

The rise and rise of online retail

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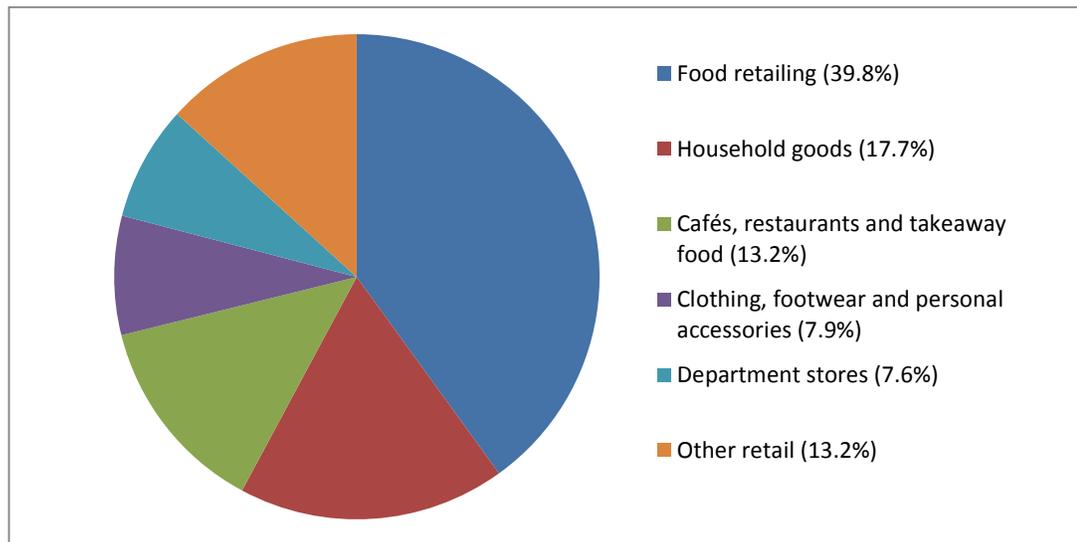
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Introduction

The online retail boom has begun and it is unlikely to abate soon. According to Southern Cross Equities¹ (2010) domestic online retailers have doubled their market share to 4.0 per cent of 2010 annual sales up from 2.1 per cent in 2005. In addition, overseas purchases driven by a strong dollar and falling shipping prices have risen to around \$5 billion in 2010 or the equivalent of around 2 per cent of total domestic retail sales. Voices from the bricks and mortar Australian retail sector have moved from dismissive to dismayed in the past 12 months due to lost sales to overseas companies but it is likely that many Australian companies will continue to capitalise on emerging opportunities and embrace this new form of commerce.

According to the Australian Bureau of Statistics (ABS), the retail sector in Australia has a turnover of \$243 billion per annum. The biggest segment of that is food retailing at 39.8 per cent followed by household goods at 17.7 per cent; cafes, restaurants and takeaway food at 13.2 per cent; clothing, footwear and personal accessories at 7.9 per cent; department stores at 7.6 per cent; leaving other retail accounting for 13.2 per cent.² The different segments and their share of the total are given in the following diagram.

Figure 1: Retail segments



The retail sector's turnover of \$243 billion should be compared with total household final consumption expenditure of \$715 billion,³ which suggests that 34 per cent of household purchases are provided by the retail sector.

While the percentage of the retail sector being spent online is small, it is rising rapidly, and that growth is likely to continue to accelerate.

¹ Southern Cross Equities, *Online Retailing—Globalisation of retail*, 27 January 2011.

² These figures are taken from ABS, *Retail trade, Australia, Mar 2011*, Cat No 8501.0, 5 May 2011.

³ ABS, *Australian National Account: national income expenditure and products, Dec 2010*, Cat No 5206.0, 2 March 2011.

Trends in online shopping

There are many reasons why online shopping has been slow to challenge conventional retail:

- There have been concerns over safety of giving financial details to unknown websites
- Online consumers are unable to see or hold items before buying them
- A weaker Australian dollar (until recently) has discouraged overseas purchases
- There is the risk of a slow returns or exchange process by mail if goods are faulty or unsuitable
- Domestic online shopping options have been limited due to slow investment in e-commerce by Australian retailers.

