Access Economics and Morgan Stanley reports on the impact of Internet retailing/E-commerce

- The Access Economics (AE) and Morgan Stanley (MS) reports are broadly consistent in their analysis, although there are some differences in the detail. Both conclude that there are considerable opportunities available from more online retail activity in Australia for both Australian consumers and retailers, but that there are also some significant risks for instore retailers arising from the competitive pressures developing in this sector.

- Both conclude that, while the threat of online retailer competition to instore retailers has been present for 10 years, this threat is now becoming real due to lower online retailer costs (including lower rental costs and, in the case of offshore based online retailers, not paying Australian taxes), the strong Australian currency and technological change (for example, faster broadband and adoption of smartphones). Both also identify the need for instore retailers to meet new online competitors as a key driver in this market.

- MS and AE believe current total consumer spending in Australia on online retailed products to be $24 billion per year. AE estimates that 64 per cent of Australians have made an online purchase, whereas MS state that more than 50 per cent of Australians have never bought anything online.

- Both reports conclude that there is considerable scope for the amount of online purchasing to increase in Australia, as more consumers see the benefits of using the internet for shopping due to lower search times, wider product choice and lower prices.

- That said, MS also notes that there are reasons why Australian engagement with online retailing may be slower than the US and the UK, including issues of distance, a preference for the 'retail experience', low broadband penetration, different technical specifications on many products and low rates of direct sales to consumers by manufacturers. These concerns are also broadly reflected in the AE report.

- MS estimates that by 2015, if the amount of online retail penetration reaches the same levels as those which currently exist in the United States, then internet retailing could take up to 22 per cent of the growth in Australian retail sales.

  - However, this would involve a tripling of the share in Australia and implies annual growth in online purchasing that is much stronger than forecast by other reports such as Forrester's. [1]

- MS identifies the categories most exposed to online retailing competition as being: newspapers and books; electrical and electronics; department stores and clothing/footwear.

- MS further concludes that, while instore retailers can take some steps to counter this threat through developing their own online presences and the strength of their physical presence and branding, there will be leakage of sales to online retailers due to the lower costs they enjoy.

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[1] Forrester Consulting, "The Business of Australian Online Retail", *eCommerce Secure Insight,* PayPal Australia, November 2010.

- However instore retailers developing an online presence will also enjoy these lower costs, providing them with an incentive to do so.

- The MS report assumes the ratio of online purchases that are imported is 40 per cent
  - That is at the upper end of available estimates. . For example, Forrester's estimates are that imported goods account for just 20 per cent of online purchases and that this ratio is fairly stable over time.
  - There is no official data on the extent of online retail as the ABS does not collect data on low value imports.

- The MS report comments:

  "As retail conditions have deteriorated heading into the key Christmas period as online growth has accelerated..." (p4)

  - This suggests there is causation. However, retail trade growth has been below trend for some months and is more associated with the high household saving ratio seen over 2008-09 and 2009-10.