

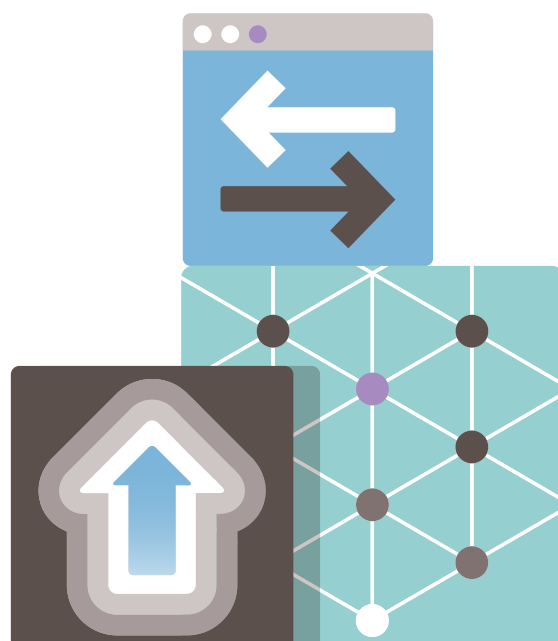
Enabling eCommerce in a digital economy

Insight paper
July 2018



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Enabling eCommerce in a digital economy

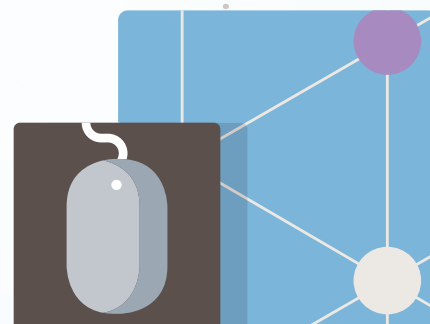
The internet has fundamentally changed the way we buy and sell products and services. Australians spent \$21.3 billion in our virtual shopping baskets in 2017.¹ Meanwhile online service transactions – from banking and government services to mobile phone plans or software downloads – are also now commonplace.

This digital economy has become business as usual. Consumers are in control – with more choice of when, where and how they can buy online, and how they want it to be delivered or returned. The boundary lines between retailer and supplier have dissolved, and traditional distribution channels are being disrupted by direct-to-consumer marketplaces. It's now possible to reach customers around the world, with just a few clicks.

In this new market landscape, Australian businesses have the opportunity to compete at a global scale and make the most of the benefits the online economy offers. But only with support and investment.

This insight paper looks into the current trends in eCommerce and the immediate opportunities. While eCommerce covers both products and service transactions; we also look at changing expectations for physical product trade, and the implications for the way we buy and pay for other types of products or services – including government services.

Consumers are in control – with more choice of when, where and how they buy online, and how they want purchases to be delivered or returned.



¹ Inside Australian Online Shopping, eCommerce Industry paper, Australia Post – 2018

eCommerce is the key to a thriving economy

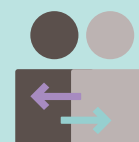
Australia's retail sector employs 1.2million Australians or 10% of the workforce² and retail sales are a significant contributor to our GDP – accounting for about a third of all household spending.³

Although Australians may have been slightly slower to embrace online shopping than the UK and US, we have been catching up quickly. In 2017, online spending growth outstripped traditional retail by 16.2 percentage points.⁴ Meanwhile, many of our online retail success stories are characterised by smaller entrepreneurial sellers; such as *Shoes of Prey*, *Mon Purse* and *Birdsnest*, and fast growing specialist e-tailers such as *Booktopia* and *The Iconic*.

Further growth is important for several reasons:

1

Online retail encourages **local employment growth** – in both urban and regional areas with lower physical barriers to entry. Entrepreneurs and communities outside the major CBDs can access more services, and be empowered to create their own futures.



2

There are **significant new export opportunities** in new markets, as our retail export patterns shift towards southeast Asia and China, meeting their preferences for trusted, healthy, 'eco' brands.