However, e-commerce has slowly but steadily gathered momentum since the false start of the dot-com internet company bubble in the late 1990s. It seems that a critical mass of willing customers combined with increased internet access have finally enabled internet companies to build trust, deliver lower prices and increase sales volumes. While substantial barriers to online shopping exist (see above), online shopping also provides a range of benefits in addition to prices that are often substantially lower than those offered by 'bricks and mortar' retailers. For example:

- Many consumers value the convenience and time savings associated with shopping online
- The internet offers access to a wide range of products and choices that could not be feasibly contained in even the largest retail outlet
- Even consumers who are not convinced about the advantages of purchasing online can now use the internet as a research tool to browse consumer information in the form of professional or user-generated product reviews and price comparisons.

What do Australians think about online shopping?

To explore community attitudes and behaviour in relation to online retail, the Australia Institute conducted an online survey of 1411 Australians in March 2011. The survey sample was representative of the adult Australian population by age and gender.⁴

Who is shopping online?

While the trend towards online shopping is now widely understood, the picture of the consumers who are driving this trend is not nearly so clear. Our results (tables 1 and 2) show that a relatively uniform majority (>60 per cent) of shoppers in all categories will 'sometimes' shop online. But the levels of 'All the time' or regular online shoppers are more variable, particularly by age with 25 per cent of 18 to 34 year olds attempting to shop online 'all the time'.

⁴ Survey respondents were sourced from an independent online panel provider and provided with a small incentive to encourage participation (\$2). To ensure a representative sample, quotas were applied by age, gender and state/territory, and data were post-weighted by age and gender. Small variations in sample size can occur from rounding errors as a result of the weighting process.

Table 1: Do you try to buy online where you can? (education, income)

| | Tertiary | High school | Did not complete school | <40K | 40–80K | >80K | All |
|--------------|-------------|-------------|-------------------------|-------------|-------------|-------------|-------------|
| All the time | 19% | 17% | 13% | 15% | 18% | 21% | 17% |
| Sometimes | 67% | 65% | 62% | 61% | 64% | 67% | 65% |
| No | 15% | 18% | 25% | 24% | 18% | 12% | 18% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| n | 631 | 558 | 220 | 361 | 399 | 440 | 1409 |

The frequency of online shopping increases with education level and income but decreases with age. Males are also slightly more likely to be online shoppers than females.

Table 2: Do you try to buy online where you can? (age, gender)

| | 18–34 years | 35–55 years | 55+ years | Male | Female | All |
|--------------|-------------|-------------|-------------|-------------|-------------|-------------|
| All the time | 25% | 18% | 9% | 19% | 15% | 17% |
| Sometimes | 64% | 68% | 63% | 65% | 65% | 65% |
| No | 11% | 14% | 28% | 16% | 19% | 18% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% |
| n | 425 | 532 | 452 | 687 | 721 | 1408 |

What are people buying?

Table 3 shows that DVDs, music and books are the leading products in internet purchases followed by electrical and electronic goods.

Table 3: Which of the following do you buy online where you can?

| | Male | Female | <40K | 40–80K | >80K | All |
|---------------------------------|------|--------|------|--------|------|------|
| DVDs and music | 84% | 79% | 71% | 82% | 88% | 82% |
| Books | 74% | 83% | 71% | 81% | 83% | 78% |
| Electrical and electronic goods | 79% | 62% | 72% | 72% | 70% | 70% |
| Clothes and shoes | 52% | 69% | 51% | 65% | 65% | 61% |
| Sports and leisure goods | 54% | 46% | 38% | 53% | 58% | 50% |
| Cosmetics and perfume | 41% | 56% | 35% | 52% | 53% | 48% |
| Fresh food | 11% | 14% | 14% | 12% | 13% | 13% |
| n | 571 | 578 | 269 | 326 | 385 | 1115 |

The products that follow: clothes and shoes, sports and leisure goods, cosmetics and perfumes can all be thought of as being harder to appraise without seeing, trying (or smelling) them first. Fresh food was the lowest ranked product type.

Why are people shopping online?

Table 4 shows that after saving money (85 per cent) the second highest reason reported for shopping online (65 per cent) was to compare products and prices. In a separate survey question (not tabulated here), 48 per cent of non-online shoppers reported using the internet to research one or more types of products before eventually buying them at a bricks and mortar store. Occasional online shoppers are also more likely to use this strategy (71 per cent as opposed to 64 per cent for regular online shoppers). The ability to buy things that are not available in stores is motivation for almost two thirds of online shoppers.

