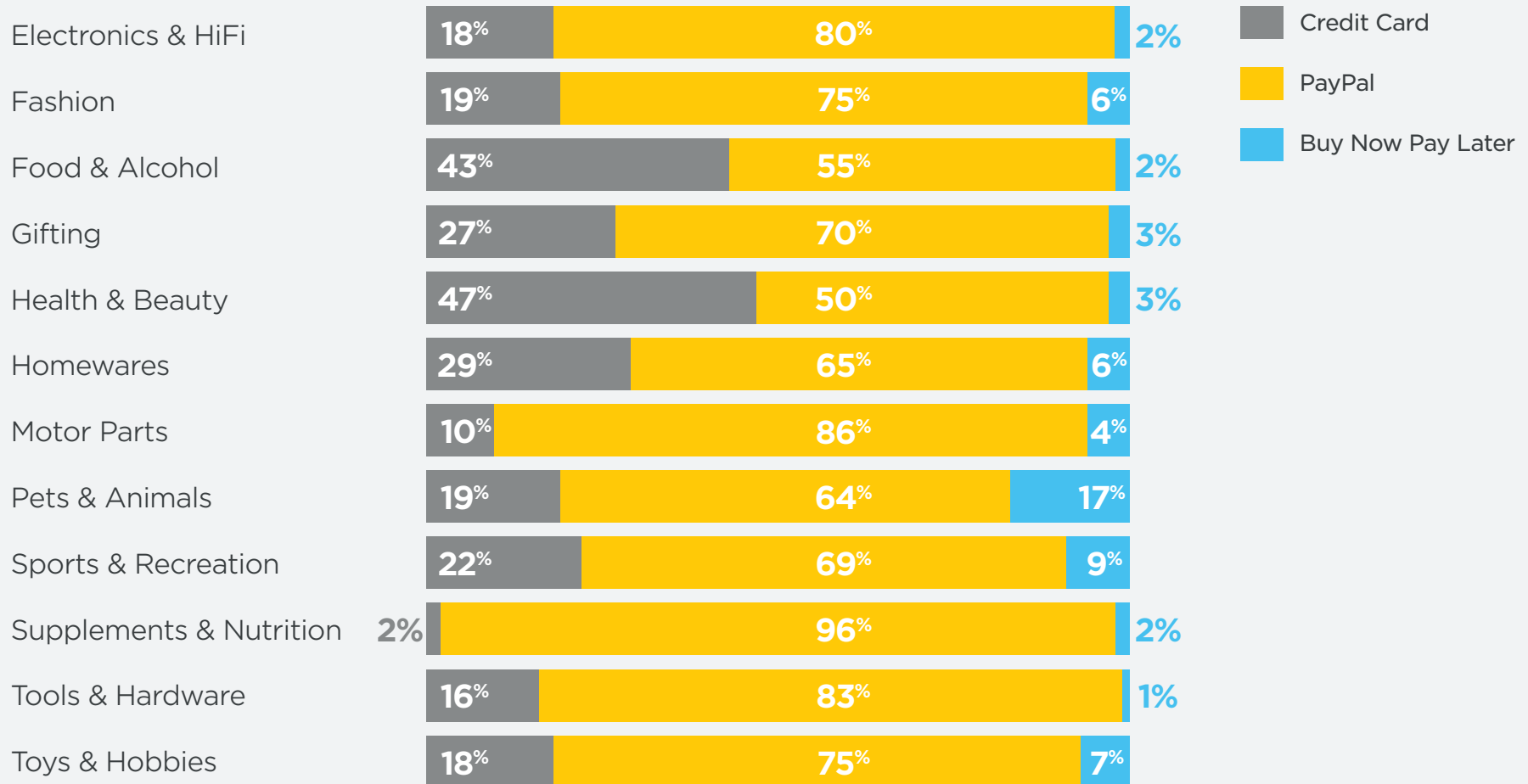
MOST POPULAR PAYMENT METHODS



Buy now pay
later transactions
increased by

147%

PAYMENT METHODS BY INDUSTRY





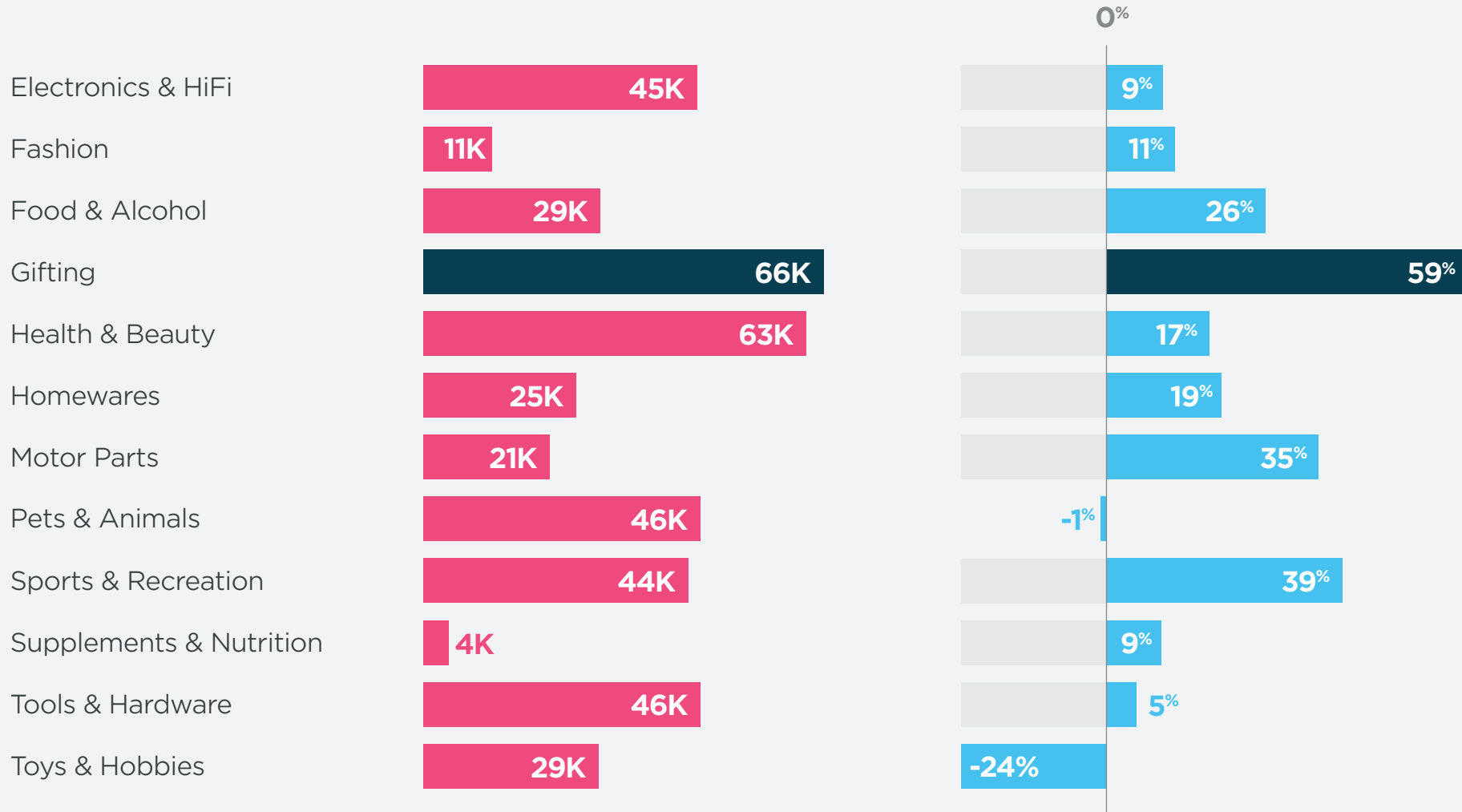
WHAT ARE AUSTRALIANS BUYING ONLINE?

Australians are purchasing gifts, electronics, health and beauty products, and items for our pets online, accounting for almost half of all sales. Gifting had the highest growth in sales over the year with 59% growth, followed by Sports and Recreation (39%) and Motor Parts (35%).

In terms of how much consumers are spending in each transaction - the average basket size of purchases in the Toys and Hobbies category grew by 39% over the year to \$136.41 - and Food and Alcohol followed closely behind increasing by 34% to \$150.13.