3

Consumers, business and government all share **broader benefits** – including convenient access to a wider choice of goods at better prices, as well as opening the door to more diverse markets for suppliers and retailers.



² *Industry Insights 2018*, Office of the Chief Economist – 2018

³ *Australian retail sales stall*, Business Insider Australia – May 2018

⁴ *Inside Australian Online Shopping*, eCommerce Industry paper, Australia Post – 2018

Technology will enable new value

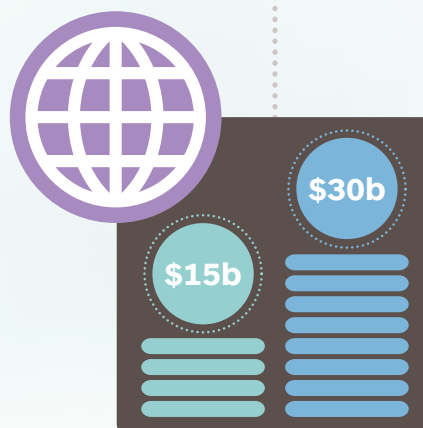
According to the World Economic Forum's report, *eCommerce and emerging business models such as the sharing economy*; curated subscription and 'do it for me' services could unlock \$2.95 trillion globally in value for industry and consumers over the next decade. Consumers could capture up to 68% of that economic value, by potentially saving time and money.⁵

These new transaction models wouldn't exist without the digital platforms that underpin them.

That's why digital innovation will be an essential investment in Australia's future eCommerce growth, harnessing the potential of automation, connected devices, advanced data analytics and artificial intelligence. According to McKinsey, Australia is currently lagging behind global players in our digital channel reach and influence on consumers.



McKinsey research indicates a potential retail EBIT improvement of \$15 to \$30 billion if we move quickly to become a world leader in digital innovation, claiming it could transform every step of retail's value chain, from sourcing and logistics to omnichannel consumer experience and engagement.⁶



⁵ *Shaping the Future of Retail for Consumer Industries*, World Economic Forum in collaboration with Accenture – January 2017

⁶ *Digital Australia: Seizing opportunities from the Fourth Industrial Revolution*, McKinsey & Company – May 2017

The current state of eCommerce

Globally, nearly **12%** of total retail business to consumer sales are online.⁷



According to [Australia Post's 2018 eCommerce Industry Paper](#), Australia is catching up with online sales accounting for **8%** of retail spend. By 2020, this is expected to grow to one in 10 purchases.⁸



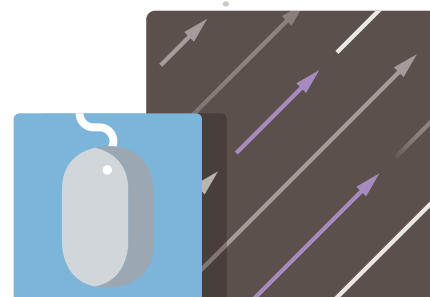
The way we shop and spend online continues to change. Most recently, we've seen the growing impact of special event days such as Black Friday and ClickFrenzy, which have shifted our traditional seasonal peaks of Christmas and Boxing Day. There has also been significant uptake of 'buy now pay later' platforms like Afterpay and zipPay – allowing instant gratification on a budget.

We're more open to purchasing on our smartphones too – mobile eCommerce transactions grew by 58% in 2017⁹ – indicating the rise of 'incidental' shopping on the go. Often mobiles are used for browsing and price comparison on the go before a desktop purchase later that day, so optimising retail content for shorter attention spans is critical – even if it's not the final point of checkout.

It's never been easier for Australian consumers to find, compare and buy products – and new marketplaces such as Amazon and Catch are further expanding their options by creating central platforms for multiple vendors. It's the 21st century equivalent of the department store concession and it enables suppliers to tap into large customer traffic and cross-sell opportunities.

However, marketplaces can also lead to price becoming the core differentiator as they centralise control of the buyer's product discovery and experience.