Table 4: Why do you shop online?

| | Male | Female | Regular online shopper | Occasional online shopper | All |
|--|------|--------|------------------------|---------------------------|------|
| To save money | 85% | 83% | 89% | 82% | 85% |
| To compare products and prices | 63% | 65% | 71% | 62% | 65% |
| To buy things that can't be found in a store | 61% | 66% | 62% | 64% | 64% |
| To save time | 52% | 55% | 63% | 51% | 54% |
| To avoid travel | 37% | 34% | 45% | 33% | 36% |
| To avoid shopping centres | 32% | 33% | 44% | 29% | 32% |
| To avoid salespeople in stores | 25% | 21% | 36% | 19% | 23% |
| For privacy | 11% | 9% | 18% | 8% | 10% |
| Other reason | 4% | 6% | 7% | 4% | 5% |
| None of these reasons | 1% | 1% | 0% | 1% | 1% |
| n | 578 | 582 | 243 | 918 | 1115 |

When asked the primary reason for shopping online (Table 5), an overwhelming majority (81 per cent) of online shoppers do so primarily to save money. These 'bargain hunters' tend to have slightly lower incomes, are younger and tend to buy on the internet only when the price is right.

Table 5: Which of these is more important to you?

| | <40K | 40–80K | >80K | 18–34 yrs | 35–55 yrs | 55+ yrs | Regular online shopper | Occasional online shopper | All |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|------------------------|---------------------------|-------------|
| Convenience (mall hater) | 12% | 19% | 18% | 10% | 20% | 18% | 23% | 14% | 16% |
| Lowest price (bargain hunter) | 85% | 78% | 79% | 88% | 78% | 77% | 77% | 82% | 81% |
| Not sure | 3% | 2% | 3% | 2% | 3% | 5% | 1% | 4% | 3% |
| Total | 100% | 100% | 100% |
| n | 275 | 329 | 387 | 377 | 459 | 324 | 243 | 918 | 1161 |

Are there different types of online shopper?

While the data provided above suggest that price is the dominant driver of the growth in online shopping price, as they say, is not everything. Indeed, the data suggest that for a significant minority, convenience and even the desire to avoid shopping centres plays an important role. For some, this desire to avoid shops is related to aversion to sales assistants and car parks, but for a significant minority with mobility issues, online shopping provides much better access to goods and services.

Bargain hunter: A bargain hunter is someone who is primarily interested in saving money or finding 'the lowest price'.

Mall hater: A mall hater is someone who prefers 'convenience of buying online'.

'Mall haters' are the minority who are more interested in shopping online for the convenience of saving time, avoiding travel or to avoid annoying malls and salespeople rather than purely for saving money. Mall haters may also be time poor (higher incomes) or have constrained mobility due to ageing or disability. Mall haters are also more likely to try to buy everything online (29 per cent compared to 20 per cent for bargain hunters).

Table 6: Bargain hunters vs. Mall haters

| Why do you shop online? | Bargain hunter | Mall hater | All |
|--|----------------|------------|------|
| To save money | 87% | 70% | 85% |
| To compare products and prices | 66% | 61% | 65% |
| To buy things that can't be found in a store | 65% | 60% | 64% |
| To save time | 51% | 67% | 54% |
| To avoid travel | 33% | 50% | 36% |
| To avoid shopping centres | 29% | 47% | 32% |
| To avoid salespeople in stores | 21% | 31% | 23% |
| For privacy | 10% | 13% | 10% |
| Other reason | 4% | 9% | 5% |
| None of these reasons | 1% | - | 1% |
| Which of the following do you buy online where you can? | | | |
| DVDs and music | 81% | 86% | 82% |
| Books | 77% | 88% | 78% |
| Electrical and electronic goods | 70% | 73% | 70% |
| Clothes and shoes | 60% | 68% | 61% |
| Sports and leisure goods | 50% | 53% | 50% |
| Cosmetics and perfume | 46% | 58% | 48% |
| Fresh food | 10% | 27% | 13% |
| n | 932 | 183 | 1115 |

Mall haters are almost three times more likely to buy fresh food online at 27 per cent compared with 10 per cent for bargain hunters (see Table 6). True to form, ‘mall haters’ have the highest level (47 per cent) of respondents who list avoiding shopping centres as a reason to go online. Mall haters are more likely to use the internet to compare products and prices (74 per cent as opposed to 64 per cent for bargain hunters), presumably to save time.