AVERAGE MONTHLY SALES

INDUSTRY GROWTH JANUARY - JULY



INDUSTRIES

ELECTRONICS & HIFI

MOTOR PARTS

FASHION

PETS & ANIMALS

FOOD & ALCOHOL

SPORTS & RECREATION

GIFTING

SUPPLEMENTS & NUTRITION

HEALTH & BEAUTY

TOOLS & HARDWARE

HOMEWARES

TOYS & HOBBIES

Average
basket value

\$121



**2nd most
frequently
purchased
item online**



35%

Sales growth

9%

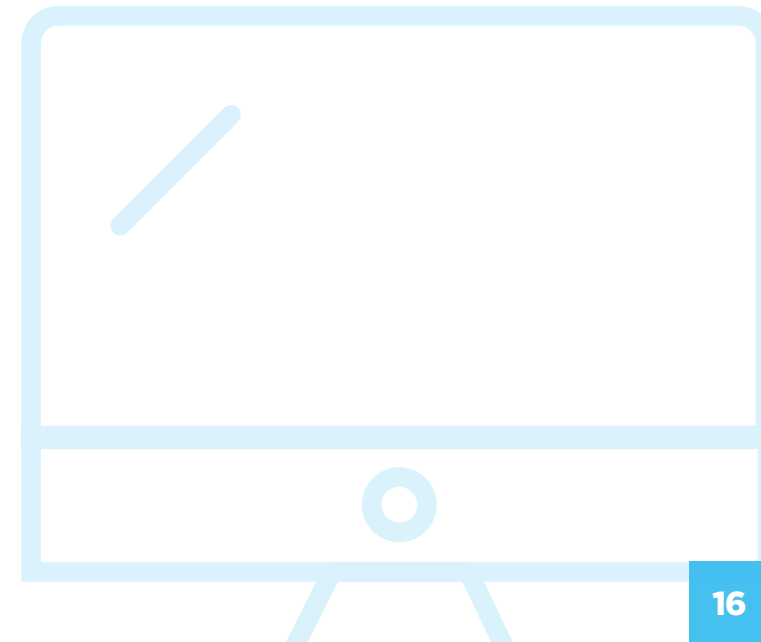


ELECTRONICS AND HI FI

Evolve or dissolve

This year marks the one year anniversary since bricks and mortar electronics giant Dick Smith closed their doors, and for those left behind it was adapt or follow the same fate. JB Hi Fi are one bricks and mortar retailer who did adapt swiftly to the changing retail landscape, and are now one of the largest online stores in Australia. Similarly, pure-play online retailer Kogan capitalised on the changing market and reported an **800% increase in profit** in 2017.

Neto merchants in this sector saw a slow but steady increase in sales growth (9%) and average basket size over the year to \$119 (a 4% increase), and our consumer data shows that electronics are the second most frequently purchased item online (35%) after clothing and fashion (45%).





FASHION

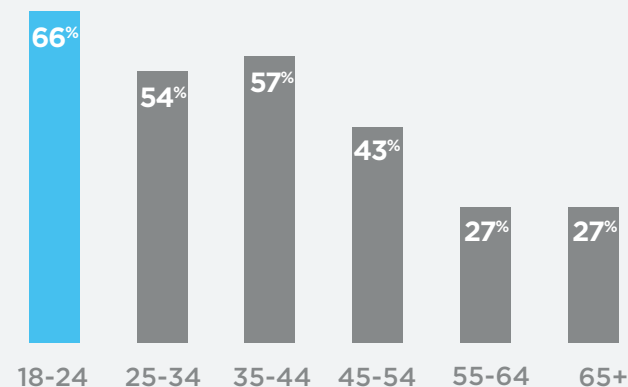
Most frequent online purchase for under 55s

With 40% of consumers saying that clothing, shoes, handbags and accessories are their most frequent online purchase, consumers are spending more in each transaction too; average basket size increased by 18% over the year to \$123.39 - the most consistent growth of all our industries. Sales in this industry exhibited a steady 11% growth over the year.

With the prevalence of both pure-play online retailers like The Iconic and Showpo, and bricks and mortar retailers like H&M and Myer going online, competition in fashion is fierce - allowing consumers to almost always bag a bargain. Many retailers are following in the footsteps of industry leader [ASOS](#), who make it ridiculously easy for consumers to buy, try and return clothing, offering free shipping and returns - they'll even come and pick up your castaways from your front door!

The fashion industry will get yet another shake up when Amazon hits Australia with 65% of shoppers intending to switch to Amazon for their threads.

FASHION AS THE MOST FREQUENT PURCHASE BY AGE



Average
basket value
\$123



65%
of customers
will switch
to Amazon



Increase in
basket size
18%



Sales growth
11%





FOOD AND ALCOHOL

Men buy more often than women

Food and alcohol ecommerce retail continues to gain momentum and has been one of the most disrupted industries with the arrival of delivery services UberEats and Foodora. Supermarket giant Woolworths also reported a [20% increase in online sales](#), despite strong competition from rivals Coles and Aldi. Concerns about the arrival of Amazon and their [Amazon Fresh](#) grocery arm are high, yet only 25% of our consumers surveyed said they would switch to Amazon for food and alcohol purchases.

A fast-growing industry, families and singles alike are turning online for convenience for their food and alcohol purchases, and it shows in the 34% increase in average basket size to \$150.13 and 26% growth in sales over the year. 17% of consumers said food and alcohol was their most frequent purchase online, and of those, men buy slightly more than women.