In this new ecommerce landscape – with a world of choice at our fingertips – sales and loyalty are won through customer experience, rather than product. Australia's merchants have proven their innovation capability when it comes to personalisation of product – such as Mon Purse's monogrammed bags, or custom-made Shoes of Prey. Global players like Amazon and Alibaba continue to set the bar for personalised experience – from product recommendations to seamless delivery choices.

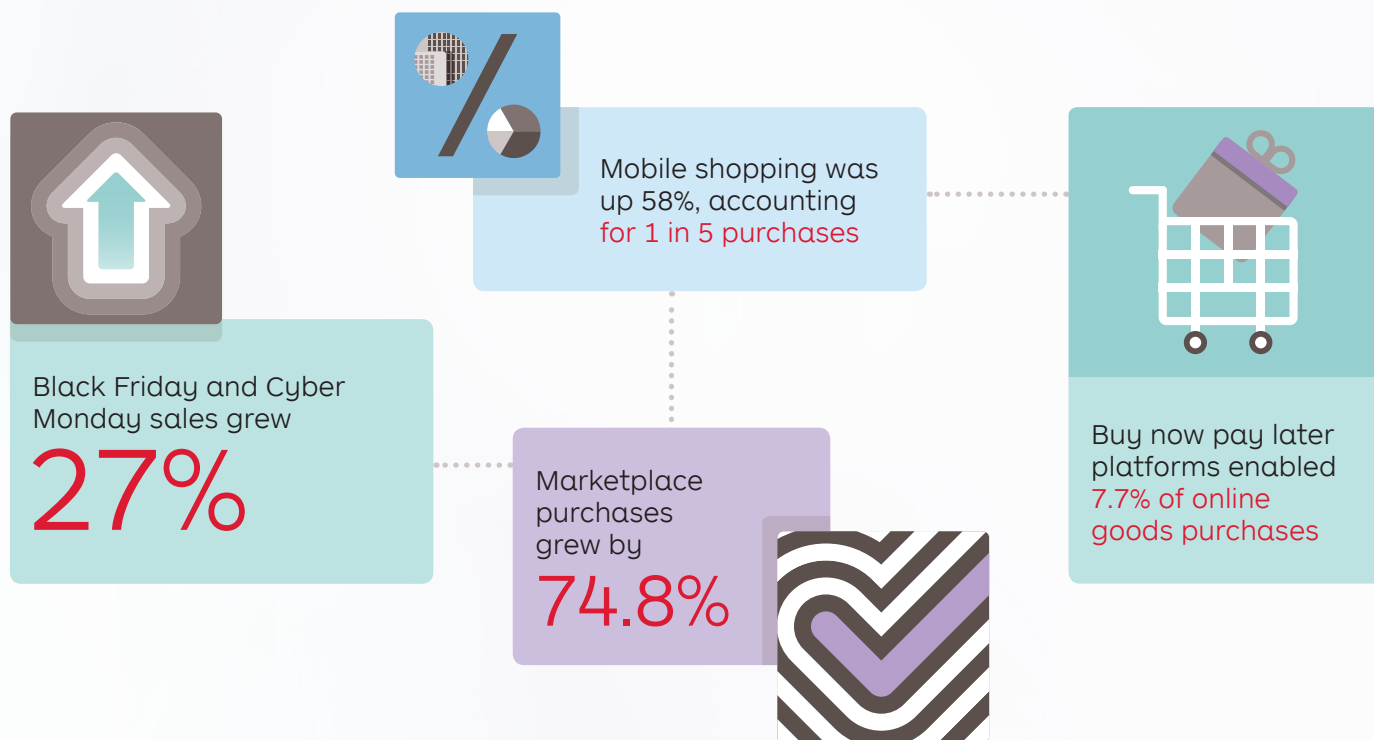


7 Signed, sealed, delivered (and regularly returned), Global Consumer Insights Survey, PwC – 2018

8 Inside Australian Online Shopping, eCommerce Industry paper, Australia Post – 2018

9 Inside Australian Online Shopping, eCommerce Industry paper, Australia Post – 2018

New trends in eCommerce



Source: *Inside Australian Online Shopping*, eCommerce Industry paper – 2018 (2017 figures)

