IRI Australia Industry Insights

AUSTRALIAN & GLOBAL ONLINE SHOPPING TRENDS

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The big question: will online sales momentum persist?

Some lifestyle routines developed during the COVID-19 pandemic, such as cooking and baking-at-home, may continue post-pandemic. The big question here: is online (FMCG) shopping one of them? And how will e-commerce platforms and user experiences evolve to support the growth potential?

This comprehensive 4-part report series explores this key question by exploring total online retail trends, as well as FMCG specifics.
E-commerce trends are explored in a comprehensive 4 part report series...
Online Shopper Data is Available Now!

IRI’s NEW eCommerce Pulse Check is now available!

For a limited time only get the eCommerce Pulse Check at the discounted price of $6,000 + GST
PART 1:
Australian E-Commerce & Digital Lifestyle Overview
E-commerce is 1 of 9 interdependent factors that impacts FMCG demand

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<td>New behaviours are likely to persist beyond the pandemic – including increased focus on hygiene and sanitation, studying and working from home, self-care and minimal business travel</td>
<td>Stay-at-home, &amp; other cautionary directives drive increased consumption of certain categories (e.g., laundry, alcohol, lunch), and usage declines tied to out-of-home activities (e.g., dry cleaning, visiting bars)</td>
<td>New and lapsed buyers, and increased consumption, have led to limited product availability. This, and boredom at-home, leads shoppers to try different products and brands</td>
<td>Even as stay-at-home restrictions ease, consumers are cautious about resuming ‘normal activity’ as the high freneticism and fear induced by COVID-19 persists</td>
<td>Traditional demand spikes for holidays, vacations and celebratory events are subdued as gatherings are scaled back, or simply avoided</td>
<td>E-commerce, click &amp; collect, grocery delivery and direct-to-consumer (DTC) sales are up globally, and are expected to continue to grow, even as COVID-19 restrictions begin to ease</td>
<td>Governments will continue to use economic stimulus to prop up economies, which will fuel future demand surges, and help to mitigate the severity of the pandemic’s severe economic ramifications</td>
<td>A surge in unemployment is creating severe financial strain for some households. But some industries and households are economically unscathed, or even better off</td>
<td>The pandemic remains an unknown. The absence of a vaccine, and the possibility of multiple waves of infection, could prompt more stockpiling and untypical FMCG consumption</td>
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Source: IRI analysis
The majority share (84%) of Australians now shop online. From March-June, there was a clear net gain in shoppers doing more online shopping. But broad penetration growth opportunities still exist, especially with older aged buyers.

Online accounts for a near double-digit share of total Australian omnichannel retail sales (as of June 2020) after recording share gains in Q2 that broadly matched the strong and consistent gains amassed in the prior 3-4 years.

Total annual e-commerce spend in Australia is approaching $30B following a 32% YOY increase in online revenues. The share of sales derived from ‘pureplay’ (38%) and ‘multichannel’ (62%) has been consistent for 4 years.

A confluence of consumer (pull) and industry (push) drivers mean that Australians are unlikely to go back to being as reliant on physical stores as they were. BUT, a slight drop-off in total online share has occurred as restrictions eased.

Plan for the ongoing migration of spend to online. Get more exposure to e-commerce growth by making it a large(r) focus. Find the ‘omnichannel sweet-spot’ to avoid cannibalisation of more profitable sales in other channels.

Accelerate digital and e-commerce strategies in response to e-commerce driving nearly two-thirds of all retail dollar growth*. Invest in a digital commerce organisation (CoE or dedicated digital teams to focus a strategic recalibration).

The high share of multichannel is encouraging for grocers yet to fully capitalise on the rise of e-commerce. If others can succeed, why not FMCG? Even more impetus now exists to fix a challenging (arguably broken) online model.

Recognise that necessity has been a major force in accelerated online adoption. Avoid banking on the same turbocharged acceleration in online retail share seen in H1 2020. Fusing the best of online and offline is key.

Source: IRI analysis; *to June 2020 per ABS data
PART 2:
Spotlight on E-Commerce Sales Trends Globally
E-commerce accounts for ~25% share of global retail revenues…

- Store-based net sales
- E-commerce net sales

<table>
<thead>
<tr>
<th>Year</th>
<th>Store-based net sales</th>
<th>E-commerce net sales</th>
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<tbody>
<tr>
<td>2014</td>
<td>89%</td>
<td></td>
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<tr>
<td>2015</td>
<td>87%</td>
<td></td>
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<tr>
<td>2016</td>
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<tr>
<td>2019</td>
<td>77%</td>
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</tr>
<tr>
<td>2020</td>
<td>75%</td>
<td>25%</td>
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Global online sales penetration has doubled in the last 5-6 years.

2014 - 2020: 6 yr lag

Australia’s current online sales penetration, even factoring in the enormous spike underpinned by the COVID-19 pandemic, is comparable with the global average in 2014.

40% is the estimated sales penetration in Asia Pacific.

Source: IRI analysis of Edge by Ascential data
Australia’s online sales penetration, both FMCG and overall, remains low by other comparable global standards. Meanwhile, China’s leading position as an e-commerce powerhouse has been accentuated by COVID-19.

Globally, the COVID-19 driven lockdown boosted online sales of essentials. E-commerce share of total UK retail has soared since Feb. Overall online sales, and food sales, are proportionately ~2-3 times higher than in Australia.

Instacart and large, invested retailers Amazon, Walmart, Target, Costco, Kroger, Ahold Delhaize and Albertsons have captured increased US consumer demand and are accelerating investments in better shopping experiences.

