

ONLINE BUSINESS INDEX

SURVEY OF AUSTRALIAN ECOMMERCE BUSINESSES
MARCH 2011

How online sellers are tracking

How online commerce has changed in the past year

Drivers and barriers to growth

How the strong dollar and restrictive practices are affecting online sellers

New technology

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The *Online Business Index* is a major survey of Australian businesses engaged in ecommerce. Now in its second year, it has been compiled using survey responses from 357 top sellers registered on eBay.com.au, whose annual turnover ranges from \$43,700 to more than \$2.8 million.

The survey's aim was to provide insight into the experiences of online businesses, and how this has changed over the past 12 months. It was sent to the top 3,000 sellers by sales volume registered on eBay.com.au and was conducted by market researchers Stokes Mischewski between 16 December 2010 and 11 January 2011.

The sample on which the index is based represents online businesses of different sizes from around Australia with varying relationships to eBay.

The Online Business Index provides an insight into online businesses. But it also provides this increasingly important sector in the Australian economy with an opportunity to express its views. Thank you to all business owners who contributed to this, the second edition of the *Online Business Index*. If you believe there are issues it should canvass in future, we'd be delighted to hear from you. Please email us at: mediaaustralia@ebay.com.au

The *Online Business Index* is produced by Businesswriters & Design for eBay. Contributions to future issues are welcome.



THE OPPORTUNITIES AND CHALLENGES FOR ONLINE BUSINESSES

Welcome to the second *Online Business Index*, a survey of eBay's top sellers that demonstrates how Australian businesses engaged in ecommerce are faring.



The index, together with other data collected over the year, showed that Australian-based sellers on eBay experienced phenomenal growth in 2010 – 10 times greater than retail growth over the same period.*

What's more, the top 2,000 sellers' turnover grew by 38%. These results are remarkable, especially when compared to retail growth which remained flat in 2010.

The annual turnover of these businesses ranged from over \$120,000 to more than \$12.6 million. Additionally, 13% more sellers generated sales over \$1million in 2010 than in 2009.

The consistently strong Australian dollar has played a significant role in bringing consumers online. Shoppers now recognise that the internet is a great place to buy branded and new goods at great value. In turn, this has benefited the Australian businesses operating online.

Interestingly, research shows that Australian consumers prefer buying from Australian sites and largely go offshore because of the limited range of branded goods and items available on local sites. Yet surprisingly, the index has uncovered restrictive sales practices of some suppliers, who try and prevent the sale

of their goods online. This means that sellers in Australia are not only unable to offer the selection they would like to, but are being actively prevented from giving consumers what they want. We look forward to this situation changing.

We are delighted by the growing number of retailers, such as Logitech, Optus and ABC Shop, which are partnering with us to implement eBay as an additional sales channel. We look forward to even more retailers and suppliers, both large and small, joining us to grow ecommerce in Australia.

markets. 25% of Australians use their mobile phones to shop online and in 2010, they bought over 2.5 million items on eBay using a mobile device.

Mobile commerce is growing both eBay's and its sellers' businesses. It's one of the many reasons why we, like the sellers in this survey – are so optimistic about the year ahead.

Deborah Sharkey
Vice President
eBay Australia & New Zealand

* eBay and ABS data compared over a 12-month period ending 31 December 2010. ABS data excludes food and cafes.

"The top 2,000 sellers' turnover grew by

38%"

In the meantime, eBay in Australia is doing all it can to enable ecommerce. During February's Online Retail Forum hosted by Senator Conroy, we were able to dispel some of the myths surrounding operating a business online, as well as highlighting the opportunities open to those retailers who have an online presence.

Additionally, eBay sellers have identified postage as a significant enabler of further growth. While there is still a big job to be done in improving the range of services on offer from postal suppliers, we are confident that continued partnerships, such as a recent partnership with Australia Post offering discounted postal rates for eBay sellers, will do much to increase selling activity.