New opportunities for ecommerce growth

Tapping into a trillion dollar global market

With 99.9% of global online spend sitting outside of Australia, the digital economy enables a 'shopfront without borders'. The global eCommerce goods market is set to reach over

US \$2trillion

by 2019, making this a significant export opportunity for Australian suppliers and retailers of all sizes.¹⁰

With almost

US \$500billion

in potential eCommerce value, China has emerged as a significant online market globally – and its sophisticated online buyers are particularly attracted by Australia's health, beauty and baby products. Many retailers build awareness

through marketplaces such as *TMall Global* (owned by Alibaba Group) and *JD.com*, as well as Tencent's *Wechat* social platform.

Amazon and Walmart are both investing heavily in India, where mobile wallet momentum could enable significant eCommerce growth. Meanwhile, South-east Asia's growing middle class also offers an attractive market for Australian eCommerce players.

Australian Export Award winner for eCommerce in 2017 *aussieBum*, is just one example: sales of its range of Australian designed and manufactured men's underwear and swimwear have grown strongly in emerging markets, particularly South East Asia and South Korea.

With 99.9% of global online spend sitting outside of Australia, the digital economy enables a 'shopfront without borders'.



Towards one-click check out

New **payment solutions** and integrated **eCommerce platforms** also enable growth by making it easier and more secure to buy and sell. A range of plug-in payment options – from Paypal and SecurePay to Afterpay and zipPay – helps remove friction in that final moment of purchase.

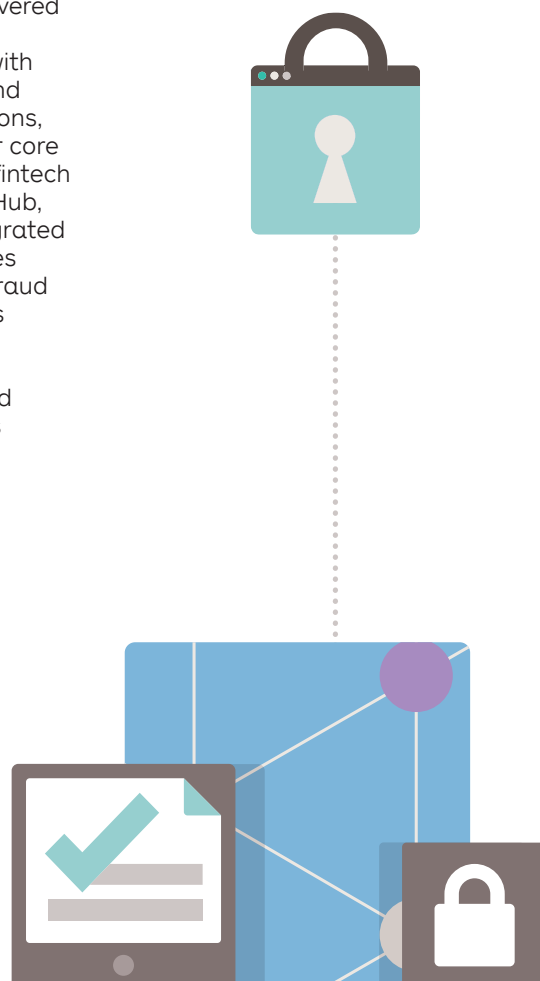
However, in general, we are still more likely to bank online or use government services than shop. As we discussed in [Australia's pathway to a digital economy](#), online shopping is one of the last stages in the digital adoption pathway. One reason is trust: eCommerce websites have one of the lowest levels of trust in the use of personal data at 19% (only social media was lower at 12%). As consumers value their financial information above all other personal data, payment security is a key factor in reaching digital laggards.¹¹

In response to the challenges associated with driving transformation in a digital world, we're seeing digital leaders build platforms internally. They believe doing so will enable them to maintain control of the end product and be cheaper in the long run.

