

The rapidly rising popularity of online discount stores not only means good deals for super-savvy shoppers but also advantages for bricks-and-mortar businesses.

STORY CAMERON COOPER

ONLINE ONSALE ONFIRE



To appreciate the startling rise of online retail in Australia, consider fashion and footwear business brandsExclusive.

When the private shopping club started trading in the middle of 2009, it completed seven sales for 11 product units in its first week. When we recently caught up with the company's managing director Rolf Weber, he reported 1,500 sales before 10am.

What is the lure for consumers? Price discounts of 50 per cent to 80 per cent off retail prices for branded products are convincing online buyers to click and buy. "That speaks for itself," says Weber.

Operating out of trendy Darlinghurst in Sydney, the fashion experts from brandsExclusive scour national and international fashion centres for the latest fashion products and brands. Then they offer the goods online as part of a sales event that typically runs for just a couple of days.

Now with more than 800,000 members across the country, Weber says word of mouth and a greater receptiveness to purchase over the internet is fast-tracking growth for brandsExclusive. While 70 per cent of members are females (and many of them slot into the tech-savvy 18 to 39 age bracket), the trend is also catching on with men and older consumers.

Unlike traditional retailers, brandsExclusive is not trying to sell a set line of stock. It reacts quickly upon receiving inventory and tempts

buyers with low prices. "We are actually creating that demand by sending out emails," says Weber. "So it's different with our model."

CHALLENGES AND OPPORTUNITIES

Online retailing, and discount sales in particular, is clearly the flavour of the moment. A study by research firm Forrester and online payments company PayPal forecasts that Australia's online shopping market will rise from \$26.86 billion this year to \$36.81 billion by 2013.

But while online retail in Australia is growing, it still lags behind the US and the UK. In the US, for example, analysts are tipping online retailing to grow 60 per cent from US\$155.2 billion in 2009 to US\$248.7 billion in 2014, according to Forrester.

With the recent added purchasing power of a strong Australian dollar, a more immediate challenge for Australian retailers is the number of local consumers turning to international sites for "bargains." According to online retail resource PowerRetail.net, about 45 per cent of the dollars spent online by Australians goes overseas.

In the wake of this strengthening competition from foreign online merchants, a group of Australia's biggest retailers - representing more than 2,000 stores - has called for changes to current tax laws in order to "create a level playing field." In an open letter to the Federal Government in January



"Creating demand" ... brandsExclusive MD Rolf Weber.

this year, they argued that the GST-free threshold on imported goods and services under \$1,000 meant a better deal for overseas online businesses, to the detriment of Australian retailers.

Given the challenges of this competitive retail environment and the fact that international giants such as Amazon and eBay continue to dominate the market, creativity is playing a vital role for new players on the Australian online scene.

Australian company Cracka Wines, for example, is thriving on the back of an innovative auction model allowing buyers to compete for the best deals on labels such as De Bortoli, Tyrrell's and McWilliams. Prices start at the recommended retail price and keep falling until all the stock has been sold.

The brainchild of Wine Ark founder Dean Taylor and Carsales.com.au chief operating officer and digital media guru Shane Pettiona, Cracka Wines launched in September last year. Within a couple of



Dean McEvoy, from Spreets (left), and Dean Taylor, from Cracka Wines.



months, it had signed up 10,000 users and sold more than 50,000 bottles of wine via its www.crackawines.com.au website.

Taylor believes the rise of online activities such as internet banking has steadied shoppers' nerves about buying goods over the world wide web. "Using the internet as a transaction platform has built everyone's confidence and that confidence has spilled over into retail now," he says.

The other key factor is that while wine lovers know that buying in bulk or by the carton is cheaper, they often struggle to get it home. "The convenience of not having to lug the goods around has driven a lot of our purchases," says Taylor.

He says the auction concept has been the key to gaining quick traction in the market. "People love the thrill of online auctions."

It has also become a dinnertime conversation for Cracka Wines' users, who are referring friends to the site. "There has to be some sort of hook to get people engaged and, for us, that's what the auction platform is all about," says Taylor.

Shane Pettiona believes Cracka Wines will continue to grow. "Our focus is simple – complete consumer satisfaction," he says. "With the right products, brands, pricing and logistics, it's the most convenient way to buy."