As to the new growth drivers, undoubtedly mobile commerce is changing the game again. Australia is one of the fastest growing international eBay mobile

HOW ONLINE SELLERS ARE TRACKING



Selling through different channels is a key success factor for online businesses

Sellers' optimistic business outlook is reflected in expected staff increases from 4 to 6 paid staff

eBay has consolidated its position as preferred channel, accounting for 68% of overall sales

Online retail is growing rapidly in Australia. According to a study commissioned by PayPal, Australian online retail will reach \$36.8 billion by 2013, with expectations that around four-fifths of all Australian online spend will be with local websites*.

eBay's sellers are benefiting from this growth. Most (69% vs 67% in 2010) are optimistic about the business outlook in the coming year. Furthermore, one in four small-to-medium sellers and one in three larger sellers say they are 'very optimistic'. Indicative of this optimism – and online sellers' growing force in the Australian economy – are their staff numbers. They are employing on average 4.4 paid staff and expect this number to jump significantly to 6.0 in the next 12 months.

Multi channels

A key success factor for online businesses is the ability to sell through a variety of different channels. On average, they use 2.4 sales channels (2.5 in 2010) with eBay remaining the principal channel. On average eBay accounts for 68% of overall sales – up from 63% last year.

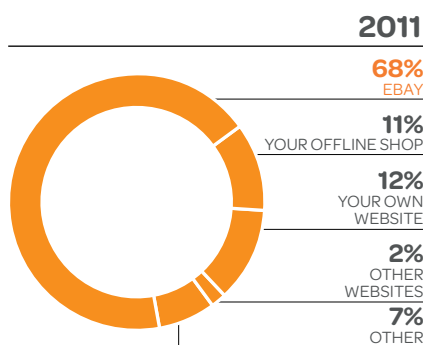
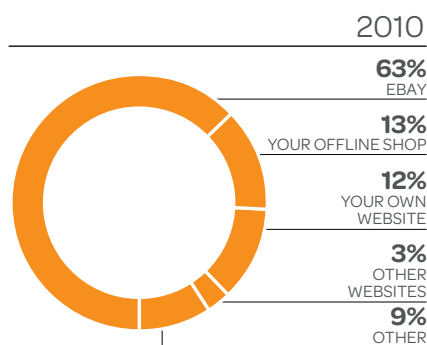
Online businesses continue to sell products in a wide variety of categories, with the most common being: home and garden; clothes, shoes, accessories and jewellery; and sporting goods and memorabilia. A significant proportion (40% vs 42% in

2010) sell in more than one category, with most averaging 1.4 categories.

As in the 2010 survey, online sellers are more or less evenly divided between those who operate as sole traders (43%) and those who've established companies (42%).

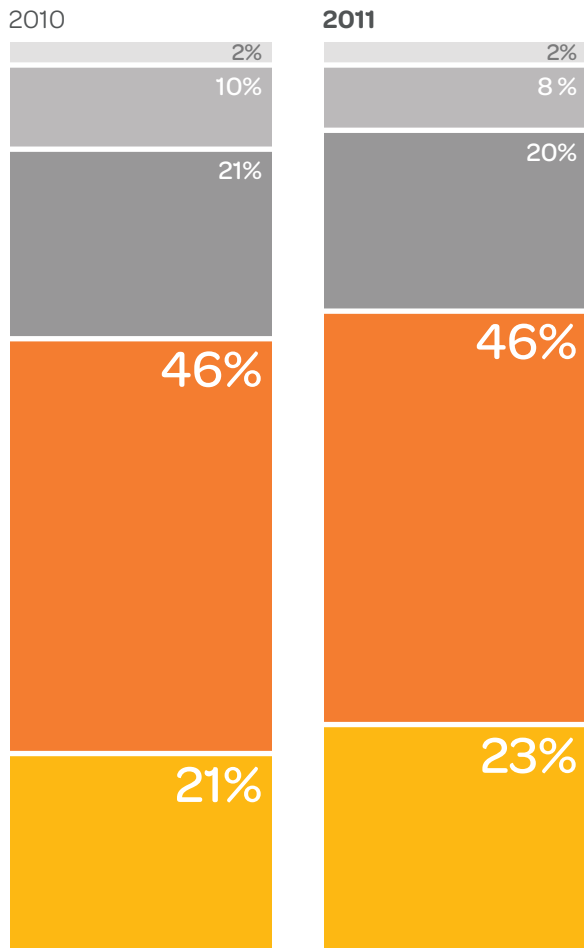
**eCommerce Secure Insight p7*

DISTRIBUTION OF SALES ACROSS BUSINESS CHANNELS (AVERAGE OUT OF 100)

