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**TITLE: The price of shopping online versus the shopping mall**

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What is the true value of the service we get when buying something at a shop? It can be quite high when the shopping experience adds to the pleasure of the purchase, such as getting you out of the house, friendly sales staff and nice food next door. The value added can be particularly high when it informs our choice before making a purchase, such as trying on a pair of shoes. Some people will always want this kind of interaction. But for many, the option of shopping online is becoming more appealing due to lower prices and convenience. Even reluctant consumers are starting to be lured away from traditional retailers, particularly when they see so many products up to half or more of the price online.

In stores, items like books, CDs, and even electrical goods are mainly judged by their covers or boxes. Savings on these kinds of products are leading the shift to online shopping. To make things even more convenient, book covers and sample pages are usually displayed online just as samples of music can be listened to before buying. People are also realising that it is not always in a salesperson's best interest to recommend the best product, particularly if it is not in stock. Online user-generated or professional reviews can however quickly provide unbiased information and price comparisons. Of course it is much harder to choose the right shoe or clothes size without trying items on first in a store. But some sly consumers have found a way around that challenge and retailers are beginning to express frustration at 'customers' finding the perfect fit in a store before going home to 'think' about it and then ordering online.

Polling from *The Australia Institute's* new paper ['The Rise and Rise of Online Retail'](#) shows that 85 per cent of online shoppers said they shop online to save money while two thirds (65 per cent) go online to compare products and prices. Another two-thirds (64 per cent) go online to buy products that aren't available in retail stores with one in two (54 per cent) saying they do so to save time.

These are the attitudes driving the online boom. According to Southern Cross Equities domestic online retailers have doubled their market share to 4 per cent of 2010 annual sales up from 2.1 per cent in 2005. In addition, overseas purchases driven by a strong dollar and falling shipping prices have risen to around \$5 billion in 2010 or the equivalent of around 2 per cent of total domestic retail sales.

So why are products cheaper on online? One reason is the lower middle-person costs or 'mark-up'. This is the difference between the wholesale price and the higher retail price. This is the profit margin. Polling from *The Australia Institute* found that consumers, on average,

thought 35 per cent would be fair mark-up in order for a retailer to make a profit. In reality the average mark-up for items such as clothes and shoes is 142 per cent, and around 40 per cent for popular online items like DVDs and music. Average retail mark-up is 65 per cent.

Large mark-ups aren't necessarily price gouging on the part of retailers. They often have higher costs compared with other countries related to shipping, warehousing, advertising, sales staff and in particular, rent. Of course online rivals can avoid many of these costs, hence the lower prices which are driving the shift towards internet shopping. Traditional bricks and mortar retailers have criticised the advantage of the 10 per cent GST exemption for overseas purchases under \$1000. But this doesn't completely explain the shift to domestic online sites. Nor does it explain why most purchases from overseas are much cheaper than 10 per cent below Australian prices. Sometimes large domestic to overseas price differentials are fed by discriminatory international distribution arrangements. Examples are the higher price for Australian *iTunes* purchases or bike shops ordering direct from U.K. supersites that are undercutting Australian wholesalers.

Traditional retailers have also raised concerns over job losses due to diminishing sales. Half the respondents in *The Australia Institute* survey felt that online retail is hurting Australian jobs, although concern dropped significantly amongst regular online shoppers. But these fears of job losses overlook the fact that revenue lost from one sector of the economy will end up in another: as the majority of the transition online has been to Australian online stores. Even losses of sales to overseas vendors will create wealth for consumers who will be looking to spend their savings elsewhere in the economy.

Innovation and efficiency has an ongoing role in shaping the Australian retail industry. Traditional retail has become an expensive way of delivering products to customers while the online market is highly competitive. We can assume it is this that is rapidly driving down profit margins. Of course there will be losers as well as winners, just as 'high street' shops have lost out to 'big box' retailers and malls in the past. Video rental stores will go by the wayside due to internet distribution, just as we have lost most of our photo development labs to digital cameras. The losers of the current restructuring will be the traditional retailers who do not add enough value to justify higher prices. Who knows, we may be also able to reclaim some of our public space from the big sterilised shrines of consumerism. Thankfully, there will always be opportunities for creative small retailers offering an enhanced shopping experience. Some shoppers will always highly value in-person advice and service and the opportunity to serendipitously happen upon a purchase that wasn't 'Googled' in advance.

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