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Inquiry into Australian Retail Industry  
Productivity Commission  
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**Draft Report: Economic Structure and Performance of the Australian Retail Industry**

Google is pleased to make this submission on the draft report of the Retail Industry inquiry. It is a timely inquiry into the Australian retail industry during a period of transformation. We welcome the focus of the key findings and recommendations made in the draft report.

As outlined in the draft report, Australian retailers have a strong history of adapting to change and we believe that the growth in Internet use presents a positive opportunity for existing and prospective Australian retailers to expand and flourish.

Our strong view is that the opportunities presented by online technologies and ecommerce are of clear benefit to Australian households and businesses.

This submission provides input on:

- Economic contribution of the Internet—Research by Deloitte Access Economics shows that the Internet is positively transforming Australia's economy.
- Retail trends—Online technologies present a significant opportunity for retailers to connect with customers in new and more compelling ways.
- Getting Aussie Business Online—We have invested in a program to help small businesses start accessing the opportunities available online, by creating a website that is quick, easy and free.
- Competition and innovation in search—Serving our users is at the heart of what we do and remains our number one priority.



## Economic contribution of the Internet

The 'digital economy' is characterised by significant investment, innovation and competition - delivering benefits across all sectors of our society and economy. We commissioned research by Deloitte Access Economics to help Australia to promote a deeper understanding of the role of the Internet in the Australian economy.<sup>1</sup>

The *Connected Continent: How the Internet is transforming the Australian economy*, <http://www.connectedcontinent.com.au/>, shows the huge economic contribution that the Internet delivers for households, small business and government. The Internet has transformed the Australian economy over the last 10 years, and is poised to play an even greater role in our daily lives and businesses as Australia positions itself to become a leading digital economy:

- In 2010, the Internet contributed roughly the same portion to Gross Domestic Product as Australia's biggest export sector, iron ore, at \$50 billion.
- 190,000 people employed in occupations that are directly related to the Internet.
- The Internet also contributes wider benefits to the economy – which are not fully captured in GDP calculations – including:
  - Approximately \$27 billion in productivity increases to businesses and government.
  - The equivalent of \$53 billion in benefits to households in the form of added convenience (e.g. online banking and bill paying) and access to an increased variety of goods and services and information.
  - Of the \$53 billion of wider benefits to households, the increase in the variety of goods and services available online across major online retail spending categories is worth \$16 billion to households.
- The Internet is a catalyst for the success of Australia's small businesses, improving how they interact with their customers and suppliers and manage their internal operations.
- Separate analyses of the near-term outlook for online shopping imply an average annual growth rate of 11%, three times as fast as forecast growth in GDP. These studies imply that online retail will increase by \$10 billion over the next three years, and if this pace were to persist it would reach \$24 billion by 2016.
- Online activity (use, penetration and expenditure) has doubled over the past four years.
- The direct contribution of the Internet to the Australian economy is set to increase by \$20 billion over the next five years, from \$50 billion to \$70 billion.

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<sup>1</sup> Deloitte Access Economics, 'Connected Continent: How the Internet is transforming the Australian economy', August 2011, <http://connected-continent.appspot.com/media/illustrations/download.pdf>.



## Retail trends

Online technologies present a significant opportunity for retailers to connect with customers in new and more compelling ways. Our view is that online technologies empower customers with more information and that is positive for society. Retailers have the opportunity to embrace that change. There are three key trends.

First and foremost, the Internet is a communication channel. Investment by retailers in online participation is most sensibly considered as an investment in marketing and communications. Our view is that changes in media consumption habits (ie less time with print, fragmentation across TV channels, multiple media consumption) in favour of more time with online media means that retailers should be visible online. This is true whether or not those same retailers are transacting online.

There is tremendous interaction between traditional media channels like TV and radio and online and mobile channels. Research (soon to be published) conducted by IPSOS on behalf of Google across 30 countries globally showed that nearly 1 in 2 smartphone users is actively “dual-screening”: using their mobile while watching television. This is most graphically demonstrated by online activity for the popular TV show “Masterchef”. Appearances on screen by guest chefs are quickly followed by viewers using the Internet to find information on those same chefs. Recipes for dishes cooked on the show demonstrate a similar phenomenon. Retailers who have an offering that is relevant to those requests for information - selling kitchenware or cookbooks, for example - can use online technologies to target those interested in their products. Online therefore not only competes with other media channels for advertising dollars but also supports and reinforces communication in traditional channels.