They often underestimate the changing scope and complexities associated with internal development and implementation. We often see these projects run as much as 56%¹² over budget and expose Digital Leaders to the risk of their internal platform. Falling behind the market.

Alternatively, companies and government agencies have delivered purpose built solutions on time and on budget by partnering with specialists who design, build and maintain market leading solutions, enabling them to focus on their core business. Australia Post's new fintech joint venture, AlphaCommerceHub, provides access to a fully-integrated platform of eCommerce services – including secure payments, fraud and risk management, logistics and customer acquisition and loyalty programs. It's just one example of a platform designed to underpin a secure, seamless omnichannel experience.

Emerging technology, such as AI-powered chatbots and voice, can also help to build trust in the online shopping experience. Virtual sales assistants can create a 'physical' level of service in a digital environment, as Kent & Lime do with their personal shopper experience. In fact, 40% of shoppers don't care if an AI tool or a human salesperson helps them, as long as their questions get answered¹³ – and it's predicted the use of virtual customer assistants will jump 1000% by 2020.¹⁴



11 *Australia's pathway to a digital economy*, Australia Post – August 2017

12 <https://www.economist.com/node/4065653>

13 *HubSpot Global AI Survey Q4 – 2016*

14 *Are you being served? Why chatbots hold the most insight for Marketers*, Robert Schwarz, Marketing Magazine – 24 October 2017

Meeting expectations on delivery and returns

The other significant friction point in online purchases is **shopping costs and ease of returns**. Up to

65%

of Australians have abandoned a shopping cart due to high shipping costs – and a bad delivery experience will prevent

59%

from choosing that retailer again.¹⁵ Two-thirds say they'll shop more online if shipping is free – but only

26 to 39%

of Australian retailers offer this – even with a minimum spend.

Also an easy returns process is increasingly used as a differentiator by Australian online retailers keen to provide an omnichannel experience. This is especially true of those with little or no retail coverage – and is a ticket to play for segments such as apparel, footwear and small consumer electronics.

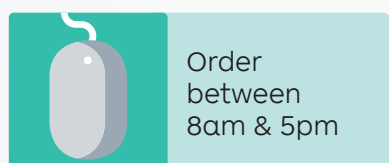
In fact, recent research by Australia Post (with a panel of online shoppers), revealed that offering free returns led to a 13% increase in basket size, a 13% increase in order frequency and a 26% increase in overall spend.

An Australia Post consumer survey also found the majority of frequent online shoppers would welcome the option to pay more for three hour delivery, and a nominated day and time delivery – and they'd shop up to 38% more as a result.¹⁶



Online shoppers are willing to pay for delivery choices

3 Hour Delivery



Order between 8am & 5pm



Receive your item within 2–3 hours

24% preferred

Would pay \$8.80 extra

Nominated Day and Time Delivery



Select a 2 hour delivery slot between 9am & 9pm at time of purchase (with at least 24 hours' notice)

30% preferred

Would pay \$5.80 extra

Source: Australia Post consumer survey, Nov/Dec 2017

¹⁵ The big problem with the \$22 billion online retail industry, News.com.au – July 2017

¹⁶ Consumer Delivery Preferences, Australia Post Survey conducted – Nov/Dec 2017

As consumers, our expectations for eCommerce are constantly elevated by our next great online experience – whether that's with Uber Eats, Airbnb or Netflix. So it's not surprising Australian consumer expectations align with global preferences.

A recent PwC survey found

25%

of online shoppers would pay more for a delivery in a 1 to 2 hour window of their choosing. Meanwhile,

65%

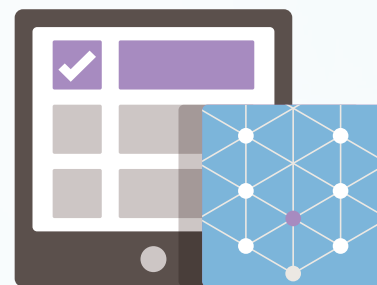
consumers value free return shipping above any other benefit.¹⁷

It's worth noting one-third of Amazon's customers have signed up for their subscription-based offer, Amazon Prime – and the most important benefit (for 72% of users) is the unlimited free delivery, while

25%

value free two hour delivery.¹⁸

Australia Post's Shipster service gives local retailers similar capabilities, and has become one of Australia's largest eCommerce shopping clubs with around 100 merchants providing unlimited free shipping[^] on eligible purchases for a monthly subscription fee.