MODEL PLATFORMS

The strategies behind online retailers are diverse. Some act as a means of getting rid of excess stock (think Coco Lee). Some offer volume-based deals for groups of buyers that band together (think CrowdSprout). And some prefer a membership-based model (think brandsExclusive). A constant with most sites, however, is discounting.

Australian site Spreets is another fast-growing business, modelled on American hit Groupon and featuring a daily deal on things to do, see, eat and buy in cities across the nation. In its first six months, the Sydney-based operation had built its database to about 350,000 members / subscribers (it's now about 500,00) and earned monthly revenue of roughly \$4 million.

"It's gone from me and another guy at a desk to more than 50 people," says co-founder and CEO Dean McEvoy, adding that Yahoo7 has recently acquired the business.

Spreets offers great deals through negotiating bulk deals with suppliers. Each deal is only activated once a certain number of people buy it, enabling suppliers to shed a lot of inventory.

While Spreets balks at being described as a discounter, McEvoy acknowledges that the low-price offers are "a mechanism that makes people sit up and pay attention".

BrandsExclusive has adopted a model under which membership is free but a personal invitation from an existing member is required. Members get email notice of sales offering big discounts on clothing, footwear and accessories.

According to Weber, the brandsExclusive blueprint all but eliminates two perennial retail risks – there is little inventory threat because it does not maintain a permanent line of stock, and there is no cashflow dilemma because customers pay for goods before they are shipped. In turn, the site helps suppliers with their inventory and cashflow management by enabling them to shift thousands of units of stock in rapid-fire sales.

TRADITION LIVES ON

While some bricks-and-mortar retailers may fear the emergence of online rivals, there are synergies between the two sales formats.

Lisa Tartaglia, research analyst at the Australian Centre for Retail Studies at Monash University in Melbourne, argues that traditional retailers will maintain some advantages despite the popularity of online sales. "It doesn't mean they are going to become non-existent – consumers still want to feel and touch goods," she says, adding that many traditional retailers are also now developing a sophisticated online presence.

At Spreets, McEvoy agrees that smart online players can work in tandem with more

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traditional small businesses that are seeking to ramp up sales of their goods and services. Through the site's daily offers of city experiences, he notes that a small business can gain free marketing with a huge audience of online buyers.

"I think there's a real opportunity to help small business," he says. "The biggest pain they feel at the moment is getting new customers through the door and we're helping them do that."

DELIVERING ON PROMISES

The online model is not without its own challenges. Distribution, for example, usually requires delivery to the door, where residents may or may not be home.

Cracka Wines has implemented an effective east coast system through which it dispenses products from a Sydney warehouse using Post Logistics. Consumers, says Dean Taylor, have been very happy with the speed of delivery. He says the business has a long-term goal of duplicating that distribution system on the west coast with a new warehouse to service that region.

Taylor believes online retailers must get distribution right. "A lot of people start with a basic distribution strategy and then they manage it by crisis thereafter," he says.

"You have to go into it with a good strategy from the start and one that you know can actually meet expectations. ■

Read about Australia Post's online initiatives in "Securing new online services" on page 5 and our "Special delivery" feature on page 41.



A CONVENIENT SOLUTION

The demanding and busy lives that most people lead – on both the home and work fronts – play to the convenience of online purchasing, according to Lisa Tartaglia, research analyst at the Australian Centre for Retail Studies at Monash University in Melbourne (left).

"You can shop online 24/7, which is ideal for time-poor consumers who work longer hours," she says.

The other key, says Tartaglia, is that consumers now have greater confidence in the security platforms protecting private and financial details submitted to websites.

For Australian online retailers, she believes low prices for products and shipping will be crucial when it comes to competing with overseas rivals, and she stresses the importance of building customer loyalty.

"Initially, it is price driven; the customer will be drawn in by price," says Tartaglia. "But the sites are also trying to build customer loyalty through getting customer details and hopefully getting them to come back to their site or spreading the word."

To this end, she expects social media sites such as Facebook to play an important role in spreading endorsements as users share information about their purchases and brand preferences.

Nevertheless, Tartaglia says online retailers must focus on providing a good experience for consumers. They may get only one chance for their custom.

"There is a chance that consumers will give a site a second go, but often if there's another site offering the same price or a cheaper price, they will just go there."