Mobile technologies are accelerating this trend. Australia has one of the highest penetrations of smartphones in the world and tablets are increasingly popular with consumers. Mobile is accelerating the openness of information available to shoppers allowing them to make more informed and ultimately better decisions. The prevalence of mobile devices enables retailers and consumers to interact with each other right up to (and often beyond) the point of transaction. Research showed that 72% of people had used a smartphone in store and 1 in 5 had changed their mind about a product or service as a result of information received via a smartphone in store.<sup>2</sup> Clearly, online and Internet technologies empower consumers with more information and enable retailers to engage in more value-creating and relevant ways.

Second, consumers demonstrate great willingness to interact with retailers online. Google sees this willingness through the search terms that Australians enter into our search engine: products, retailer names and popular brands. Our data shows that domestic brands dominate search queries, indicating that Australians prefer to shop domestically. Google makes this data available as a public resource in an aggregated and anonymised manner via the Insights for

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<sup>2</sup> IPSOS MediaCT Germany, ‘Mobile Internet Insights: Report Australia’, May 2011.



Search and Google Trends tools: <http://www.google.com/insights/search/> and <http://www.google.com/trends>.

Historically, it has been overseas retailers who have been better at meeting the online needs of consumers. While Australians wish to shop domestically, it is the range and availability of products from overseas retailers that tends to meet their needs. As a group, retailers in the US and UK tend to have more information about products and brands online than Australian retailers and so the consumer demand for information - in the presence of a supply 'gap' from Australian retailers - is met by international and overseas retailers.

The most prevalent online shopping behaviour of Australians is "ROPO": Research Online and Purchase Offline. Consumers exhibit a strong preference to use online tools as part of their decision making process and then head into store to make the final purchase. While it is true that consumers are 'forced' into the store for many purchases (due to lack of availability via ecommerce) it is equally true that most people want to see the physical item before concluding the purchase, meaning the majority of purchases happen in store. Even in developed online communities like the US and UK upwards of 85-90% of retail sales happen in store. Google-commissioned research, carried out by the Australian Centre for Retail Studies, demonstrated that 50% of people who had made a purchase had researched that purchase online.<sup>3</sup> Clearly, the opportunity for retailers with an existing physical presence is to use online to get people into their stores.

Online technologies enable existing retailers with a physical presence to become multichannel retailers. Put simply, multichannel retailers service customers in store and online, giving the customer the freedom to choose how and when they want to interact. Overseas experience suggests that multichannel retail is a winning formula: 26 of the top 30 US online retailers are multichannel retailers with both a physical and online presence.<sup>4</sup> The US department store Macys has been especially clear on the benefits of multichannel retail. Analysis of their loyalty card data demonstrated that for every \$1.00 of transaction value through their Macys.com presence, an additional \$5.77 of in-store purchases was influenced within the following ten days.

Third, online technologies change competitive boundaries and balances. Australian retailers can develop an international and global footprint, selling from Australia to the world. Global retailers can service Australians, challenging domestic retailers to improve their offering. Consumers are

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<sup>3</sup> The Australian Centre for Retail Studies, 'Retail Therapy: Offline Online Trends in Retailing', November 2008, <http://www.buseco.monash.edu.au/centres/acrs/research/whitepapers/online-offline-trends-in-retailing.pdf>.

<sup>4</sup> The Internet Retailer, 'Top 500 List', <http://www.Internetretailer.com/top500/list/>, accessed 5 September 2011.



empowered with more information about products, prices and performance than ever before and can collect that information within minutes. These are all positive benefits to consumers.

It is clear that Australians want to interact online with Australian retailers. This is demonstrated by the myriad of consumer surveys, see for example, the Essential Research Report<sup>5</sup> which shows the majority of online shoppers choose to shop online with Australian businesses. It is also demonstrated by the fact that the volume of searches on Google Australia in 2011 for retailer brand names are currently around 80% for domestic brands and only 20% for foreign.

However, the proportion of searches on Google for domestic:foreign retailers is changing over time - foreign brands, while still the minority, have somewhat increased their proportion over the past two years. The drivers of online behaviour for consumers are typically availability, range and price and it is international retailers that have historically demonstrated better availability and range online. The changing balance of searches for domestic versus foreign retailers suggests that Australians are increasingly willing to interact with overseas retailers. The rising trend of online interaction represents an opportunity for Australian retailers to increase their use of online technologies to respond competitively and provide a more compelling offering for Australian consumers.