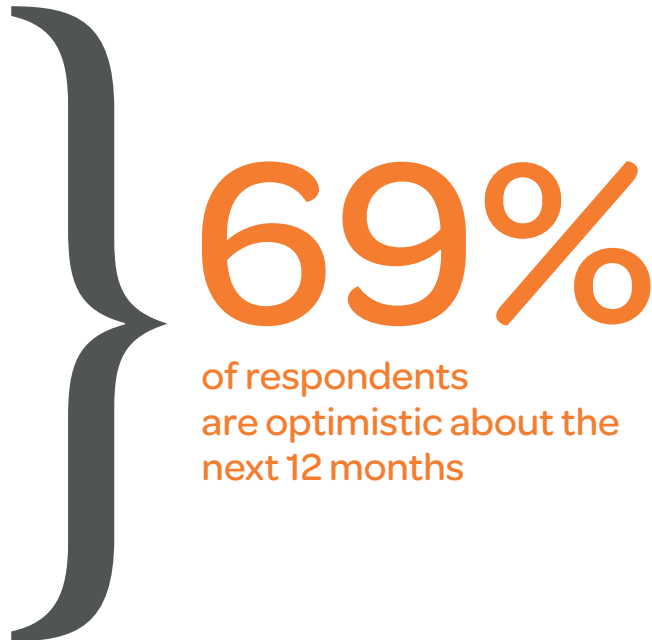
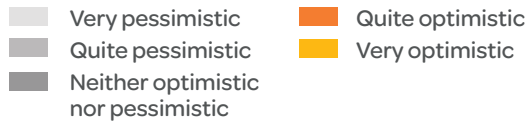


We are online now because it made no sense financially to be offline. I've been in bricks and mortar and in retail and this business model is much better."

Paul Crosby
Isle of Wine



BUSINESS OUTLOOK FOR THE NEXT 12 MONTHS (% RESPONDENTS)



STAFF COMPOSITION OF BUSINESS (AVERAGE)

	2010 CURRENT	2011 CURRENT	EXPECTATIONS FOR THE NEXT 12 MONTHS
Total no. paid staff	4.2	4.4	6.0
Full-time (>35 hrs a week)	2.6	3.0	3.1
Part-time (>16 hrs a week)	0.6	0.5	1.1
Part-time (<16 hrs a week)	0.2	0.2	0.7
Casual or temp.	0.8	0.6	1.1
Unpaid helpers	Not asked	0.9	0.3

Jethro Marks, co-founder of successful online bookstore The Nile, launched the business on eBay 14 months ago. He now has 30 staff across Australia and New Zealand and recently established a US eBay presence, selling US products to American customers.

The principal driver for his business' growth, he says, is the massive surge in Australians going online, thanks to a growing recognition that there are

local alternatives to the products they've been buying overseas.

Procuring books from a variety of countries enables him to offer the best deals – whatever the exchange rate – though the strong Australian dollar has made imports, especially those from the US, very competitive. **“We’ve been able to pass that on to customers and give them a much better price,”** Marks says.

He welcomes the fact that more and more Australian retailers are moving online. It will create a more robust local industry which ultimately will convince customers to look locally first before going offshore. However he dismisses the call for government support in lowering the tax threshold for imported goods as a call for protectionism.

“Rather than trying to get regulatory assistance, retailers should devote their

energy and money to their online offering.”

Jethro uses social media like Twitter and Facebook “aggressively” to build a community and deepen relationships with customers and sees increased internet availability and speed as positive developments. “It puts the online offering into more people’s hands in a better format. **Anything that’s done to bring more consumers online will benefit us all.**”



JETHRO MARKS

DRIVERS AND BARRIERS TO GROWTH



Pressure from manufacturers and suppliers is widespread for online businesses

The strong Australian dollar benefited local online businesses and consumers

Sellers see consumer demand as a key growth driver, while increasing competition is a key barrier to growth

Pressure from manufacturers and suppliers is widespread, with 78% of respondents experiencing difficulties of some kind either occasionally or frequently.