Figure 2: Examples of text for ‘other reason’ response to ‘Why do you shop online?’

- *To buy things from abroad which can't be found in Australia.*
- *Just love the way you know what you are getting and saving.*
- *More variety than where I live!!*
- *Quality & brands not stocked locally.*
- *Because my disability makes it less painful, too much walking.*
- *Parking in our town is disastrous—easier to buy online.*
- *Because I have anxiety disorder problem.*
- *I am disabled and find this makes my life easier.*
- *To avoid giving money to pompous idiots like Harvey Norman [sic].*
- *Home delivery—I have a debilitating illness.*
- *I don't want to waste time shopping when I work & have kids.*

Why people aren't shopping online

Table 7 ranks barriers for non-online shoppers. It is clear that wanting to see things before buying them is a big barrier to online shopping, which can be explained as a dearth of information—people can appraise items better once they have held them. In stores, books (or CDs) are often judged by their covers. So it isn't surprising that books and DVDs have higher levels of sales online (see Table 3) as book covers and sample pages are usually displayed online just as samples of music can be listened to before buying. It is much harder to choose the right shoe or clothes size without trying them on first in a store. Table 7: Which of the following is the most important thing stopping you from buying things online?

Table 7: Which of the following is the most important thing stopping you from buying things online?

| | Male | Female | Metro | Rural | All |
|---|-------------|-------------|-------------|-------------|-------------|
| I want to see something before I buy it | 37% | 53% | 48% | 41% | 46% |
| Concerns about security | 25% | 21% | 21% | 27% | 23% |
| I want to support local jobs | 15% | 9% | 11% | 14% | 12% |
| I'm used to buying things in-store | 13% | 7% | 10% | 9% | 10% |
| I want to talk to people in the store | 3% | 4% | 4% | 2% | 4% |
| Unreliable access to computer/internet | 2% | 1% | 1% | 2% | 1% |
| Other reason | 1% | 1% | 1% | 2% | 1% |
| Not sure | 5% | 4% | 4% | 5% | 4% |
| Total | 100% | 100% | 100% | 100% | 100% |
| n | 110 | 139 | 183 | 66 | 249 |

Concerns about security and domestic job losses also play a minor role as a barrier with slightly elevated levels of concern for males and rural Australians.

Price difference between bricks and clicks

As discussed above, the main motivation for shopping online is the pursuit of lower prices, and as the data provided below make clear, the pursuit of such lower prices is likely to result in very significant savings for those Australians willing to overcome the barriers to online shopping.

While there has been much debate in Australia in recent times about the role of the Goods and Services Tax (GST) in causing the price disparity between products sold in Australian stores and products purchased from overseas via the internet, as the data below show it is inconceivable that the exemption from the 10 per cent GST for goods worth less than \$1,000 that are imported by an individual could possibly account for the price discounts available to online shoppers.

In addition to the GST, there are a range of other factors that might explain the price disparity between many products sold through Australian retailers that are also available from overseas retailers via the internet. These reasons include:

1. Differences in labour costs
2. Differences in retail rents
3. Higher quality after sales service
4. Higher profit margins

While it is true that Australian retailer workers are paid more than their counterparts in, for example the US, as with the 10 per cent GST this disparity is not nearly sufficient to explain the very large disparities in domestic and international retail prices.

The issue of Australia's retail prices is more complex. Retail rent levels are determined largely by the willingness of retailers to pay for floor area with a large volume of potential customers moving past. The more profitable a retail outlet is, the higher the rent it will be able to afford, and the highly concentrated ownership structure of retail property in Australia has resulted in a significant portion of the high prices charged by Australian retailers being acquired as rent by the owners of the retail properties.

While there can be little doubt that bricks and mortar retail has the capacity to provide some customers shopping for some products with higher quality service, for example the ability to try on clothes or hold fresh fruit and vegetables, there can also be no doubt that many customers either do not require such service or are not willing to pay the high price charged for that service in the form of higher retail prices.