Australia's largest retailers are already starting to respond. More and more Australian retailers are using their online presence to list and describe their product range, which is the most important step in using online for retail.

And new businesses and business models are emerging. One example of a new retailer succeeding online is Aussie Farmers Direct.

**Case study: New markets online for regional Australia**

Aussie Farmers Direct, [www.aussiefarmers.com.au](http://www.aussiefarmers.com.au), is showing how online sales can simplify ordering and delivery and provide consumers with a greater choice of fresh local produce. Aussie Farmers Direct is a free home delivery service providing produce that are 100% Australian owned and produced via an online ordering system. It is also an example of the growth potential of online retail in the digital economy.

Aussie Farmers Direct topped the BRW Fast 100 list of rapidly growing companies in 2009 and 2010, and topped the BRW Fast Franchises list for 2010 and 2011. In the three years since it was launched, Aussie Farmers Direct has averaged annual revenue growth of 150%. It now generates over \$100 million per annum in revenue and has expanded to

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<sup>5</sup> Quoted in Jason Whittaker, 'Essential: why we love to shop online (and reject paying GST)' Crikey, 18 January 2010, <http://www.crikey.com.au/2011/01/18/essential-why-we-love-to-shop-online-and-reject-paying-gst/>.



170 franchises with 100,000 customers Australia wide. Aussie Farmers purchased a dairy in Camperdown, Victoria, in 2010, which now employs 25 locals and produces one-third of its customers' milk purchases. The firm plans to buy more production dairies, and establish direct lines of production for other key perishables. Because of the way the ordering system is designed, consumers select only what they need from over 50 seasonal items to create a customised delivery box.

Aussie Farmers Direct aims to transport produce fresh from the farm to the consumer within 24-48 hours where possible. Using products like My Butcher, consumers are able to order a variety of locally sourced beef, lamb, chicken and seafood. Few other retailers can match the convenience, speed of delivery and freshness of Aussie Farmers Direct's perishable produce.

The section below describes a program Google is running to help small businesses do the same thing. An online presence enables retailers to communicate with those shoppers who are researching online and to try to win their custom. In addition, increasing numbers of Australian retailers are choosing to transact online, in categories where it is feasible and profitable for them to do so.

In summary, online technologies across desktop and mobile present new and more compelling ways for consumers and retailers to interact. As with all technological changes and challenges new entrants and innovators will challenge incumbents. On balance, these technologies empower consumers with more information and more choices and this is of clear benefit to Australians. We share the Productivity Commission's view that Australian retailers have a strong track record of dealing with changing circumstances and we are confident that they have the expertise, brand strength and the resources to be successful online.

### **Getting Aussie Business Online**

Small businesses are a vital part of our economy and support communities across the country. But are they benefiting from the Internet as much as they could? The Internet's contribution to Australia's GDP is \$50 billion, almost the same as retail and iron ore exports. Moreover, Australians are some of the most active audiences in the world, when it comes to Internet activity. For example, each day, almost two thirds of them search online for local business information<sup>6</sup> - for example, there are 12,000 searches for builders and 60,000 searches for restaurants.<sup>7</sup> Yet, 2 out of 3 businesses are invisible to Australian consumers because they do

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<sup>6</sup> Nielsen, 'Internet Trends in Australia', August 2009.

<sup>7</sup> Google internal data. For public data on relative search volumes see Google Insights for Search: <http://www.google.com/insights/search/#q=restaurants&geo=AU&date=today%201-m&cmpt=q>.



not have a website, citing the lack of time, knowledge (of where to start) or budget as the main reasons for not having an online presence.<sup>8</sup>

Getting Aussie Business Online, <http://www.gettingbusinessonline.com.au/>, is an initiative that aims to address this problem by making it easy and free for businesses to start their digital journey. Businesses get a free, e-commerce enabled website and '.com.au' address, as well as online tips and education to help them promote their business on the web. All they need is their ABN, a phone number and 15 minutes. The campaign launched in March 2011 and in just 7 months, over **22,000** small businesses such as plumbers, cafes, cake makers, and retailers from all around Australia have already taken advantage of this offer and started connecting with customers online. To read their stories, go to <http://www.gettingbusinessonline.com.au/successstories>.

### **Competition and innovation in search**

In the draft report, the Productivity Commission notes two submissions which raise the importance of search for e-commerce.