The most common difficulties involve manufacturers and/or suppliers trying to restrict businesses from selling their goods online or on particular websites (reported by 35% of businesses), followed by manufacturers and suppliers imposing conditions on businesses that wish to do so (reported by 28% of businesses).

Additionally sellers have faced issues with manufacturers and suppliers requiring them to sell their products at a particular price online (reported by 25% of businesses).

Aussie dollar

Contrary to the claims of large Australian retailers, the rising Australian dollar appears to have benefited both Australian online businesses and consumers.

Half of the respondents capitalised on the rise by taking the opportunity to import more products (49%) and the majority of online businesses (42%) report that demand for their products has increased as a result of the dollar.

The rising dollar also appears to have served the needs of consumers, with more than 40% of online businesses reporting that they had passed on cost savings to their customers.

Consumer demand

Most online businesses (60%) consider that consumer demand will be a key growth driver. Other drivers include the range of services provided by Australia Post (32%) and the availability of access to credit and finance (20%).

Increasing competition

The most commonly mentioned barrier to growth is increasing competition (mentioned by 67%), either from international online businesses (55%) or from the shift online of major Australian retailers (46%).

The cost of doing business is also cited as a barrier to growth, notably postage costs (mentioned by 50%) and cost of supplies (43%).

FACTORS IMPACTING GROWTH OVER THE NEXT 12 MONTHS (% RESPONDENTS)



IMPACT OF STRONG AUSTRALIAN DOLLAR ON BUSINESS
(% RESPONDENTS)

49%

You've taken the opportunity to import more products into Australia

42%

Demand for your products has increased as more Australians are shopping online

32%

Demand for your products has decreased as more Australians look off-shore for lower prices

43%

You've passed on savings to your customers by lowering prices


39%

You've reduced your prices to compete with overseas retailers and sellers

FREQUENCY OF EXPERIENCING DIFFICULTIES WITH SUPPLIERS
(% RESPONDENTS)

	OCCASIONALLY	NET FREQUENTLY OR OCCASIONALLY
Tried to prevent you from selling their goods on the internet or on particular websites	25	35
Told you that you are only allowed to sell their goods on the internet or on particular websites if you meet certain conditions	19	28
Required you to sell their products at or around a particular Recommended Retail Price	19	25
Experienced unexplained problems with suppliers or manufacturers which you suspected were due to selling their products over the internet	17	22
Required you to display their goods in a particular way	15	17
Experienced difficulties with suppliers or manufacturers as a result of you offering to ship their products to customers in other countries	10	13

“Some suppliers won’t sell to you if you’re an online business, especially if you’re selling goods on eBay”, says South Australia-based Kirsty Chapman-Smith. Kirsty’s company Discount Party Supplies now supports herself, her husband and three casual staff and is expected to turn over \$450,000 this year – up from \$250,000 last year. Kirsty says traditional retailers hold some of the blame. Working from a small warehouse means her overheads are a lot less than those of a traditional retail store and she’s able to offer better prices. “Traditional retailers kick up so much fuss that their suppliers think: ‘I don’t want to lose the business of the people I’ve been supplying for the past 10 years. I won’t supply online sellers.’” Kirsty cites instances in which she has placed orders worth thousands of dollars. When the suppliers have asked where the product needs to be shipped to – and discover it’s a small online operation – they say they’re “not allowed” to make the sale. How does she get around it? “There’s no getting around it,” she says. “You simply don’t deal with those suppliers and find others, rather than banging your head against a brick wall.” Happily, though, this mindset is gradually changing. Suppliers are realising that retail outlets need an online store as well, she says. As for traditional retailers calling for a better deal for themselves, Kirsty says: “They have a choice to come online to do different things. It’s sad to see that they can’t take decisions to grow their businesses without trying to bring down those of other people.”