Online wine sales have traditionally seen strong performance due to the wide range of specialist retailers and wine clubs that offer local and imported wines at discounted prices, and the online liquor industry will only continue to explode if Australian alcohol retailer Dan Murphy's trajectory is anything to go by. Woolworths owned Dan Murphy's [online sales grew three times faster](#) in 2017 than the operations of their 204 physical stores across Australia, cementing themselves as the industry leader dominating over 50% of the online liquor market.

\$150
Average
basket value



25%
of customers
will switch
to Amazon



Sales growth
26%



MEN
buy food and
alcohol online
more than
women



35-44 years olds
& **65+**
buy the most food
and alcohol online



\$129

Average
basket value



50%

of customers
will switch
to Amazon



Sales growth

59%



Increase in
basket size

13%



26%

consumers
most frequent
purchase

31% 21%

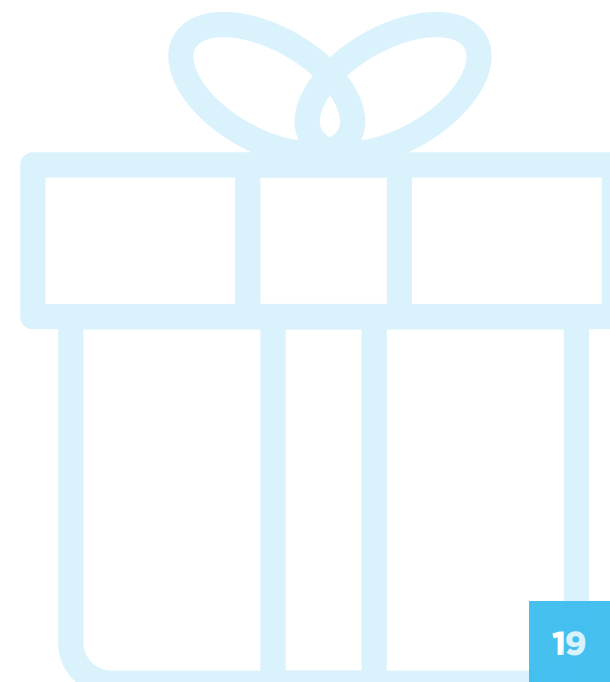


GIFTING

Women buy gifts online more than men

Australians are turning to online in droves to find that special something for that special someone, and we don't skimp on presents for loved ones either, with the average basket size growing to \$127.78 over the year (up 13%). Gifting was the highest performing of all sectors with monthly sales increasing by a whopping 59% over the year.

26% of consumers said gifts are what they purchase most online - likely due to demand for unique, quality gifts as well as the convenience of shopping online. If you've ever forgotten a special occasion, you'll be pleased to know many gifting retailers offer speedy shipping to keep you out of trouble. A huge 50% of consumers will switch to Amazon to get their Christmas, birthday and anniversary gifts once it arrives on our shores.





HEALTH AND BEAUTY

*Can you put a price on health and beauty?
Yes, \$113.26 to be exact.*

Toothpaste, shampoo and conditioner, deodorant, mascara; there's always something that seems to be running out in the bathroom cabinet, and with online shopping, topping up supplies is quick, easy and bargains are abound. As consumers, we generally have high brand familiarity and preferred health and beauty products, which makes purchasing online a less risky endeavour than buying a couch, for example. It is for this reason that online sales for beauty have boomed in recent years - but growth is beginning to slow.

Although this industry was a high performer with average monthly sales growing by 17%, it was also the only industry whose average basket size decreased over the year - by 5% to \$113.26. This could point to one of two things - first, although shopping for health and beauty online is becoming more common, a saturated market means strong price competition, and consumers are getting better deals, or, it could mean that consumers are making smaller purchases, more regularly.

If we take a look at payment options, Health and Beauty merchants were the third highest adopter of Buy Now Pay Later options - when a lady wants a new lipstick, a lady shall have that lipstick!

2nd
HIGHEST
Average
monthly
sales



44%
of customers
will switch
to Amazon



Decrease in
basket size
-5%



Sales growth
17%





HOMEWARES AND FURNITURE

Freedom of choice sparks online growth

Buying a new couch used to involve visiting a long list of furniture stores, and plonking yourself down on each sofa to test it out, before asking for the salesperson's 'best price'. Nowadays, consumers do the majority of research before they even get to the store, and will typically only visit a few (that is, if they even visit the store).