The final, and most significant, explanation for the price differences between many goods sold in Australia and the price of identical products sold overseas is the difference in the profit margin obtained by the retailer. The following sections provide an insight into how poorly Australian consumers understand what determines the cost of the goods they purchase and, in turn, how Australian retailers have managed to charge far higher prices for their products than their overseas competitors.

What is mark-up?

Mark-up is the difference between the wholesale and retail price for a product. Once other retailing costs such as labour and rents are paid, the remaining mark-up is a retailer's profit. In order to determine the retail price for a product many retailers rely on 'mark-up pricing'. That is,

firms apply a discretionary percentage (the mark-up) to the wholesale price of the good in question. For example, if a retailer was using a mark-up of 60 per cent, if they purchased a lounge chair for \$1,000 then they would seek to sell it for \$1,600.

While the mark-up is a major determinant of the profit margin earned by a retailer the profit margin will be less than the mark-up as in addition to covering the wholesale cost of a product the retailer must also cover their labour costs, rent, advertising and all other costs associated with operating the business.

While firms are usually reluctant to disclose their mark-up, it is possible, using industry data, national accounts data, and even firm specific data in some instances, to estimate the mark-up applied to a range of products.

Before providing some data on the actual mark-ups and profit margins charged by Australian retailers the following section provides data on customer perceptions of what they think a 'fair' mark-up is and which products they think have higher and lower mark-ups. This data shed light on the widely held misunderstanding that the major cost of purchases is related to the cost of manufacturing it. In fact, the major costs of most retail products are related to the costs of shipping, warehousing, displaying, advertising and sales staff and retail rents.

The advantage of online retailing is both the ability of retailers to avoid most of these costs combined with the highly competitive online environment driving down profit margins. That is, many customers are reluctant to leave one shop in search of lower prices elsewhere, but those same consumers are happy to click on a different link in the pursuit of even modest savings.

What is a fair mark-up?

In order to better understand Australian consumer's perceptions of what constitutes a 'fair' mark-up on the cost of goods and services survey respondents were asked 'By how much do you think it is fair for retailers to mark-up prices to make a profit?'

The data provided in Table 8 show that men and women along with people from across the income spectrum all believed that a mark-up of around 35 per cent was 'fair'.

Table 8: By how much do you think it is fair for retailers to mark-up prices to make a profit?

| Group | Average 'fair mark-up' response |
|------------|---------------------------------|
| Male | 36% |
| Female | 33% |
| <40K | 33% |
| 40–80K | 35% |
| >80K | 37% |
| All | 35% |

Survey respondents were also asked to select from a range of products the items that they thought had the highest mark-ups. The data are reported in Table 9.

Table 9 shows that cosmetics, fresh food and clothes and shoes are considered by 59 per cent of people to have the highest retail mark-up with only 18 per cent of respondents believing that furniture, sport and leisure goods, music and books had the lowest mark-ups.

Table 9: Which of the following kinds of products do you think tend to have the biggest mark-up?

| Product type | Mark-up |
|---------------------------------|-------------|
| Cosmetics and perfume | 21% |
| Fresh food | 19% |
| Clothes and shoes | 19% |
| Electrical and electronic goods | 15% |
| Furniture | 5% |
| Sports and leisure goods | 5% |
| DVDs and music | 5% |
| Books | 3% |
| Not sure | 9% |
| Total | 100% |
| n | 1409 |

Whereas tables 8 and 9 provide data on people's perceptions of absolute and relative mark-ups, the data provided in Table 10 provide actual data on the retail mark-ups charged by a range of Australian retailers. According to the ABS, the mark-up on products sold by retailers of clothes and shoes averaged 142 per cent. That is, if a store paid \$50 wholesale for a pair of shoes those shoes would be sold for \$121, the difference in price accounting for both the costs of retail and the profit earned by the store.

Table 10: Product average mark-up by type⁵

| Product type | Average mark-up |
|--|-----------------|
| Clothes and shoes | 142% |
| Other manufactured products | 97% |
| Electrical and electronic goods ⁶ | 85% |
| Furniture | 76% |
| Books newspapers and magazines | 52% |
| Fresh food ⁷ | 47% |
| DVDs and music | 40% |
| All goods wholesale or retail mark-up | 65% |

It is interesting to note that the lowest mark-up listed in Table 10 of 40 per cent for DVDs and music is still higher than the average perception of what is a fair mark-up of 35 per cent.