KIRSTY CHAPMAN-SMITH

NEW TECHNOLOGY



Significant segment of sellers to invest in mobile commerce and social media in the coming year

More than seven in ten sellers anticipate availability and speed of mobile internet will have positive impact

Global mobile sales on eBay tripled to nearly US\$2 billion last year, with Australia, the UK and Germany the fastest growing markets

Mobile commerce and social media marketing channels will play an increasingly important role for online businesses in the coming year. A substantial segment of sellers (61%) intend to increase, maintain or start marketing through social media channels, while 62% say they will maintain, grow or start using mobile commerce.

Sellers consider other technological developments likely to support growth in the coming year. More than seven in ten anticipate that the availability and speed of mobile internet will have a positive impact on their businesses in 2011.

Increased payment and sales volumes

PayPal Australia has seen a 12-fold increase in mobile payment volumes, from AU\$2.7 million in 2009 to AU\$35 million in November 2010*.

Similarly in 2010, consumers bought nearly US\$2 billion worth of goods globally through eBay's mobile applications. This is expected to double to US\$4 billion in 2011.

Mobile apps

iPhone users from over 190 countries have to date downloaded the main iPhone eBay application more than 30 million times.

Australians are also showing a strong preference for mobile shopping. In fact,

an item is purchased every 15 seconds in Australia through eBay mobile apps and between 5 to 10% of Australian iPhone owners log into eBay's mobile app every day.

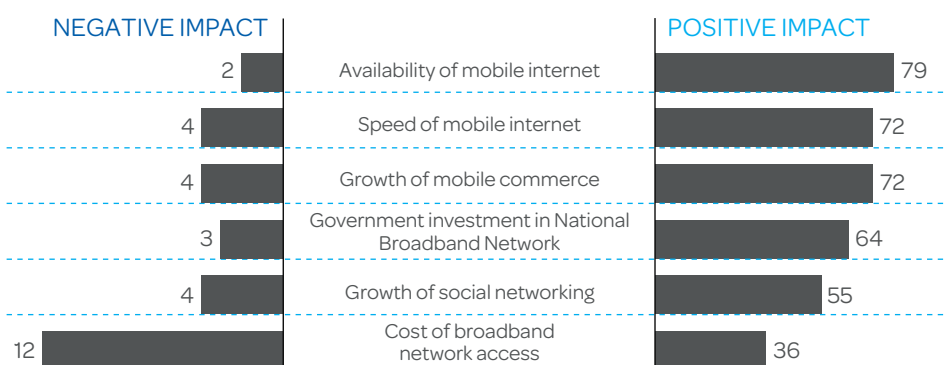
Shoppers purchase everything from cars and trucks to clothing, shoes and accessories. Globally, 13 pieces of clothing, shoes or accessories are sold every minute and 94 bids are made every minute via eBay's mobile apps.

Comparison shopping

Another hot trend that emerged in 2010 was comparison shopping. Downloads of eBay's RedLaser iPhone app, which enables users to undertake online price comparison by simply scanning a product's barcode, have more than tripled to nearly seven million to date since eBay acquired it in June 2010.

*eCommerce Secure Insight p2

IMPACT OF NEW TECHNOLOGIES ON BUSINESS (% RESPONDENTS)