Although [the majority of homeware and furniture purchases are still made in physical stores](#) (96%), the average basket size of online purchases with Neto merchants grew by 12% in 2017

to \$178, and sales grew by 19%, reflecting the growing trust and wider selection of good homewares ecommerce stores on the market. In fact, homewares and furniture was the second most popular sector for our merchants (11%), behind Electronics and Hi-Fi at 12% of the market. When it comes to purchasing homewares, 14% of consumers said this was their most frequent purchase and 33% indicated they would switch to Amazon.

Sales growth

19%



12%

Increase in
basket size



33%

of customers
will switch
to Amazon



Marketshare
of Homewares
retailers

11%





10%

of customers
will switch
to Amazon



Buy now,
pay later
increased by

11%

Sales growth

35%



MOTOR PARTS

An industry stepping up a gear

Automotive parts and accessories are usually a good fit for selling online because customers are typically looking for products that meet exact specifications, which, for the most part, can be matched with product descriptions. But many motor part purchases are niche one-offs, like car batteries or seat covers, and there are times when you just need to talk to a human, which is where the bricks and mortar retailers are seeing success.

Pure play ecommerce retailers can help meet this need by providing easily accessible customer service whether it's via phone, email or chat.

Growth in average basket size accelerated a little more slowly than other industries at just 2% growth to 163.79; however, average sales shifted up a gear growing by 35% over the year. Offering alternative payment options is a good incentive for motor parts shoppers - the industry had one of the largest uptakes of Buy Now Pay Later - increasing by 11% over the year.

Only 6% of our consumers said they most frequently purchased motor parts online, again highlighting the ad-hoc nature of these purchases. And only 10% of consumers will switch to Amazon, which is a good indication of the strong brand connections consumers have with existing auto part retailers.



PETS AND ANIMALS

Aussies spend almost as much on their pets as on their family and friends

Aussies love to spoil our pets and retailers are reaping the rewards. We have one of the highest rates of pet ownership in the world, and [spend a reported \\$12.2B a year](#) on our furry, feathered and scaly friends. Almost two in five Australian households own a dog, [spending an average of \\$1,975 a year](#), an amount that appears to be on the rise, with merchants reporting a 10% increase in average basket size over the year to \$121.79 (only \$6 less than what we spend on gifts for our human friends!).

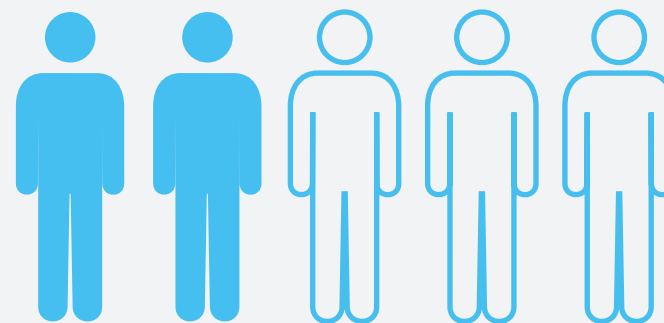
Although this online sector is still in its infancy, Australians are looking more and more to online retailers both for convenience (think - heavy dog food delivered) and to find premium or niche products. Offering Buy Now Pay Later options is a big drawcard for pet enthusiasts, with [Lucky Pet](#) seeing an increase in the size of 80% of their baskets after adding AfterPay and ZipPay.



Average
basket value
\$121



**\$12.2
BILLION**
spent on pets
last year



2 IN 5
Australian's own a dog



SPORTS AND RECREATION

Growth continues to climb

A summer in Australia wouldn't be complete without a game of backyard cricket, or a spot of camping or fishing, and if the increasing health consciousness of Aussies is anything to go by, the Sports and Recreation sector is set for sunny skies. The market is dominated by bigger retailers with strong reputations and buying power, and price-sensitive consumers. Overall, average monthly sales in this industry grew by 39%, and we saw a small growth in spending in this sector over the year - a 9.9% increase in average basket size to \$148.16.

Interestingly, only 27% of consumers surveyed said they would switch to Amazon for their gear - a potential nod to the strong reputation of the retail powerhouses in this market.

Average
basket value
\$148



27%
of customers
will switch
to Amazon



Increase in
basket size
10%



Sales growth
39%





SUPPLEMENTS AND NUTRITION

Increasing awareness of health spurs uptake of supplements and vitamin products

Unless you've been living under a rock this past year, it's impossible to miss the health, fitness and wellbeing craze currently gracing our parks, cafes, shops and instagram newsfeeds (#fitspo, #activewear). And the Supplements and Nutrition industry is enjoying 'healthy' (no pun intended) growth spurred by this trend.