The availability of search services is economically valuable to Australians - the ability to search for information more efficiently on the Internet is estimated to be worth the equivalent of \$500 per person per year, or \$7 billion in total nationally.<sup>9</sup> The Internet is a far more efficient search tool than anything available prior to its development. Although Australians do not devote a large proportion of their time on the Internet to searching, the amount of time saved in acquiring information is substantial.

As Google has grown, the company has naturally faced more scrutiny about our business principles and practices. We believe that Google promotes competition and openness online, but we haven't always done a good job telling our story.

For our search service, we've always focused on putting the user first. We aim to provide relevant answers as quickly as possible – and our product innovation and engineering talent have delivered results that users seem to like, in a world where the competition is just a click away.

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<sup>8</sup> January 2011 survey by TNS commissioned by Deloitte Access Economics. Deloitte Access Economics, 'Connected Continent: How the Internet is transforming the Australian economy', August 2011, p 14.

<sup>9</sup> See Deloitte Access Economics, 'Connected Continent: How the Internet is transforming the Australian economy', August 2011, p 25.





This blog, '*Another look under the hood of search*', contains a video that gives a sense of the work that goes into changes and improvements we make to Google search almost every day.<sup>10</sup> While an improvement to the algorithm may start with a creative idea, it always goes through a process of rigorous scientific testing. Simply put: if the data from our experiments does not show that we're helping users, we won't launch the change.

On the issue of how we rank our 'own' content, there are a number of elements to consider. For content like images or news, it's not actually Google's content, but rather snippets and links to content offered by publishers. We are merely grouping particular types of content together to make things easier for users. In other cases, we might show a Google Map for a search for an address. But our users expect that, and search results will also include competing map services. Another example is where someone searches for a share price. The results page will give the share price itself and include links to websites (e.g. Yahoo, MS, Google and Reuters) giving financial information. Ultimately, if we messed with results in a way that did not serve our users' interests, they would and should simply go elsewhere—not just to other search engines like Bing, but to specialized sites like Amazon, eBay or dealsdirect.com.au. This blog, '*Competition in an Instant*', from one of our leading search engineers Amit Singhal, has more detail.<sup>11</sup>

The question of how we handle search from 'vertical' search engines has also been raised. Our algorithms aim to rank first what people are most likely to find useful and we have nothing against vertical search sites -- indeed many vertical search engines like Moneysupermarket.com, carsales.com.au, lasoo.com.au and getprice.com.au typically rank high in Google's results. There is more on these issues in this blog, '*Committed to competing fairly*'.<sup>12</sup>

And finally, on transparency, our search algorithm is the 'worst kept' secret on the Internet. Google sets the industry standard for transparency and provides more information about our rankings than any other search engine.<sup>13</sup> We provide a wealth of tips, information and diagnostic tools that help websites identify problems including:

- Webmaster forum <http://googlewebmastercentral.blogspot.com/>.
- Dedicated YouTube channel <http://www.youtube.com/GoogleWebmasterHelp>.
- Webmaster Tools Help website documenting everything required to help webmasters achieve the best possible ranking <http://www.google.com/support/webmasters/>.

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<sup>10</sup> Amit Singhal, 'Another look under the hood of search', 25 August 2011, <http://googleblog.blogspot.com/2011/08/another-look-under-hood-of-search.html>.

<sup>11</sup> Amit Singhal, 'Competition in an Instant', 17 September 2010, <http://googlepublicpolicy.blogspot.com/2010/09/competition-in-instant.html>.

<sup>12</sup> Julia Holtz, 'Committed to competing fairly', 23 February 2010, <http://googlepublicpolicy.blogspot.com/2010/02/committed-to-competing-fairly.html>.

<sup>13</sup> Matt Cutts, 'Google, transparency and our not-so-secret formula', 2 March 2010, <http://googlepolicyeurope.blogspot.com/2010/03/google-transparency-and-our-not-so.html>.





For further details about Google's search ranking process, advertising policy, how we provide people with better answers, our transparency to help people optimize their sites and our support for a competitive web please visit this website: <http://www.google.com/competition/>.

In conclusion, the 'digital economy' is characterised by significant investment, innovation and competition - delivering benefits across all sectors of our society and economy. The Internet is indispensable to Australia's economy and future: it has already begun to rewire Australia's economy and is creating a boom that is open to everyone. From small boutique fashion shops simply being found by customers searching online to large department chains developing comprehensive online stores - all Australian retailers are in a strong position to capitalise on the benefits offered by the Internet and succeed online.

Kind regards,

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