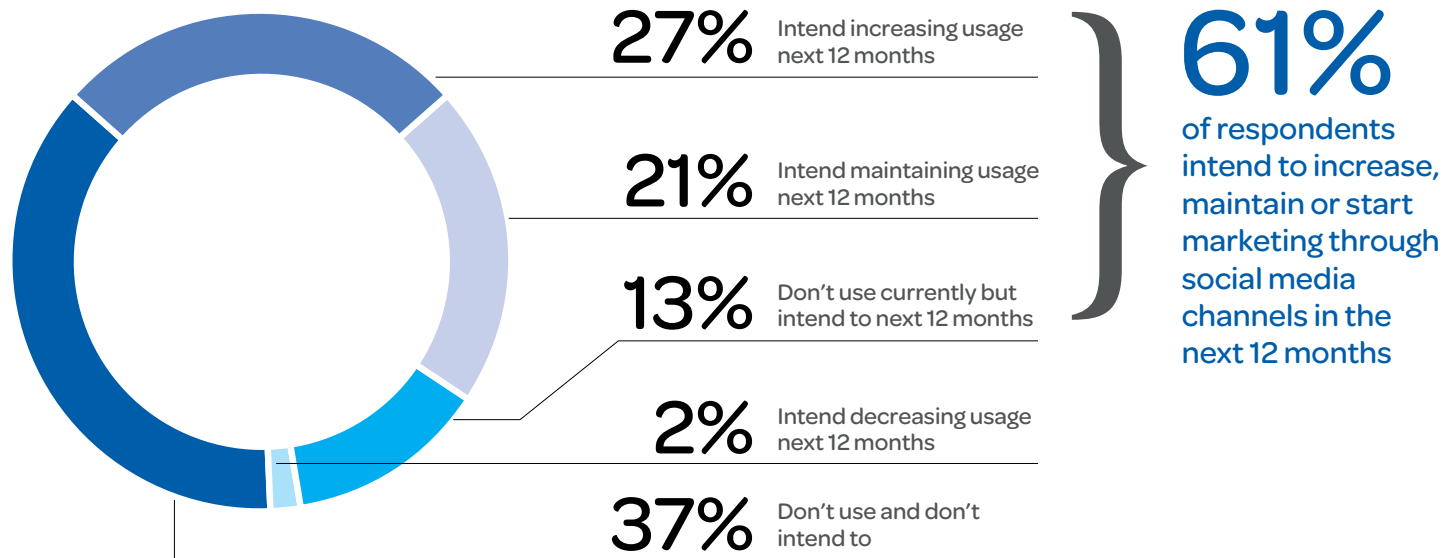


Retail generally is splintering and atomising: online, offline, social media, catalogues. A good retailer should pursue all channels that are efficient and where their customers are. eBay is the ultimate mega mall in cyber space. Why wouldn't you want a shop there?"

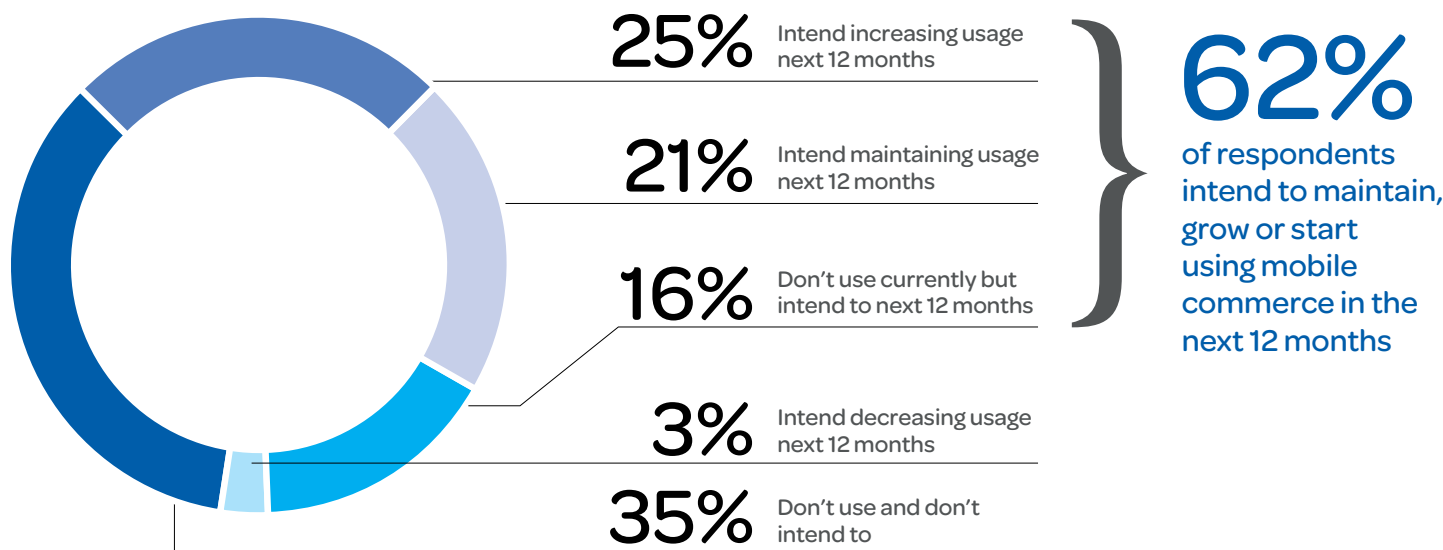
Paul Greenburg, Co-founder, DealsDirect

USE OF NEW TECHNOLOGY AND MARKETING CHANNELS (% RESPONDENTS)

SOCIAL MEDIA MARKETING CHANNELS



MOBILE COMMERCE



Not many people who head up multi-million-dollar businesses can say their enterprises started off as “a fluke”. But that’s how Andrew Astley’s hugely successful discount online car parts company, CarsRus, began.