Despite having the lowest monthly sales performance of all our sectors, when customers do buy from the smorgasbord of sports, health and weight loss products on the market including vitamins, appetite suppressants, weight-loss boosters and protein powders, they are spending more and more, with average basket size growing by 6% over the year to \$73.24 - which is also the lowest spend of our sectors.

When looking at payment methods, the health-conscious types may also be conscious of the purse strings, with this vertical having one of the lowest Pay Later rates at just 1.1%, with the majority preferring instead to pay via Paypal.

#fitspo

PayPaltm

Payment method
of choice



\$73

Lowest average
basket size



#activewear



TOOLS & HARDWARE

The rise of the home handyman

The Tools and Hardware industry is experiencing rapid growth that doesn't look to be slowing anytime soon. Purchases in this industry had the highest average basket value of all industries (\$292.18) and grew the fastest in monthly growth rate terms over the year, at a whopping 6.7% month on month. This industry had the third highest average monthly sales at \$45.7k.

This reflects the greater confidence consumers have in online shopping platforms and the significant savings potential from purchasing online, as well as a trend towards DIY home renovations and repairs brought on by popular television shows like Renovation Rescue and The Block. A [rise in discretionary income](#) has made the funding of these projects possible, and the availability of YouTube tutorials means home-handymen and women can easily learn how to do it themselves.

Tools and hardware purchases like drills, fittings and ladders tend to be one-off purchases on an as-needed basis, so unsurprisingly, only 8% of the 1001 consumers surveyed by Telstra and Neto about online shopping preferences reported this category as their most frequent online purchase. However, 26% of consumers surveyed did say that they would switch to Amazon from existing online retailers when it arrives on our shores.

Average
basket value
\$292



26%
of customers
will switch
to Amazon



Increase in
basket size
6.7%



Customers'
most frequent
purchase
8%





TOYS AND HOBBIES

39% increase in spending correlates with increase in population under 14

The Toys and Hobbies industry, consisting of a range of games, toys, arts and craft products and hobby equipment, has shifted largely to ecommerce retailers. This coincides with a rise in the population under 14 and a steep climb in spending online from \$82.17 to \$136.41 per transaction - a 39% increase. Average monthly sales fell by 24% over the year indicating that the majority of purchases in this category occur over the Christmas holiday period.

Spoiling the kids is something parents and family are indulging in whether they have the funds readily available or not - Buy Now Pay Later methods being used at the checkout for toys and sales rose by a whopping 12% over the year. And the spoiling isn't just a one-off - 22% of shoppers said this was their most frequent purchase! Nonetheless, families tend to be price sensitive and are great bargain hunters; 45% of these savvy spenders said they would switch to Amazon to save.