⁵ Source: ABS, *Australian National Accounts: Input-Output Tables—Electronic Publication, Final release 2006–07*, Cat 5209.0.55.001. No. 23, December 2010.

⁶ Professional, scientific, computer and electronic equipment manufacturing; electrical equipment manufacturing; and domestic appliance manufacturing.

⁷ Aquaculture; fishing, hunting and trapping; meat and meat product manufacturing; dairy product manufacturing; and fruit and vegetable product manufacturing.

The similarities and differences between the perception in tables 8, 9 and 10 are illuminating. In addition to consumers significantly underestimating the mark-ups charged by retailers there is also a low correlation between community perception of products that have a high mark-up and those that do not. For example, around two fifths of respondents thought that clothes, shoes and cosmetics were the products with the highest mark-up, which is broadly consistent with the ABS data that show that clothes, shoes and 'other manufactured goods (which includes cosmetics) have relatively high mark-ups.

On the other hand, around one fifth of survey respondents thought that fresh food had the highest mark-up when in fact fresh food has one of the lowest mark-ups of all products.

The significance of the disparity in the public perception about both the absolute level of mark-ups charged by Australian retailers and the disparity in the rank order of the products with the highest mark-ups should not be underestimated.

The greater the extent that consumers believe that a large percentage of the price of the goods they purchase is related to its cost of manufacture, rather than its cost of retail and distribution, the greater will be their surprise at the potential price savings associated from purchasing from online retailers who have much lower distribution and retail costs.

That is, most Australians who buy a \$100 shirt or \$1000 refrigerator believe they are buying an expensive material good when, in fact, they are buying relatively inexpensive material products but paying a high price for the 'service' of retail.

While some Australians will continue in their willingness to pay for this expensive service, it is highly likely that a substantial percentage of the population will believe that they are better off purchasing the material product while avoiding the retail service.

In the traditional bricks and mortar retail model it is difficult, if not impossible, for customers to express a preference for little or no 'retail service' but online shopping presents customers with a stark choice, often for the first time.

As the data provided above show, there are currently a range of barriers that prevent customers from shopping online, including trust and the desire to see and touch something before they make their purchase. While these barriers will always provide bricks and mortar retailers with an advantage, the question is whether or not the convenience and cost savings associated with online shopping will encourage a larger percentage of customers to shop online.

It is important to note that bricks and mortar retail remains the social norm and, in turn, the default choice for most consumers. However, as more people begin to shop online and discuss their perceptions of the advantages and disadvantages of doing so it is likely that the social norms and defaults of consumers will begin to change. To that end, analysing the likely growth trajectory of online shopping should be done in the same way as the growth trajectory for other consumer technologies. That is, when CDs, DVDs, iPhone and iPads first come on the market, the experiences of the early adopters helps to inform the subsequent decisions of the majority of consumers. If the experiences of online shopping are largely positive then it is likely that the growth trajectory of online shopping will not be linear, but exponential.

How big are international price differences?

There has been a lot of public comment in recent times about the nature and extent of online price differences. Such comment is both caused by increasing awareness due to the uptake of online shopping and, as discussed above, helps to drive further increases in online shopping as it helps to both communicate the benefits to non-online shoppers while assisting in the transformation of changing social norms.

For example, recent letters to the editor at the *Australian Financial Review* have drawn attention to the discrepancies in Australian and foreign prices of various articles.

- A tin of Heinz baked beans offered by Sainsbury's in London for 59 pence or by Woolworths in Perth for \$1.88 or £1.23
- A Business-class return ticket from London to Sydney in July, on its partner airline British Airways, is available at £4122, that is \$6286, compared with the cheapest business-class return ticket from Sydney to London on Qantas in the same month, at \$9403
- An Audi A5 overseas costs around £40,000 (\$60,900) yet here it costs upwards of \$110,000.

The provision of such information serves to highlight the fact that retail prices are, to some extent, arbitrary (due to the choice of profit margin and 'quality of service' offered by the retailer). While consumer demand plays an important role in constraining the choices made by retailers, rising awareness of international price differences helps to focus consumer's minds on the apparent inequity of such discretion.