¹⁷ Signed, sealed, delivered (and regularly returned), Global Consumer Insights Survey, PwC – 2018

¹⁸ Signed, sealed, delivered (and regularly returned), Global Consumer Insights Survey, PwC – 2018

[^] Shipster terms and conditions can be found at <https://auspost.com.au/shipster/terms?fm=search-organic>

Re-thinking the traditional distribution chain

The next wave of eCommerce success stories will compete on two fronts: **customer experience**, and the **cost and speed of delivery**.

Given our ever-increasing expectations of personalised, intuitive experiences and fast, convenient delivery, this may mean re-thinking the traditional distribution model.

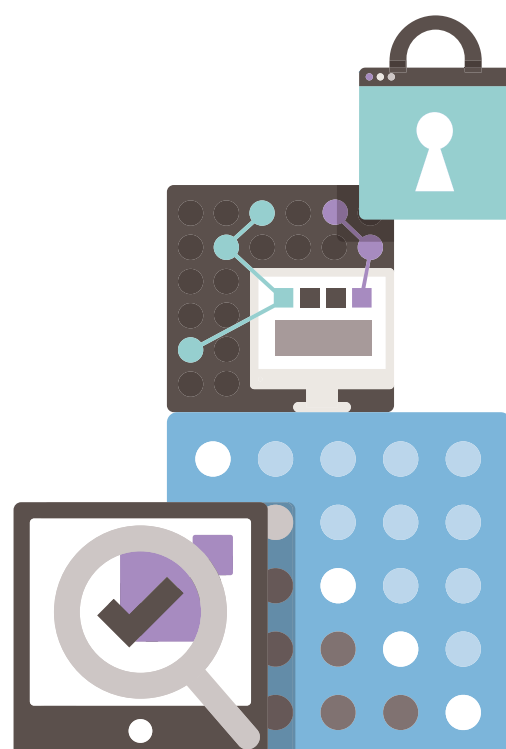
We're already seeing National distribution centres, inflexible routing and standard shipping charges are already making way for hyperlocal fulfilment centres, or drop-shipping from the manufacturer or local physical store. For example, Coles has trialled using Airtasker for same-day delivery, while department stores are experimenting with picking online orders in store.

The challenge is to optimise delivery for the individual customer. This will take an 'omniview' of stock location and availability. It's no longer a 'business to business' or 'business to consumer' approach: it's business to business and consumer at every touchpoint.

A fully-integrated platform will be essential. For example, AlphaCommerceHub can give the customer visibility and control over when and where their delivery is made – including the ability to text delivery options, or click and collect in store. It also integrates with Shipster, and has an identity fraud detection underlay, giving buyers and sellers peace of mind.

Another option is to outsource this increasingly complex logistics challenge. Australia Post has incubated tech start-up Fulfilio to warehouse, pack and deliver products to consumers. It supports custom packaging and product kits to enhance the customer experience, as well as automated fulfilment and split shipping.

Emerging technology will soon help us solve more aspects of this logistics puzzle. For example, the internet of things could enable a smart security device to enable a bulky or perishable delivery to be safely dropped inside your home – even if you're not there. Meanwhile, your voice-activated smart home assistant could help you make decisions on the day about where to receive your goods. Drones and self-driving vehicles may also help to further automate supply chains. Exporting fresh produce may become more straightforward with developments in cost effective cold chain direct to the consumer.



From products to services

When it comes to service eCommerce, physical distribution is obviously less of an issue. However, the same lessons in personalised customer experience and payment choice and security apply.



From banking and utilities to government services, customers are transacting online. But they expect the same convenience and seamless experience as if they're in a branch or retail outlet, or customer service centre, or talking to a call centre.