Average
basket value
\$136



45%
of customers
will switch
to Amazon



Increase in
basket size
39%



Sales growth
-24%



Rising population
**UNDER
14**

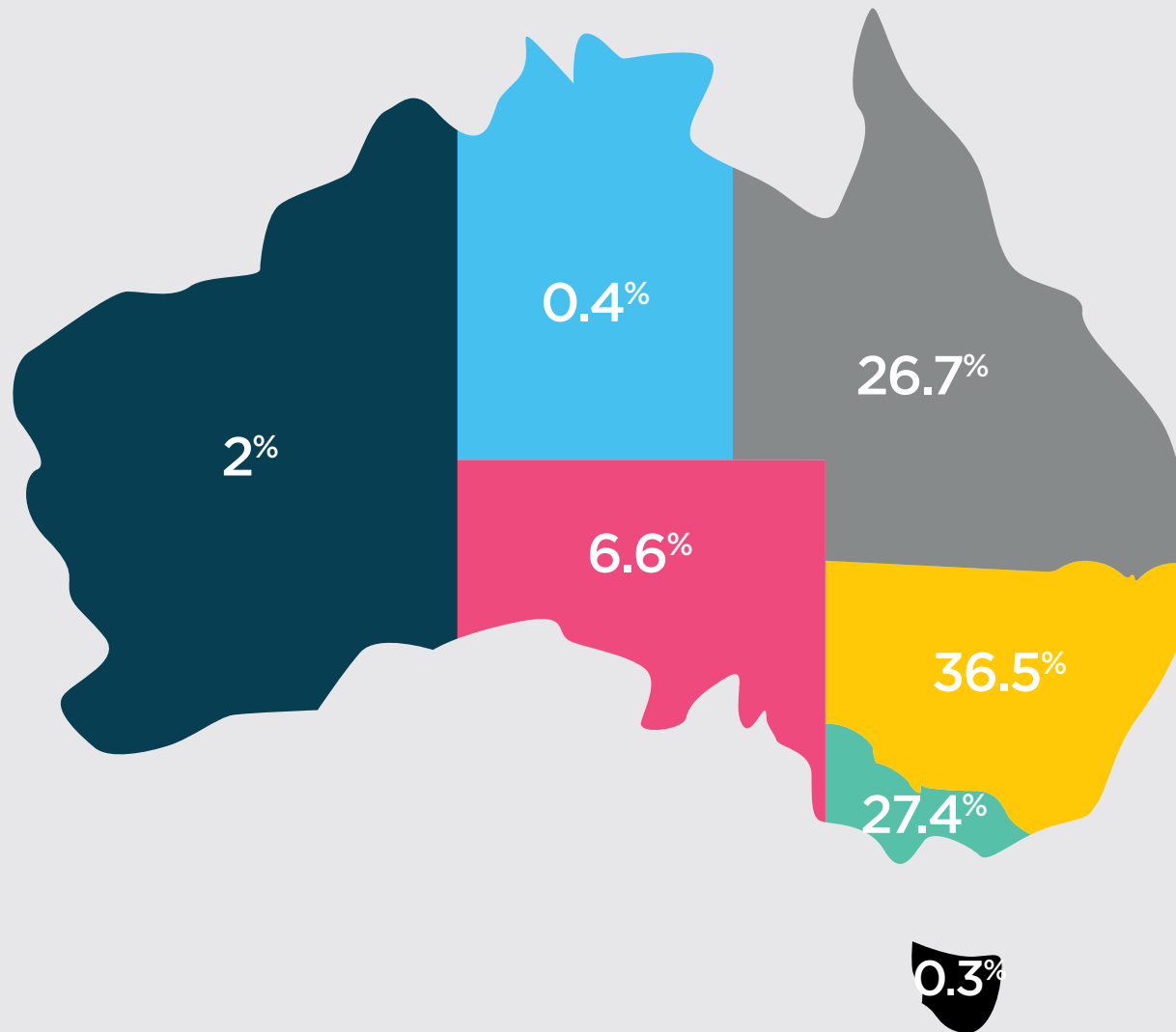


WHERE ARE MERCHANTS LOCATED?

The total sales of Neto merchants by location almost perfectly reflects the population density of each state of Australia. New South Wales takes the cake with the highest sales, contributing to 36.46% of total sales, followed by Victoria with 27.42% and sunny Queensland with 26.71%.



TOTAL SALES VALUE BY STATE





WHERE TO FOR 2018

WITH CEO, RYAN MURTAGH

With such a transformative, technology-centric 2017, what will 2018 bring for retailers - both on and offline? These are my predictions:

Data-driven retail:

Retailers have so much information available to them - customer data, inventory and stock, social media and website analytics. 2018 will be about tapping into this data and translating it into actionable insights:

1. Invest upfront in the correct setup of the tools you need to make data-driven decisions

Set yourself up for success by properly capturing and storing the data you need to make decisions long term. Depending on the lifecycle stage of your business, these tools may vary in cost and complexity, but at the very least, every ecommerce retailer should invest in properly implementing Google Analytics Enhanced Ecommerce. Platforms like this are low cost and relatively simple to implement. They will allow you to capture the data around shopping behaviours that impact sales and accurately track ROI across channels.

2. Define clear intentions around the goals you want to achieve

With so much data available these days, it's important to set clear intentions around the goals you want to achieve before investing time and money in analysing and actioning the data you have available. Start by setting one specific and measurable goal that will help you to achieve success in your business. For example, you might set a goal of improving the sales conversion rate on your product pages by 5%.