In order to further establish the veracity of claims about the large price differences for similar or identical products that exist internationally the Australia Institute has conducted some of its own international comparisons. The data are reported below.

From the international Sony site we can follow links to many country sites and many of them have actual or suggested retail prices. Where necessary online searches in the country specified were performed. We picked one particular model—the 40 inch Sony Bravia KDL40NX710 which, in some countries has been updated by the KDL40NX720.

Table 11: Sony BRAVIA KDL40NX710/20

| | Local price in local currency | A\$ equivalent* | Differential % |
|-------------------------------------|-------------------------------|-----------------|----------------|
| Australia | 1999.00 | 1999.00 | 0 |
| US | 1079.00 | 995.85 | 100.7 |
| UK | 999.00 | 1520.78 | 31.4 |
| Malaysia | 5999.00 | 1854.98 | 7.8 |
| Singapore | 3299.00 | 2487.00 | -19.6 |
| France | 950.00–1018.00 | 1293.00–1385.00 | 44.3–54.6 |
| Vietnam | 29,900,000.00 | 1334.00 | 49.9 |
| * exchange rate as at 28 April 2011 | | | |

These findings show that Australian consumers face a price up to 100 per cent above the US price and well above other countries that have higher VATs than the Australian GST.

Popular music is often a concern to Australian consumers. The following (Table 12) is a survey of the price at the Amazon store (US) and the difference between it and the Australian price as represented by Sanity which operates both physical and on-line shopping as well as JB Hi Fi.

Table 12: Top 12 music items, 28 April 2011

| | Amazon CD (\$US) | Sanity CD* (A\$) | Differential | JB Hifi CD (A\$) | Differential |
|---|------------------------|------------------------|--------------|---------------------|--------------|
| | Adele: <i>Adele21</i> | 9.99 | 21.99 | 120% | 19.99 |
| Alison Krauss and Union Station: <i>Paper Airplane</i> | 11.88 | 29.99 | 152% | 19.99 | 68% |
| Emmylou Harris: <i>Hard Bargain</i> | 11.88 | 26.99 | 127% | 23.99 | 102% |
| Paul Simon: <i>So Beautiful or So What</i> | 9.99 | 21.99 | 120% | 19.99 | 100% |
| Foo Fighters: <i>Wasting Light</i> | 9.99 | 21.99 | 120% | 19.99 | 100% |
| Glee Cast: <i>Glee: The Music presents the Warblers</i> | 9.99 | 21.99 | 120% | 19.99 | 100% |
| Mumford & Sons: <i>Sigh No More</i> | 9 | 26.99 | 200% | 19.99 | 122% |
| Fleet Foxes: <i>Helplessness Blues</i> (pre-release) | 8.99 | 21.99 | 145% | 19.99 | 122% |
| Adele: <i>Adele</i> | 9.99 | 24.99 | 150% | 12.99 | 30% |
| Beastie Boys: <i>Hot Sauce Committee Part 2</i> | 9.99 | 24.99 | 150% | 19.99 | 100% |
| Stevie Nicks: <i>In Your Dreams</i> | 11.88 | 24.99 | 110% | | 0% |
| Explosions in the Sky: <i>Take Care, Take Care, Take Care</i> | 7.99 | 24.99 | 213% | 24.99 | 213% |
| Average | 10.13 | 24.49 | 144% | 20.17 | 106% |

*single CD price—usually less if more than one purchased

These figures show a massive advantage for consumers in the US compared with Australian consumers. The average CD is 144 per cent more expensive at Sanity than it is at Amazon. JB Hi Fi is known as a discount store and so its prices might be expected to be lower but they are still 106 per cent higher than Amazon in the US. On average each CDs cost \$20.17 at JB Hi Fi compared with \$24.49 at Sanity.

Another example of retail differences comes from a new model of the iMac, an Apple computer. The Australian price starts off at \$1399. An international comparison shows the variations given in Table 13. The advertisements used to collect this data all have a price expressed in terms of local currency before converting to AUD\$ (e.g. \$X, £X, €X, etc.). In creating Table 13 it has been assumed that Apple is offering the same basic model on which the starting price applies.