Andrew was running a retail shop on Queensland’s Sunshine Coast and had a few second-hand parts he wanted to get rid of. When he decided to sell them on eBay, they moved so quickly he found himself purchasing

more spares almost immediately.

“Over about three months we started moving to new car parts, which gave us an opportunity to sell multiple items at the same time,” explains Andrew.

That was back in 2007. Today he employs 11 people and his turnover is between \$3.5 million and \$4 million a year, and growing all the time. “Still very reliant” on eBay, he recently launched multiple sites selling the

same products and now has enough excess cash to expand and try approaches he hasn’t been able to afford before.

“We’re relocating to a 960-square-metre factory, for example, that allows us to house more products,” says Andrew. “We’re improving our IT systems and automating. The next 12 months should be exciting.”

The impact of mobile technology and social

networking sites like Facebook is just starting to be felt in Andrew’s business. He has recently hired additional resources to concentrate on these channels, believing their potential is enormous.

“As network availability and the speed of mobile internet increases, and as people become more comfortable with using mobile phones to make purchases, everyone selling online will benefit,” Andrew says.



ANDREW ASTLEY

SUPPORTING ECOMMERCE



How is government supporting ecommerce and online businesses in 2011? Here Senators Conroy and Sherry, Ministers in the Gillard government, and Shadow Minister Bruce Billson outline initiatives to support online business now and in the future.



Internet intermediaries such as platforms like eBay play an important role in facilitating ecommerce in Australia”

The Australian government recognises that ecommerce is an important driver of our future economic wellbeing.

A cornerstone initiative that will support ecommerce’s continued growth is the government’s investment in the National Broadband Network (NBN). Thanks to its ubiquity, it will allow eBay sellers and other ecommerce participants to reach a larger customer base throughout Australia. Its high-speed capability will allow innovation in how we buy and sell online.

Another important initiative to support online businesses is the www.digitalbusiness.gov.au website. This provides practical guidance for small businesses and community organisations to establish or enhance their

SENATOR STEPHEN CONROY

MINISTER FOR BROADBAND, COMMUNICATIONS
AND THE DIGITAL ECONOMY

online presence. I invite your feedback so we can identify how the site can be made more useful to you.

Some of you would have noticed the increased media and industry attention on the issue of GST and online shopping during the final months of 2010. In recognition of the importance of our retail industry and the winds of changes that a ‘digital economy’ will bring to it, the government announced a package of measures on “The Future of Australian Retail” at the end of last year.

One of these measures is a Productivity Commission Inquiry into the retail sector. It will consider the sector’s structure, performance and efficiency; the drivers of structural change, including increasing household and business access to the digital economy; and the broader issues posed by increased online purchasing and the role this plays in providing consumers with greater choice, access and convenience.

I look forward to ongoing collaboration between government, industry and the community – including through reports such as this *Online Business Index* –

to drive Australia’s digital economy and digital productivity.

Feedback about barriers and challenges to the growth of online businesses in Australia, such as through this publication, usefully inform future public policy development and industry initiatives.

For example, I was pleased to see the increased collaboration between eBay and Australia Post in 2010, including the roll-out of Australia Post’s Click and Send service to the eBay community and the launch of co-branded, flat-rate satchels, exclusively for eBay members. These initiatives were designed to address eBay sellers’ concerns about security, ease of use and the cost of sending items.

I wish you every success for your business (hopefully increasingly online!!) in 2011.

▶ A full version of this article is available at <http://media.ebay.com.au/>



The ingenuity and drive of Australian small businesses will lead to the generation of new ideas and new opportunities”

There's no doubt the internet will only continue to grow in significance as a place for small businesses to do business.