Circumstantial factors are important when making country comparisons. For many American and UK families, online shopping has replaced/heavily supplemented store and mall visits due to exponentially higher risk of infection.

Key insights

Thought starters

Stay informed of e-commerce themed consumer and innovation trends in within China. Doing so is a window into the future of how differing e-commerce concepts (and consumer expectations) will evolve.

The UK market is a benchmark for the sales expansion opportunity in Australia in spite of the recent online surge. If Australia reached UK online sales penetration levels >$75M would migrate from bricks & mortar retail to online*.

Plan for ongoing dominance of the big purveyors. Despite the emergence of compelling online start-ups in the Pacific region we expect, like the US, further consolidating the online landscape to large, national players.

Nevertheless, Australian FMCGs need to excel at omnichannel category management, setting the goal of overtrading versus each retailer’s brick-and-mortar business. What we are seeing is just the beginning.

Source: IRI analysis; *at current market size parameters
PART 3: Australian FMCG E-Commerce Overview
Online HH* penetration remains low vs. total online retail

The low penetration reflects how getting grocery shoppers to take the initial plunge online has been a core challenge. And because online has centred around larger replenishment occasions, trial and engagement has been harder to drive at a time when Australians have been shopping ‘little and often.’ There is a need to remove the friction that stands in the way of turning occasional buyers into loyal, more frequent buyers.

Source: IRI Shopper Panel, MAT & QTR To 19/07/20 vs. MAT & QTR To 21/07/19; *Household penetration
Online grocery baskets are far higher than the channel average

An average ‘Big 2’ online grocery basket is nearly triple the overall average

The expense of the last mile of grocery delivery (which is less developed than overseas) is an obstacle to Australian shoppers being able to adopt high-speed, smaller and more frequent baskets online. Online FMCG ultimately has to do is fulfil basic needs with excellence. Therefore it has to be reliable, affordable, quick AND flexible

Source: IRI analysis; IRI Shopper Panel, QTR To 19/07/20 vs. QTR To 21/07/19
Online was already a leading growth channel for Australian FMCG retail before COVID-19. But FMCG still exists on the fringes of broader e-commerce uptake; online share of all supermarket revenues was only ~4% pre-pandemic.

Penetration varies considerably by FMCG category. Over a third (34%) of Australians claim to buy personal care online, but only 12% use e-commerce for fresh food. Other metrics likely inter-purchase intervals (IPI) also differ.

Latent online FMCG demand is not reflected in the last 6 month’s of sales data because fulfilment deficiencies were exposed by huge demand spikes. Still, >150K HHs tried online grocery for the 1st time in the latest QTR to mid-July.

Online baskets are far higher than the grocery average as e-commerce is mostly used for larger stock-ups. There is a need to remove the friction preventing the conversion of occasional buyers into loyal, more frequent buyers.

Reducing delivery costs and improving the fulfilment experience (quality & reliability of what is picked) is key to realising the opportunities of Australians embracing new ways of obtaining FMCGs. But don’t leave in-store behind!

Understand omnichannel purchasing behaviour for your product categories and invest accordingly in retail partners. Customise innovation & pricing for the online environment. Use our new ‘e-commerce Pulse Check’ as a starting point.

Start activating online. Focus on strong e-commerce distribution to ensure the right SKUs are available where shoppers (increasingly) are. Use delivery promotions to encourage adoption, build baskets and spark impulse buys.

Online will continue to take a growing share of FMCG retail. Completion warehouse automation allowing for better fulfilment* will underpin longer-term growth. So too will leveraging the 4 e-commerce trends covered in Part 4.

Source: IRI analysis; *both micro- and centralised-fulfilment
PART 4: E-Commerce Concepts: 4 Global Trends To Watch
IRI anticipate **4 key trends shaping future directions in e-commerce**

Conversion to e-commerce will continue to rise into 2021 and beyond as infrastructure investments, and the incorporation of broader consumer trends, catch-up with heightened COVID-19 related demand.

**Provider Proliferation**

**Impulse & Immediacy**

**Experiential Engagement**

**Sustainably Superior**

*Source: IRI analysis*
Vast e-commerce choice is evident from: a DTC explosion; tiered delivery subscriptions; new independent & other non-traditional providers; more marketplace integrations; brand-led price curation; and dedicated B2B online platforms.

E-commerce pioneers – large and small, local and global – have lifted the provision (and expectation) of fast/flexible delivery. Delivering against this trend has the potential to evolve FMCG online beyond larger replenishment orders.

The (over-hyped) allure of in-store theatre and ambience has helped protect physical retail’s share. But ‘e-commerce 2.0’ enables an engaging, immersive and social experience as prosaic search-driven online platforms lose relevance.

The turbocharged growth of online retail will enhance the spotlight on the channel’s overall sustainability. Food waste, packaging waste, and carbon footprints emanating from the material increase in online deliveries will be in the spotlight.

Current market conditions give impetus to fast-track new e-commerce solutions and more investment in trade marketing in an e-commerce setting. Also consider 1st, 2nd, 3rd party pricing and its impact on brand sales/perception.

Work with retailers to erase usage friction. Ensure ease of finding and getting desired products. Build brand presence and use key words to promote search and encourage discoverability. Invest in online availability tracking.

With ongoing penetration gains, making e-commerce usage exciting is the new frontier. Pursue partnerships that create opportunities for non-conventional ranging, or more experiential interactions via livestreams, AR, VR etc.

Monitor ‘green innovation platforms’. What can be adapted from subscription-based reusable packaging? How can you make buying local easier? What does the emergence of a ‘digital shoppable catalogue’ mean for print media?

Key insights

Thought starters

Source: IRI analysis; *at current market size parameters
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