Table 13: iMac price comparison

| Country | Local currency | A\$ equivalent |
|-----------|----------------|----------------|
| Australia | 1399 | 1399 |
| US | 1199 | 1107 |
| UK | 999 | 1521 |
| France | 1149 | 1557 |
| Germany | 1149 | 1557 |
| Japan | 108,800 | 1229 |

Adjusting for indirect tax regimes may well mean Australian prices are slightly above some of the other countries in the sample. However, the difference is much less significant than seen in the other items reported here. That raises the obvious question of why the Apple distribution system can supply Australians at roughly world parity but other consumer goods cannot do so. Having said that we note that there remains a 26 per cent penalty for buying in Australia compared with the US.

Table 14: 2011 Dura ace 7900 road 'groupset' 8 pieces

| Website | Price |
|----------------------------|------------|
| Eurobikeparts (US) | \$1,503.00 |
| Totalcycling (UK) | \$1,551.00 |
| Ribblecycles (UK) | \$1,639.00 |
| Probikekit (UK) | \$1,929.00 |
| Torpedo7 (NZ) | \$2,449.00 |
| Bike n Bean (AUS) - fitted | \$2,799.00 |
| Freedom Machine (AUS) | \$2,999.00 |
| Cellbikes (AUS) | \$2,766.00 |
| Croyden Cycleworks (AUS) | \$2,599.00 |

A final example in Table 14 show price differences for the high end Dura ace bicycle 'groupset' or component package containing everything you need (drive-chain, brakes, etc.) to setup a high end road bicycle once you have a frame and wheels. The bundled nature of the groupset makes comparisons more accurate as there is less price variance than for any single component. An online shopper can save up to half the cost by buying from overseas websites.

Jobs

In recent months there has been increased attention to the impact of online shopping on Australian retail jobs, most publicly thanks to high profile campaigns by the retail industry. The National Retail Association predicted that 50,000 jobs would be lost.⁸ While there is no doubt

⁸ The figure appears to be estimated from the internet sales increase from 4 per cent to a predicted 8 per cent of retail sales over the next 5 years: 4 per cent increase in market share times 1.25 million retail jobs = 50,000 jobs lost.

that a loss of market share for traditional retail will lead to a reshuffling of the labour market, the 50,000 lost jobs prediction overlooks that revenue lost from one sector of the economy will end up in another. Even losses of sales to overseas vendors will create wealth for consumers who will be looking to spend their savings elsewhere.

50 per cent of all respondents think online retail hurts local jobs. Regular and occasional online shoppers are much less likely to think that online retail hurts local jobs (40 per cent and 47 per cent respectively as opposed to 69 per cent for non-online shoppers). It's likely that the causation for this behaviour and opinion acts both ways – some people who are less concerned about jobs will be more likely to shop online but others who originally would have been concerned about job losses may change or rationalise their attitude after getting used to paying lower prices.

Table 15: Is online retail hurting local jobs?

| | <40K | 40–80K | >80K | Coalition | Labor | Greens | Regular online shopper | Occasional online shopper | Non online shopper | All |
|--------------|-------------|-------------|-------------|-------------|-------------|-------------|------------------------|---------------------------|--------------------|-------------|
| Yes | 53% | 51% | 47% | 55% | 49% | 43% | 40% | 47% | 69% | 50% |
| No | 27% | 31% | 39% | 32% | 31% | 37% | 45% | 34% | 14% | 33% |
| Not sure | 20% | 18% | 14% | 13% | 20% | 21% | 15% | 18% | 17% | 18% |
| Total | 100% | 100% | 100% | 100% |
| n | 362 | 398 | 439 | 402 | 487 | 136 | 242 | 919 | 249 | 1410 |

Conclusion

The potential price savings associated with online shopping are frequently in excess of 50 per cent across a wide range of products. The cost of collecting information on such price differences is low, and falling, as more and more websites seek to facilitate such searches.

With 82 per cent of Australians already actively involved, online shopping is still growing rapidly. The question is not whether it will continue to grow but how fast. Participation rates for younger Australians are significantly higher and are set to continue growing as they search for new ways to use their smart phones. Half of the 18 per cent non-online shoppers reported using the internet to research products before purchasing in a store. It is to be expected that these cautious people testing the waters will be the next to become regular online shopping as they gain familiarity and experience its advantages.

For policy makers and retailers it is important to understand both the motivations and barriers to shopping online for the Australian consumer. Price obviously plays a considerable role, especially in Australia where retail mark-ups are high.

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