Face-to-face experiences will continue to be an important touchpoint – but the cost of providing this is growing, even as many transactions are digitised.¹⁹ In a recent survey, 94% of Australians told us they expect to be able to transact with government online (yet 70% of those saying they still want the choice of an in-person option). 20% still prefer to only deal with government services in person – a figure that hasn't changed in 10 years.

Online service transactions typically require a level of identity verification – adding friction to the experience. As outlined in our Digital Identity white paper, [A frictionless future for identity management](#), the ideal omnichannel service experience requires three things: a single over-the-counter entry point, more effective information and enquiry channels (online, chat or search, or over the phone), and a secure, convenient digital identity platform.



Lessons in customer experience

Product sellers and service providers face similar challenges

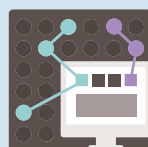
On-demand

Expectations for speed and delivery continue to accelerate



Made for me

Data insights and deep learning algorithms deliver personalisation at every touchpoint, and recognise loyalty



Give me confidence

Visibility, control and security will win my trust



¹⁹ Nous / Australia Post Government Services Consumer Survey 2017, *Future of Government services final report* – February 2018

What's next for eCommerce?

Future opportunities in eCommerce are being driven by customer expectations for convenience, access and choice. But they will be **delivered by technology**. New fully integrated platforms will underpin the omnichannel retailer of the future, enabling faster and more cost-effective product delivery options and a more responsive, frictionless customer experience.

As Amazon Go's pilot store in Seattle shows, the bricks and mortar store will still have a role to play in our retail sector. Its role, and the experience it provides consumers, may change. In the case of Amazon Go, it's checkout-free (scan a QR code on entry, and your grocery items are added to a virtual cart as you go). Walk in, walk out.

Alternatively, retail stores may simply become a 'click and collect' or physical showroom destination for online shoppers.

As Australian consumers continue to embrace online shopping, eCommerce players will need to become more innovative in meeting their individual expectations for **product personalisation, payment convenience, security, and delivery choices**. This begins with knowing your customer intimately – capturing data to tailor product search, provide helpful offers and recommendations, and continuing to engage after the sale.

Successful retailers are already doing this well – because they know it's far more important to create long term loyalty than short term sales.

This is the most important lesson from the ever-evolving digital economy; when customers have a world of shopping choice, product becomes less relevant – you can either differentiate on price, or on customer experience. Only the latter creates sustainable business value.



The next wave of eCommerce?

Voice

Be ready for voice-activated product discovery, orders and delivery management via home assistant devices like Google Home and Alexa



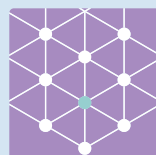
Chat

Virtual sales assistants that guide more complex purchase decisions



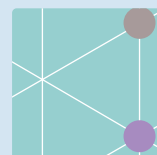
Internet of Things

Home security devices and smart appliances that order and accept deliveries



Omniview logistics

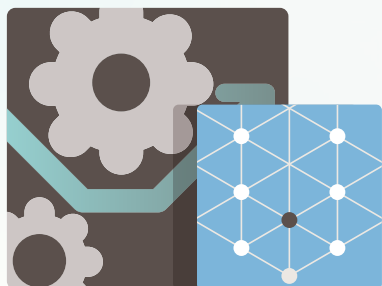
Integrated inventory and supply chain management that optimise delivery speed and cost



Australia Post is Australia's largest parcels, freight and logistics provider and is committed to connecting Australian businesses and the community.

Through our suite of logistics, supply chain and parcel delivery solutions, we help sellers and retailers of all sizes create seamless end-to-end eCommerce experiences – from checkout to delivery.

We're also investing in the secure digital infrastructure needed to manage online service transactions at scale – including Digital iD™ and AlphaCommerceHub – giving Australians greater access to the full potential of our digital age, and supporting business and government as key providers in our digital economy.



To find out more about our business and government solutions, please visit auspostenterprise.com.au