A recent Sensis report showed 94% of small businesses are connected to the internet. Of these 78% used it to place orders, 74% to receive payments and 62% to take orders.

The government has an important role as an enabler to strategic sectors and to economic growth.

That's why we are building the National Broadband Network (NBN). It will ignite the imaginations of the small business community, particularly those in regional

SENATOR NICK SHERRY

MINISTER FOR SMALL BUSINESS

areas, and stimulate small businesses to find new, innovative ways of doing business more efficiently and effectively.

An Access Economics report estimates that online retail sales by Australians in 2009 totalled between \$19 and \$24 billion, or around 3% of sales. At least 50% – and up to 80% – of that was spent with Australian online retail outlets.

It is crucial people have the skills to take advantage of the NBN as it reaches more Australians. The government is assisting small business owners to go online, expand their ebusiness capabilities and engage in the digital economy through the Small Business Online program. Providers delivering the program have been selected through a competitive, merit based process.

The Small Business Support Line is another source of assistance. Staffed by agents who've operated or worked in a small business, it provides appropriate advice and referral services and has received more

than 25,000 calls since it was launched in September 2009.

The government's principal business resource is the award-winning www.business.gov.au website. eBay Australia incorporates www.business.gov.au information and resources within its own 'Business Centre' at <http://australia.ebaymainstreet.com/businesscentre/> providing access for eBay's Australian sellers.

There is little doubt that online retailing is here to stay. We are anxious to ensure that every Australian consumer and every retailer is positioned to come to grips with this 21st century reality.

It's worth remembering that it is a two-way street – consumers can benefit from using the global marketplace and Australian businesses can benefit from being in that global marketplace.

▶ A full version of this article is available at <http://media.ebay.com.au/>



Encouragingly, preference for local firms came through strongly and the research identified considerable scope for increased ecommerce engagement”

At a time when small businesses and family enterprises are facing a far more difficult business climate than large businesses according to recent survey findings, ecommerce technologies provide opportunities as readily available to smaller businesses as large enterprises.

ACMA research (January 2011) found that 88% of Australian household internet users performed at least one ecommerce activity in the preceding six months, citing convenience as the overwhelming reason.

Encouragingly, preference for local firms came through strongly and the research identified considerable scope for increased ecommerce engagement by internet-connected households, as Australians have some way

BRUCE BILLSON

SHADOW MINISTER FOR SMALL BUSINESS, COMPETITION POLICY AND CONSUMER AFFAIRS

to go to match the online transaction traffic seen in the US and UK.

Small businesses are well placed to embrace ecommerce technologies and the commercial opportunities online engagement opens up, and a digital focus to your business strategy should be part of your plans for future success.

Australian small businesses are world class at adapting new technologies for worthwhile commercial applications. Government should not impede this innovation.

The Coalition presented a comprehensive small business and family enterprise policy at the last election that amounted to a micro-economic agenda to 'put the business back into small business'.

That's why the Coalition recognises the need to facilitate access to fast broadband for all Australian small businesses at an affordable price. Government should encourage competition between all technologies and digital economy applications.

Being dogmatic about technologies will impede the take-up and adaptation of ecommerce tools.

Small businesses should not be constrained in terms of choice of technology platform, performance and price. The 'big end of town' may have the resources for 'whatever it takes' technology investment but small businesses are invariably more cost-conscious.

Affordability is crucial and Australian businesses and consumers continue to show a price sensitivity for communications services.

One-size-fits-all will rarely work for the rich diversity of small businesses and family enterprises. Assertions that only premium services at premium prices is the way to go ignores the legitimate affordability and value-for-money concerns that are increasingly driving cash-strapped business owners and consumers.

While some businesses will create new entities primarily dependent on digital economy tools, the vast majority have the opportunity to embrace information and communications technologies to support an evolution of their business strategies and commercial success.

▶ A full version of this article is available at <http://media.ebay.com.au/>



eBay sellers in Australia experienced 10 times greater growth than the retail sector in 2010

Sellers expect to employ a total of 6 paid staff in the next 12 months

Mobile sales tripled to US\$2 billion on eBay globally last year

69% of respondents are optimistic about the next 12 months