3. Write a hypothesis statement

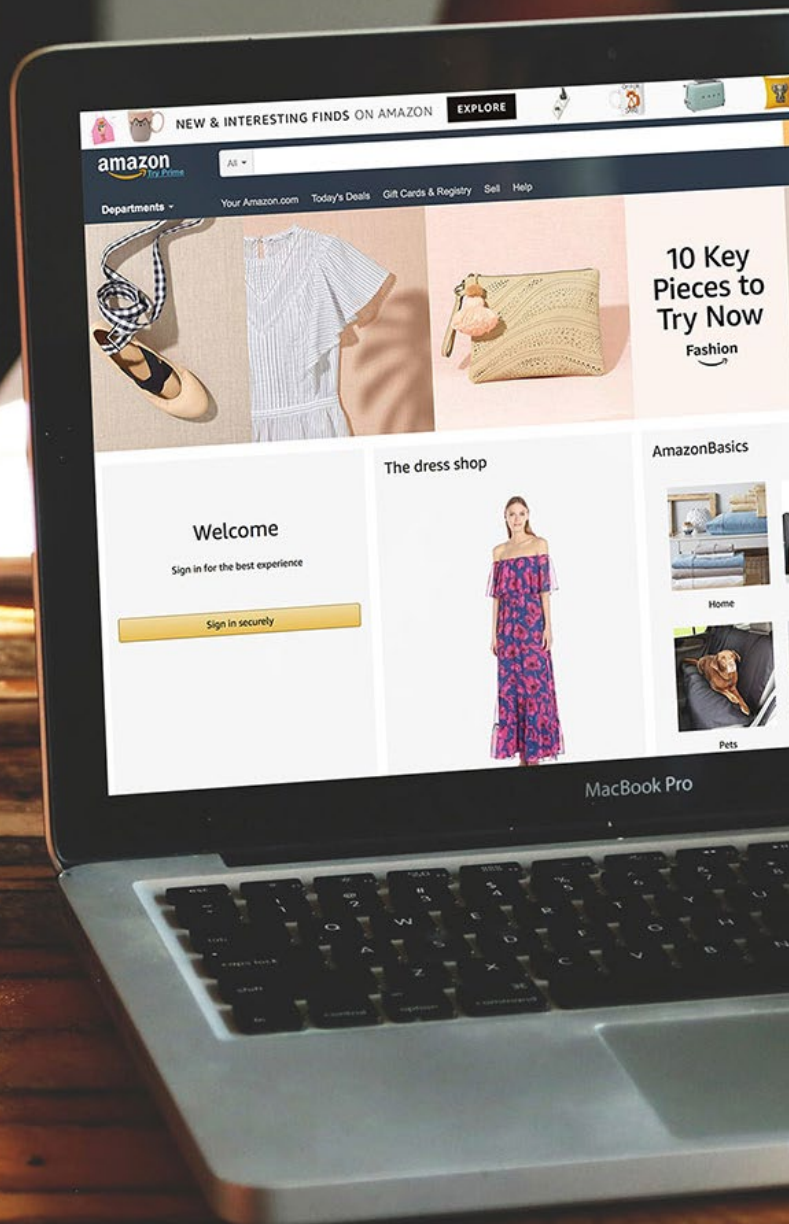
Once you have a goal in mind, set about defining a hypothesis around what might help you to achieve that goal. For example: If the conversion rate is related to the buy button colour on a product page, then changing the buy button colour to green, will improve sales conversion rate by 5%.

4. Conduct experiments

Tools like [Optimizely](#) and [Google Optimize](#) make it easy for you to create A/B, multivariate, or redirect tests to change just about anything on your web store and then quickly determine the impact on customer behaviour. For example, you might use Google Optimizer to create an A/B test to show 50% of all traffic a green buy button vs your regular black buy button.

5. Analyse and repeat

After allowing sufficient time for your experiment to run, use the inbuilt reports provided by platforms like Google Analytics to report on the success or failure of your test. If necessary, tweak your hypothesis and retest until your objectives are met.



Retailers will deliver an omnichannel experience

As retailers move to fully integrated retail management solutions, the barriers to delivering an exceptional, consistent customer experience across multiple channels will dissipate. Retailers will become agnostic to the channel as the lines between bricks-and-mortar, online stores and marketplaces blur into a single integrated experience. Successful omnichannel retailers will not only be present across all channels but at every stage of a customer's journey, they will offer choice and convenience.

Amazon

Invest in Amazon or get left behind

Amazon presents both a challenge and an opportunity for retailers, which is relevant regardless of your intention to sell through the channel or not. What Amazon represents is the future of customer expectation around service and delivery. Amazon will set a high bar and others will need to match or better it, if they expect to compete. Simply doing nothing is not an option, because if it's not Amazon that better your experience, someone else will.

For those wanting to leverage the Amazon channel, investing early in the technology that enables you to seamlessly surface your inventory through this and other marketplaces may give you a unique opportunity to gain a first-mover advantage. Retailers that are stuck in legacy systems, that are not sales channel agnostic, will find it increasingly hard to adapt quickly and be found everywhere their customers are shopping.

Ryan Murtagh, Neto CEO

neto

Neto is the only Australian retail management platform that provides a complete solution for ecommerce, point of sale, inventory, and fulfilment. Our integrated back-end technology enables exceptional and consistent customer experiences via any channel, be it in-store, online or through a marketplace. We automate repetitive tasks and integrate with multiple sales channels to manage orders and shipments.

Sell everywhere, manage everything

START YOUR 14-DAY TRIAL

